JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS
II. CLASSES AT THE UNIVERSITY OF WISCONSIN--MADISON
L. Business 850: Real Estate Equity Investment
4. Case Study Examples

The School of Business
University of Wisconsin-Madison

Graduate School of Business
1155 Observatory Drive
Madison, WI 53706
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February 18, 1986

MEMORANDUM

TO: Graduate Students in Business 850

FROM: Prof. James A. Graaskamp

RE: Mr. Clifford Case

This case has a long history so that the dates are confusing. For purposes of estimating Mr. Clifford's net worth, please assume that he is 57 years old in 1986 so that the scenario which begins "In April 1978," really is referring to February 1, 1986 and that his company was just sold and that his manufacturing plant is now vacant at the beginning of 1986.

However, assume all dates of acquisition are correct and that the values attached to stock portolios, etc. are current as of February 1, 1986.

Otherwise the dates should be ignored as there has not been time to rewrite the case to reflect a chronology consistent with your viewpoint as of February 1, 1986.

Your first assignment should make use of the MRCAP model. All the land values should be lumped into a single land asset; then each group of buildings can be treated as a single building so that all the real estate will fit on the lines available for depreciable assets. All stocks and bonds should be included in the initial working capital reserve and dividends plus appreciation treated as interest earned so that this reserve will be a proxy for non-real estate investments. The first objective is only to estimate the total net worth of Mr. Clifford, his taxable income, and the total income taxes he might now be paying; and finally, the approximate amount of cash required to pay federal and state taxes on his estate.

REAL ESTATE INVESTMENT PLANS OF MR. PAUL CLIFFORD

In April 1978 Mr. Paul Clifford owned a vacant one-story building in a suburb of Chicago, Illinois. He was confronted with the problem of what to do. Mr. Clifford employed a real estate consultant to advise him. The consultant has gathered information from Mr. Clifford and from other sources, but has not completed his analysis or developed his recommendations.

MR. CLIFFORD

Mr. Clifford was 57 years old and married. His two sons were grown and were well established in a business not related to Mr. Clifford.

In 1953 Mr. Clifford established the Clifford Manufacturing Company to manufacture electrical components. He had had previous experience in this type of business. He and members of his immediate family owned all the stock in the company. The company began operations in a leased building, but in 1956 Mr. Clifford purchased in his own name the land for the Clifford Building and in 1958 constructed the building. He then leased the property to the company and the company occupied it until the beginning of 1978.

According to Mr. Clifford the Clifford Manufacturing Company was successful and by 1965 he had funds to invest elsewhere. In early April 1978, Mr. Clifford explained his background in real estate to the consultant in the following words:

> By 1965 I decided that real estate was a good investment for the long run. So I began to look around for income-producing property. I didn't want to get into residential rentals - either single-family or apartment units - because of the problems of dealing with tenants. Office buildings presented large capital requirements and I had no experience in the field. Since I knew something about manufacturing and distribution, I decided to try my hand at buildings used for these purposes. But I wanted to go slow and learn. I began to look around for possible buys.
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> In 1966 I bought a parcel of land with a one-story building containing 15,000 square feet. It was in the same town as Clifford Manufacturing and was suitable for wholesaling and light manufacturing. As this type of building goes, it was a small building.

Since things seemed to work out well in this first building, in 1968 I bought a 30,000 square foot similar building in an adjoining town.

In 1969 I bought a parcel of land containing seven one-story buildings with 100,000 square feet in an adjoining town. These buildings were similar to the earlier buildings purchased except they needed considerable repair to bring them up to a level to attract and hold desirable tenants. I had the repair work done over a period of time by my crew of five regular workmen.

In January 1977 I bought a 42,000-square-foot one-story building in another nearby town.

By the end of January 1977, I owned 11 buildings on five parcels of land located in four adjoining towns, with a total of 229,000 square feet of buildings. The properties were fairly close together - the two properties that were furthest apart were separated by about six miles. All the buildings were of the same general type. They were one-story buildings suitable for light manufacturing and wholesaling.

The buildings stayed occupied on the average about 90% of the time. Whenever I had a vacancy I ran a $9.00 ad in a Chicago newspaper. I ran this ad about 20 weeks out of the year.

I also leased through real estate brokers. If a broker found a suitable tenant, I paid him the regular commission on the lease of 6% of the rent as collected during the first year and 3% thereafter for the term of the lease. About half of my buildings are rented through brokers. They can often locate prospects when I can't.

When I bought the seven buildings that needed considerable repair in 1969, I hired five workmen and have had them on the payroll ever since. There is an electrician, plumber, mason, carpenter and general handyman. They cost me $90,000 a year. These men like to work for me because they get paid 52 weeks a year. I did not use them on the building occupied by Clifford Manufacturing, because under the terms of the lease the company was obligated to maintain the building.

Mrs. Brown, my secretary, keeps all the records on these buildings and keeps up with the paper work generally on them. She costs me $15,000 a year. I spend $575 a year on an accountant in connection with the Clifford Building.

I have never tried to keep records by individual buildings on cost of physical maintenance, but I estimate that on an annual basis it costs about 15¢ for materials and another 40¢ for labor per square foot of building. These estimates also include costs of maintaining the grounds around the building.

With the exception of the building that has been occupied by Clifford Manufacturing, all my buildings have been on gross leases. That is, I take car of all repair work on the buildings and supply heat and water for nonindustrial uses. The tenants pay for electricity and for gas and water used industrially. The tenants supply any air conditioning equipment and pay for the cost of operating it. The tenants normally pay for improvements on the inside of the building, but this is something I will negotiate on. What I will do depends on whether the improvements would be of benefit to future tenants and how anxious I am to land the particular prospect.

I normally like to enter into a three-year lease. If the tenant wants a renewal clause at the same rate, I am willing. I want a tax escalator clause in the lease so that if the real estate taxes on the property go up after the first year of the lease the tenant bears the full amount of this increase.

In leasing a larger building, I have found that I can get 15¢ to 20¢ more per square foot by breaking the building up among two or more small tenants rather than leasing to one large tenant. Also my risk is spread. If I lose one tenant, I still have rent coming in from the others in the building.

In January of this year I sold Clifford Manufacturing to a larger company in the same general field. The agreement was that this company would occupy the building until the end of March at no additional cost and then would move. The company wanted to consolidate all the operations at its own building. This explains why I have an empty building on my hands.

The Land and Building

The one-story Clifford building contains 42,000 square feet and is located on a parcel of land containing 190,000 square feet. Exhibit 1 shows the land and buildings and Exhibit 2 the details of the building.

The front of the lot is about three feet above the sidewalk and is level to the front of the building, which sets back about 110 feet from the sidewalk. The first section of the building is at this elevation. Beginning at the point where the first bend occurs in the building, the remainder of the building is a story lower. A stairway in the center of the back portion of the first section leads to the lower level. Beginning halfway between the front of the building and the first bend in the building, the land begins to get lower. The ground level along the lower section of the building facing the street is about a foot below the bottom of the basement windows and about two feet above the inside floor level. As Mr. Clifford pointed out, this section of the building appears low when viewed from the front. However, on the back side of the building the ground level is about three feet below the inside floor level and continues to get slightly lower towards the west lot line.

On the south side of the lot, the elevation begins to decline halfway between the front of the building and the first bend in the building and continues until at the back side of the building the inside floor level is about three feet above the ground level. The land adjoining Mr. Clifford's property on the west is about two feet lower in elevation than is the west edge of Mr. Clifford's lot.

In the front of the building there is an asphalt-top driveway and parking area for about 12 cars.

The north end of the building has a large door that swings up making a truck-high loading dock. The area between the north end of the building and the side street has an asphalt top.

There are about six large trees on the lot.

To the northeast of the Clifford's property and in the same block are four two-story frame residences. These residences are over 30 years old and are occupied by the owners. Mr. Clifford shares in the ownership, along with the two abutting property owners, of a 40-foor wide driveway easement between the residential lot on the south and the lot across the easement to the north. This easement has never been used by Mr. Clifford. It is shown on Exhibit 1.

There are no easements on the Clifford property.

The land is zoned for light manufacturing and wholesaling.

The walls of the building are of cinder blocks and concrete blocks and contain large metal casement windows. The outside walls are coated with stucco. The inside walls are painted over the cinder blocks and concrete blocks. The tarpaper and tar roof is flat with pipe drains on the outer walls to the ground below. The floor is three-inch concrete on a gravel base on top of dirt. The building is heated from a central boiler room, where fuel oil is used in the furnace. There are four fire walls that are indicated by the lines dividing the building in Exhibit 2. There are large heavy metal doors in the fire walls. The building is equipped throughout with a sprinkler system and with the ADT Service,[1] which costs $300 a year.

The land contains 190,000 square feet (4.36 acres) and was purchased by Mr. Clifford in 1956 for $15,000. This was 7.9¢ per square foot. In 1958 Mr. Clifford constructed the 42,000 sq. ft. building and put in the asphalt topping on the front and north side for $243,000. In 1966 he installed the sprinkler system for $22,000. The total cost of the building, therefore, was $265,000. Mr. Clifford has depreciated the building and the sprinkler system at 4% a year. The building in in good repair.

The Clifford Manufacturing Company leased the property from Mr. Clifford for $3,500 a month on a net lease basis. This was $1.00 per square foot for the entire building on an annual basis. Under this net lease arrangement the company paid all the expenses, including taxes, in connection with the property. As Mr. Clifford explained, this was a common form of lease arrangement in Chicago when an entire building was being leased to one tenant.

Since the Clifford Manufacturing Company was responsible for all maintenance on the building and grounds, whenever something needed to be done a company employee was assigned to do it. Records were not maintained

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[1]The ADT (American District Telegraph Company) service provides a signaling device between the building and the office of ADT so that a signal is flashed in the office of ADT if the termperature of the building falls below 50° or ir the sprinkler system goes off. When the signal is flashed, the ADT personnel immediately starts phoning a list of people supplied by the buyer of the service until someone on the list is reached and notified. Among the advantages of using this service is a lower insurance rate.

in such a way that the costs of labor and materials for maintenance could be determined.

For the past three years the cost of heating the building has averaged \$7,000 per year and the cost of water has averaged \$100. The taxes in 1977 were \$18,000. The cost of insurance has been \$1,000 annually.

Based on experience with his other buildings, Mr. Clifford in April 1978 believed that he could lease the building for about \$2.50 per square foot per year on a gross lease basis by leasing to several tenants and by making certain improvements discussed below. Under this gross lease arrangement, Mr. Clifford would maintain the exterior of the building, repair any defective pipes and wiring in the interior or exterior, and provide heat and water for nonindustrial uses. The lease would contain a tax escalator clause so that if the taxes on the property increased after the first year of the lease, the tenant would bear the full cost of the increase.

Mr. Clifford has developed the following estimates of the cost of preparing the building and grounds for leasing:

1.	Asphalt-top driveway from west side of building to lot line, parking area to southwest of building and driveway around south side of building connecting with parking area and driveway in front of building, and retopping present driveway and parking area in front of and on the north side of building.	\$20,000
2.	Preparing the land for the asphalt topping	5,000
3.	Improvements to the building that would be required by tenants	15,000
4.	Total	\$40,000

Mr. Clifford estimated that it would cost him between \$8 and \$9 a square foot to construct this building in 1976; this would not include improvements to the land such as driveways and parking area.

Mr. Clifford had been told by a real estate broker that buildings similar to this building are selling in 1978 for approximately ten times the annual net income before depreciation, but that buyers are not interested unless the building is occupied by satisfactory tenants.

Mr. Clifford has been told by a mortgage broker that on buildings of this type insurance companies will lend up to two-thirds the value of the property if the building is occupied by satisfactory tenants.

The Surroudings

The tracks of the Chicago and Northwestern Railroad were adjoining the property to the south. There was a public siding on the south side of the tracks directly across from the property. The land on either side of the railroad tracks for several miles in either direction from the property was zoned for light manufacturing and wholesaling uses and there were large numbers of buildings devoted to these activities.

Across the street to the east of the property was a relatively new brick-front building with parking facilities in front and on the side. The building was designed for and was used as a lumber and building materials distribution center. All the lumber and materials were under roof. Adjoining the property on the west was a lumber yard with two large metal buildings and with lumber stacked outside. Across the street to the north was a public park and playground occupying the entire block.

The area to the north, northwest and northeast was an older residential area consisting of two-story frame houses. The area to the east and west along the railroad tracks contained light manufacturing and wholesaling activities. The area to the south, southeast and southwest contained a mixture of light industrial, wholesaling, retailing and residential uses.

Mr. Clifford believed that his property was well located from the viewpoint of accessibility both to the concentration of people and economic activity in and around the central business district of Chicago and to the larger Chicago metropolitan area. The property was located four blocks from U.S. Route 66, a major thoroughfare. By the way of Route 66 to the east, it was about seven miles to the central business district of Chicago. By way of Route 66 to the west, it was about three miles to I-294, which formed a semicircle around Chicago and its suburbs. Route I-294 began to the north of Chicago, swung to the east, south and west and ended up to the south of Chicago. Mr. Clifford pointed out that I-294 intersected all of the highways leading into Chicago and its suburbs and all of the highways leading out of Chicago to outlying suburbs and cities beyond. It had become a major route for servicing the Chicago metropolitan area.

Competition

The competition facing the Clifford building in early April 1978 was as follows:

There was an adequate but not excessive supply of buildings well located and similar to the Clifford building in the Chicago metropolitan area. The building had accessibility to the various parts of the metropolitan area; it was one story; there was a truck-high loading dock and more could be built; there was ample land for more driveway and parking space.

Similar space in the same town as the Clifford Building was bringing around $2.50 per square foot per year on a gross lease basis when leased to smaller tenants.

In recent years there has been a considerable development of light manufacturing and wholesale buildings on I-294. Some of these were in well-planned and attractive industrial parks. The cheapest space available to smaller tenants on I-294 was $2.35 per square foot per year on a gross lease basis.

There was an excessive supply of old buildings available in the central business district of Chicago at from \$0.75 to \$1.00 a square foot per year on a gross lease basis, but these buildings were not competitive with the Clifford building. They were multi-story, there was not adequate loading and unloading space, and there was no parking space. These buildings were often occupied by the garment industry, which needed a location easily reached by public transportation to serve its labor force.

Old mill buildings in towns further out from Chicago than this property could be rented for as low as 30¢ per square foot per year. But these properties were not competitive since they were multi-storied, were poorly located with respect to the Chicago metropolitan area, and often lacked adequate loading and parking facilities.

Exhibit 1

THE CLIFFORD BUILDING

Sketch of Land and Building

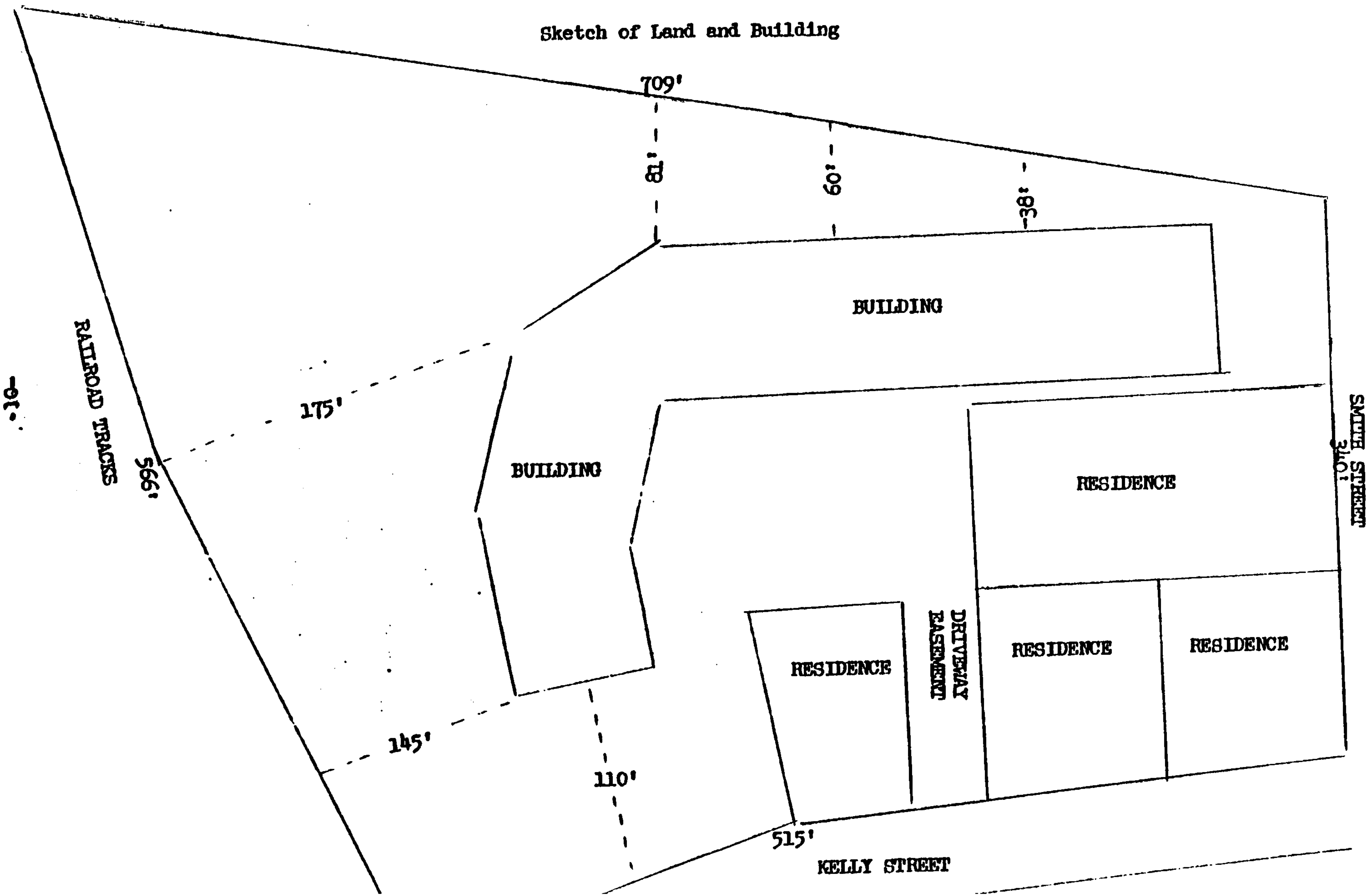

Exhibit 2

THE CLIFFORD BUILDING

Sketch of Building

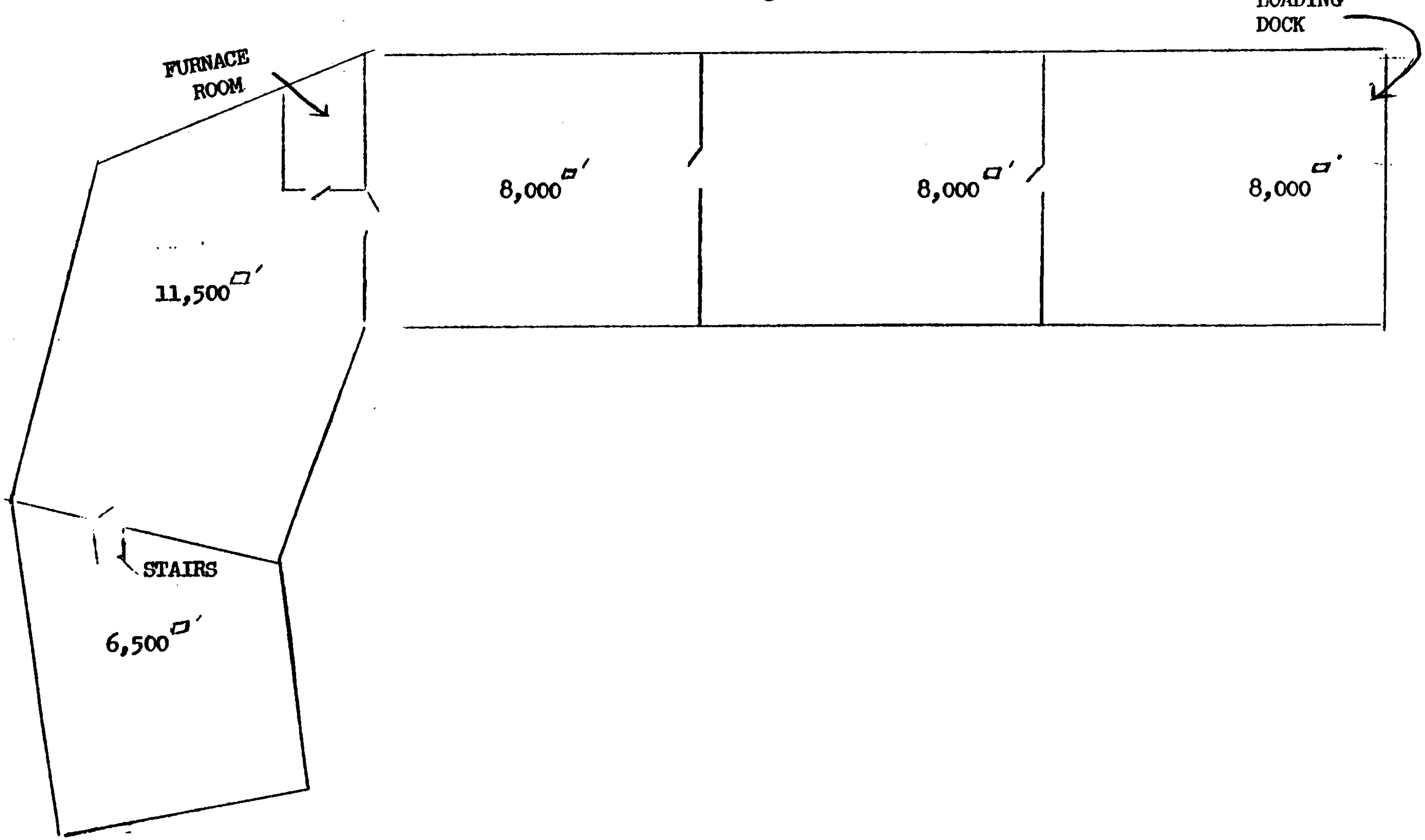

Exhibit 3

THE CLIFFORD BUILDING

Calculation of Annual Cost of Administration of Clifford Building

Based on Present Operation

Secretary (18.3% x $15,000)	$2,730
Accountant	575
Rent of office (18.3% x 4,800)	880
Phone and electricity (18.3% x $620)	111
Office supplies (18.3% x $600)	110
Advertising (18.3% x $9.00 x 20 weeks)	33
Commissions on leases[1] [½(4% x $43, 107)]	2,125
Automobile expense (18.3% x $2400)	450
Total	$7,014

Note: These costs are the estimated costs of administration as now carried on by Mr. Clifford with no allowance for compensation to Mr. Clifford for his efforts. Where an item of expense is attributable to all the building under Mr. Clifford's ownership and management, then 18.3% of the item is charged above to the Clifford Building. This is the relationship between the square feet in the Clifford Building (43,000) to the square feet in all the eleven buildings (229,000).

[1]Based on one-half of the leases being negotiated by real estate brokers on a three-year basis. The commission to the broker is 6% of the rent the first year and 3% the second and third years. For the three-year period of the lease this averages 4%.

Exhibit 4

THE CLIFFORD BUILDING

Estimated Operating Statement for a New 21,000

Square Foot One-Story Building[1]

Maximum gross rental income		$52,500
Vacancy and loss of rent (10%)		5,250
Effective gross rent		47,250
Expense:		
Taxes[2]	?	
Insurance	?	
Administration	?	
Heat	?	
Water	?	
Repairs and maintenance	?	
ADT Service	?	
Accountant	?	
Net income before depreciation		?

[1] Assumes a new building one-half as large as the present building and, therefore, assumes one-half the expenses of the present building except on taxes.

[2] Assumes that on present property 1/10 of the taxes are against the land and 9/10 against the building.

Exhibit 5

FINANCIAL DETAIL FOR ESTATE PLANNING OF MR. PAUL CLIFFORD

Date	Property	Size	Cost	Land Cost	Original Financing Terms
1955-56	The Clifford Building	42,000 sq. ft.	$143,440	$ 15,000	Owned free and clear
1966	Home Twon Building	15,000 sq. ft.	75,000	10,000	75% ratio; 15 year loan at 7½% interest
1968	Adjoining Town Building	30,000 sq. ft.	130,000	20,000	60% loan ratio @ 7½% interest for 15 years
1969	Industrial Park	100,000 sq. ft.	425,000	75,000	90% ratio land contract @ 8% for 20 years
1972	Nearby Town Building	42,000 sq. ft.	200,000	52,000	80% loan @ 9% for 12 years

Assume all buildings rent at $2.50 per foot, an 8% vacancy loss per year, and an expense ratio not including brokerage of 40% of gross. Assume one half of properties are rented through brokers at 4% of annual rent on properties so leased. Assume it would cost $40,000 to add sidetracks, individual access, and other features required in the Clifford Building. Assume depreciation on 90% of building cost at 3% per annum straight since purchase. Assume all repairs were expensed and did not affect tax basis. Assume Mr. Clifford wishes to maximize capital accumulation until he is age 70 and then enjoy an investment income for an inactive retirement. You may assume age 70 is reached in 1985.

Assume Mr. Clifford to have the following assets and income (excluding real estate assets and income):

- Common stock portfolio--$500,000, providing 4% of value per annum in dividends and 2% per annum appreciation; average basis $200,000
- Bonds--$200,000 at an average rate of return of 6.5%, average basis of $250,000, held more than one year
- Life insurance--face amount $300,000, 65 full paid, average cash value presently 40%, annual net premium of $7,000
- House--owned as joint tenants with wife, $80,000, no mortgage
- Personal property (miscellaneous)--$40,000
- Cash in banks--$25,000
- Personal living expenses--$25,000
- Wife's total net worth--$150,000 ($10,000 in jewelry and balance in securities with basis $100,000)
- Average income tax deductions (excluding interest and depreciation)--$10,000
- Miscellaneous husband and wife income--$10,000

Financial Detail--Mr. Paul Clifford

Subject to a current tax rate on income, capital gain, estate, and gifts reported in Tax Planning for Real Estate Transactions, assuming these rates to reflect federal and state taxes combined.

Problem #1: Calculate Mr. Clifford's approximate net worth, income after taxes, cash net after taxes and debt service. Suggest what problems exist in regard to his real estate holdings as indicated by this analysis.

Problem #2: Establish the goals for his estate building program for Mr. Clifford and outline what must be done with the real estate to advance this plan.

Problem #3: On the basis of the work sheet form Problem #1 and the goals established above, show the estimated 1985 net worth position of Mr. Clifford if he follows your real estate and estate planning suggestions.

REAL ESTATE INVESTMENT PLANS OF MR. PAUL CLIFFORD

In April, 1988, Mr. Paul Clifford owned a vacant one-story building in a suburb of Chicago, Illinois. He was confronted with the problem of what to do. Mr. Clifford employed a real estate consultant to advise him. The consultant has gathered information from Mr. Clifford and from other sources, but has not completed his analysis or developed his recommendations.

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In the front of the building there is an asphalt-top driveway and parking area for about 12 cars.

The north end of the building has a large door that swings up making a truck-high loading dock. The area between the north end of the building and the side street has an asphalt top.

There are about six large trees on the lot.

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The land contains 190,000 square feet (4.36 acres) and was purchased by Mr. Clifford in 1955 for $15,000. This was 7.9 cents per square foot; land value in 1988 is $1 per square foot. In 1956, Mr. Clifford constructed the building and put in the asphalt topping on the front and north side for $143,440. In 1966, he installed the sprinkler system for $11,690. The total cost of the building, therefore, was $155,130. This amounted to $3.69 per square foot. Mr. Clifford has depreciated the building and the sprinkler system at 4 percent a year. The building is in good repair.

The Clifford Manufacturing Company leased the property from Mr. Clifford for $2,500 a month on a net lease basis. This was 71 cents per square foot for the entire building on an annual basis. Under this net lease arrangement the company paid all the expenses, including taxes, in connection with the property. As Mr. Clifford explained, this was a common form of lease arrangement when an entire building was being leased to one tenant.

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Exhibit 1

THE CLIFFORD BUILDING

Sketch of Land and Building

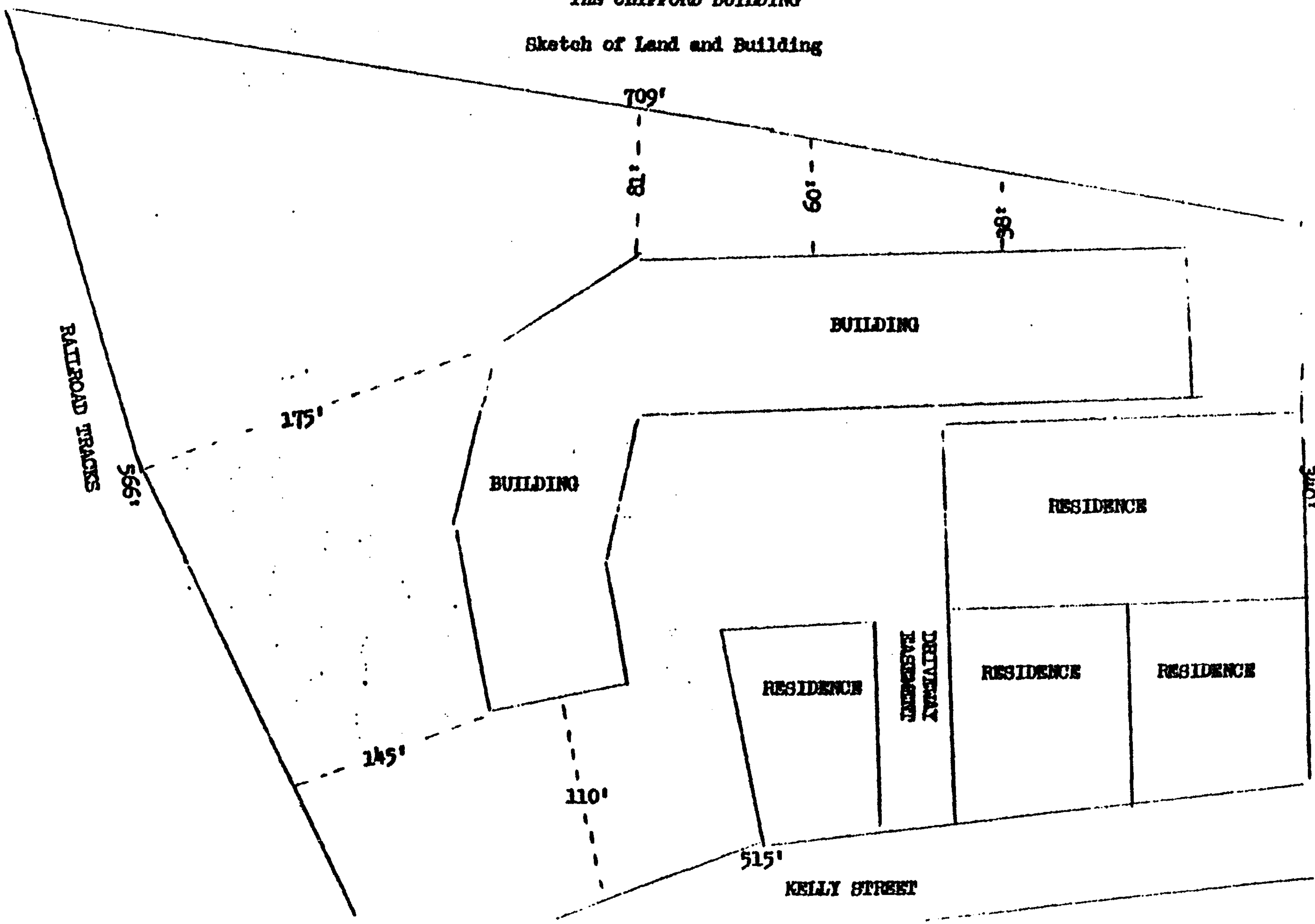
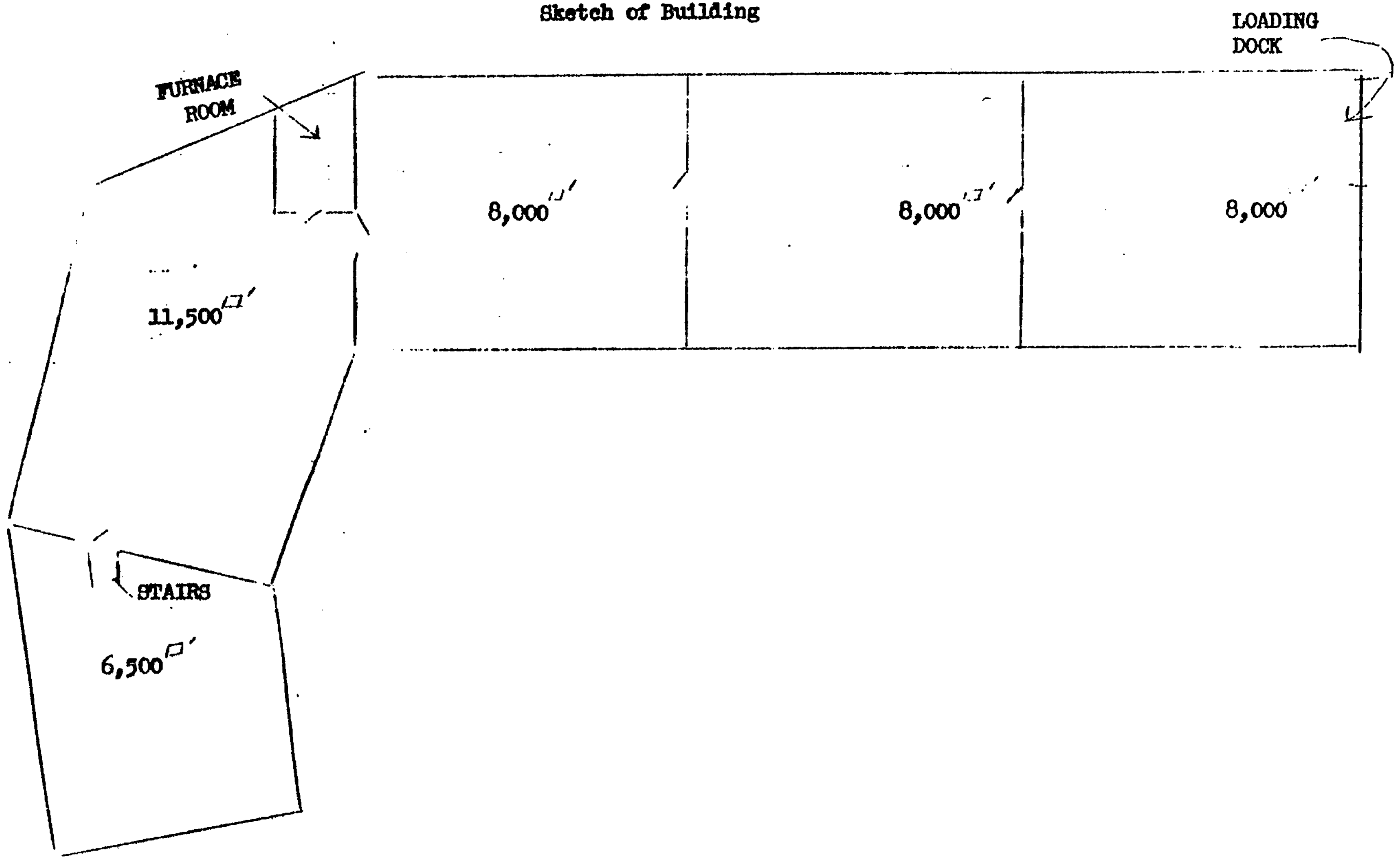


Exhibit 2

THE CLIFFORD BUILDING

Sketch of Building



Since the Clifford Manufacturing Company was responsible for all maintenance on the buildings and grounds, whenever something need to be done, a company employee was assigned to do it. Records were not maintained in such a way that the costs of labor and materials for maintenance could be determined.

For the past three years, the cost of heating the building has averaged $23,600 per year, and the cost of water has averaged $600. The taxes in 1987 were $42,000. The cost of insurance has been $4,000 annually.

Based on experience with his other buildings, Mr. Clifford in April 1988 believed that he could lease the building for about $4.15 per square foot per year on a gross lease basis by leasing to several tenants and by making certain improvements discussed below. Under this gross lease arrangement, Mr. Clifford would maintain the exterior of the building, repair any defective pipes and wiring in the interior or exterior, and provide heat and water for nonindustrial uses. The lease would contain a tax escalator clause so that if the taxes on the property increased after the first year of the lease, the tenant would bear the full cost of the increase.

Mr. Clifford has developed the following estimates of the cost of preparing the building and grounds for leasing:

1.	Asphalt-top driveway from west side of building to lot line; connect parking area and driveway in front of building with parking area to southwest of building and driveway around south side of building; and re-top present driveway and parking area in front of and on the north side of building. COST:	$29,240
2.	Preparing the land for the asphalt topping:	3,200
3.	Improvements to the building that would be required by the tenants:	60,000
4.	TOTAL -	$92,440

Mr. Clifford estimated that it would cost him between $30-35 a square foot to construct this building in 1988; this would not include improvements to the land such as driveways and parking areas.

Mr. Clifford had been told by a real estate broker that buildings similar to this building are selling in 1988 for approximately eleven times the annual net income before depreciation, but that buyers are not interested unless the building is occupied by satisfactory tenants.

Mr. Clifford has been told by a mortgage broker that on buildings of this type, insurance companies will lend up to two-thirds the value of the property if the building is occupied by satisfactory tenants.

The Surroundings

The tracks of the Chicago and Northwestern Railroad were adjoining the property to the south. There was a public siding on the south side of the tracks directly across from the property. The land on either side of the railroad tracks for several miles in either direction from the property was zoned for light manufacturing and wholesaling uses and there were large numbers of buildings devoted to these activities.

Across the street to the east of the property was a relatively new brick-front building with parking facilities in front and on the side. The building was designed for and was used as a lumber and building materials distribution center. All the lumber and materials were under roof. Adjoining the property on the west was a lumber yard with two large metal buildings and with lumber stacked outside. Across the street to the north was a public park and playground occupying the entire block.

The area to the north, northwest, and northeast was an older residential area consisting of two-story frame houses. The area to the east and west along the railroad tracks contained light manufacturing and wholesaling activities. The area to the south, southeast, and southwest contained a mixture of light industrial, wholesaling, retailing, and residential uses.

Mr. Clifford believed that his property was well located from the viewpoint of accessibility both to the concentration of people and economic activity in and around the central business district of Chicago and to the larger Chicago metropolitan area. The property was located four blocks from U.S. Route 66, a major thoroughfare. By the way of Route 66 to the east, it was about seven miles to the central business district of Chicago. By way of Route 66 to the west, it was about three miles to I-294, which formed a semicircle around Chicago and its suburbs. Route I-294 began to the north of Chicago, swung to the East, south and west, and ended up to the south of Chicago. Mr. Clifford pointed out that I-294 intersected all of the highways leading into Chicago and its suburbs and all of the highways leading out of Chicago to outlying suburbs and cities beyond. It had become a major route for servicing the Chicago metropolitan area.

Competition

The competition facing the Clifford Building in early April 1988 was as follows:

There was an adequate but not excessive supply of buildings well located and similar to the Clifford Building in the Chicago metropolitan area. The building had accessibility to the various parts of the metropolitan area; it was one story; there was a truck-high loading dock and more could be built; there was ample land for more driveway and parking space.

Similar space in the same town as the Clifford Building was bringing around $4.15 per square foot on a gross lease basis when leased to smaller tenants.

In recent years there has been a considerable development of light manufacturing and wholesale buildings on I-294. Some of these were in well-planned and attractive industrial parks. The cheapest space available to smaller tenants on I-294 was $3.35 per square foot per year on a gross lease basis.

There was an excessive supply of old buildings available in the central business district of Chicago from $1.75-2.00 a square foot per year on a gross leased basis, but these buildings were not competitive with the Clifford Building. They were multi-story, there was not adequate loading and unloading space, and there was no parking space. These buildings were often occupied by the garment industry, which needed a location easily reached by public transportation to serve its labor force.

Old mill buildings in towns further out from Chicago than this property could be rented for as low as $.80 per square foot per year. But these properties were not competitive since they were multi-storied, were poorly located with respect to the Chicago metropolitan area, and often lacked adequate loading and parking facilities.

FINANCIAL DETAIL FOR ESTATE PLANNING OF
MR. PAUL CLIFFORD

Date	Property	Size	Cost	Land Cost	Original Financing Terms
1955-56	The Clifford Building	42,000 sq. ft.	$ 143,440	$ 15,000	Owned free and clear
1976	Home Town Building	15,000 sq. ft.	275,000	10,000	75% ratio; 15 year loan @ 7-1/2% interest
1978	Adjoining Town Building	30,000 sq. ft.	450,000	80,000	60% loan ratio @ 7-1/2% interest for 15 years
1979	Industrial Park	100,000 sq. ft.	$2,000,000	200,000	90% ratio land contract @ 8% for 20 years
1982	Nearby Town Building	42,000 sq. ft.	800,000	100,000	80% loan @ 9% for 12 years

Assume all building rent at $4.15 per foot, and 8% vacancy loss per year, and an expense ratio not including brokerage of 25% of gross. Assume one half of properties are rented through brokers at 4% of annual rent on properties so leased. Assume it would cost $40,000 to add sidetracks, individual access, and other features required in the Clifford Building. Assume depreciation on 90% of building cost at 3% per annum straight since purchase. Assume all repairs were expensed and did not affect tax basis. Assume Mr. Clifford wishes to maximize capital accumulation until he is age 70 and then enjoy an investment income for an inactive retirement. You may assume age 70 is reached in 1995.

Assume Mr. Clifford to have the following assets and income (excluding real estate assets and income):

Common stock portfolio-- $1,500,000, providing 4% of value per annum in dividends and 2% per annum appreciation.
Bonds-- $1,200,000 at an average rate of return of 6.5%.
Life Insurance-- face amount $300,00, 65 full paid, average cash value presently 40%, annual net premium of $7,000.
House-- owned as joint tenants with wife, $180,000, no mortgage.
Personal Property-- $40,000 (miscellaneous)
Cash in Banks-- $75,000
Personal Living Expenses-- $65,000
Wife's Total Net Worth-- $150,000
Average Income Tax Deductions-- $10,000 (excluding interest and depreciation)
Miscellaneous Husband and Wife Income-- $10,000

FINANCIAL DETAIL--MR. PAUL CLIFFORD

Subject to a current tax rate on income, capital gain, estate, and gifts reported in CCH Handbook, assuming these rates to reflect federal and state taxes combined.

TASK #1: Calculate Mr. Clifford's approximate net worth, income after taxes, cash net after taxes and debt service. Suggest what problems exist in regard to his real estate holdings as indicated by this analysis.

TASK #2: Establish the goals for his estate building program for Mr. Clifford and outline what must be done with the real estate to advance this plan.

TASK #3: On the basis of the work sheet from Task #1 and the goals established in Task #2, show the estimated 1995 net worth position of Mr. Clifford if he follows your real estate suggestions.

Use MR CAP to analyze this situation. Take the total land cost as a single entry and then treat each of the building complexes as a single capital component taking the original cost and subtracting the land cost for that complex. Treat the common stock, bonds, and life insurance cash as a single initial working capital reserve invested at 6% after tax. Once you have determined his net worth add back personal property such as the house, personal checking account and so on. Create an expense account which includes average income tax deductions. Don't be concerned with small accounting discrepancies, confusing precision with an accurate forecast of net worth for planning purposes. HINT: Assuming the date of analysis is 1988, enter only the remaining balance on any mortgages, the original constant and the interest rate rather than the original amount of the loan.

Section IV: Special Problem Cases - Case No. 20

Tanglewood Properties

Introduction

A group of six investors is interested in buying a package of properties owned by three partners in Dallas. The package consists of eleven separate apartment projects located in Austin and San Marcos, Texas. Initially, the investors were interested in only one of the projects - Tanglewood North in Austin. Further negotiations resulted in the investors purchasing the entire package of eleven properties.

Instruction Objectives

1. To expose students to the analysis of a decision involving a package of more than one property.

2. To analyze the structure and terms of a joint venture agreement.

3. To analyze the agreements made between a buyer and a seller in the sale of an apartment project.

4. To provide students an opportunity to analyze the structure of a financial package acceptable to the investors, the seller, and the lender.

5. To analyze the structure of the commission negotiated by the syndicators.

Background

In the fall of 1969, an Austin investor, Mr. Charles Davidson, was considering purchasing the Tanglewood North Apartment Complex, located on 45th Street in Austin, Texas. The complex was owned by a partnership of three Dallas men - Alan Liddell, Frank Liddell, and Charles Knappe. Mr. Knappe owned 50% of the property, with the Liddells sharing equally in the other 50%. Mr. Davidson and two investors were willing to put down about $150,000 in equity cash on the project.

The Tanglewood Properties

The Tanglewood North complex was one of a group of eleven projects in the Austin and San Marcos area owned by the three Dallas partners. The projects were collectively known as the Tanglewood Properties, and consisted of the following apartment complexes:

Manor Villa - 2401 Manor Road - Austin

Chateau LeGrand - 1807 Poquito Street - Austin

Tanglewood East - 2604 Manor Road - Austin

Tanglewood West - 1403 Norwalk Lane - Austin

Tanglewood North (1) - 1020 E. 45th Street - Austin

Tanglewooood North (2) - 1020 E. 45th Street - Austin

Regent - 1915 E. 19th Street - Austin

Timbers - 1307 Norwalk Lane - Austin

Villa Marquis - San Marcos, Texas

Stafford House - 22nd and Safford Streets - Austin

The other property in the eleven-property package, the Tanglewood West Annex at 1315 Norwalk Lane, was made a part of the Tanglewood West project for purposes of analysis.

The package represents a total of 456 units. The projects were mostly student apartments, with the exception of the Chateau, the Regent, and the Stafford House, which were predominantly occupied by adult, low-income blacks. A few of the apartment projects were in relatively sound financial and physical condition, with good investment potential - others were not doing well.

Problems Facing the Dallas Owners

As a result of mismanagement and partner disputes, most of the properties were in a negative cash flow position. The partners disagreed on how the projects should be managed, who or what was responsible for their adverse condition, and what to do to remedy the situation. Mr. Knappe was especially disenchanted with the whole deal, and wanted to sell the properties and terminate his partnership interest with the Liddells.

When Mr. Davidson approached the partners expressing his desire to buy the Tanglewood North complex, the partners offered to sell him the entire package of eleven properties. Following negotiations, they agreed on a $3,201,000 price for the package deal, with $400,000 of equity cash on the front end, leaving a balance of $2,801,000 to be financed. Mr. Davidson agreed to take the proposal back to his investors to analyze the proposed investment package, and to determine whether or not he could raise the required $400,000 in equity.

Financial Information

Supplied with the necessary supporting documents, Mr. Davidson generated the following financial data on the eleven properties for his analysis of the proposed investment:

Gross Income:	9 months at $62,137/month =		$559,233
	3 months at $48,887/month =		145,461
	Total Gross Income		704,694
Less:	Vacancy Allowance (7% of Gross)		49,329
	Gross Effective Income		$655,365
Less:	Annual Operating Expenses:		
	Insurance	$23,100	
	Utilities	43,500	
	Taxes	73,000	
	Trash Removal	5,642	
	Maintenance & Repairs	38,500	
	Professional Management	39,322	
	Miscellaneous	38,500	
	T.V. Cable	7,100	
	Resident Manager	24,608	
	Total Operating Expenses		$293,272
Net Operating Income			$362,093
Less:	Annual Payment on Debt Service		281,144
Net Cash Flow Before Taxes			$80,944

The Net Operating Income figure does not include the debt service payments required on the financing to buy the properties. The investors required a before-tax cash-on-cash return (ROE - cash flow before tax / equity investment) of 20%.

Income from the properties was highest during the Fall, Winter, and Spring months - September through May. Lower Summer rental rates and a softer apartment-rental market adversely affected the income-producing capability of the properties in the Summer months - June through August.

Factors Involved in the Investment Decision

Other factors were involved in the investors' decision besides financial information. Around 1969 and 1970, apartments in Austin were in high demand, especially the projects located near the University or near the shuttle bus route. Occupancy levels were high, rents were increasing, and the projections for the apartment market were optimistic. Besides the possible tax shelter typically offered by apartment investments, the projects also seemed to have the potential of generating substantial positive cash flow. Overall, it looked like an opportune time to invest in good apartment projects in Austin.

Mr. Davidson has experience and background in property management. He and an associate investor were partners in several deals requiring their skills in real estate investment analysis and property management. The passive investors intended to utilize this knowledge and expertise in real estate to assume some of the required financial and managerial responsibilities of the properties.

Areas of Concern for the Investors

There were several drawbacks for the investors in settling the deal. First was the uncertainty of raising the required $400,000 in equity. Mr. Davidson had been prepared to offer only a $150,000 down payment. Either the present investors had to come up with the extra money, or additional investors would have to be found. Also, the financial and physical condition of some of the apartment projects would have to be further evaluated to determine their effect on the property's profit potential. Some of the complexes needed substantial repairs. Thirdly, mortgage money was extremely tight at that time, and the investors were concerned about the interest rate they would have to pay for the required $2,801,000 financing.

The Decision

Based on a thorough analysis of the proposed investment, the investors decided to purchase the eleven properties, assuming they could obtain the required financing. The $400,000 equity money was secured through the addition of two additional investors. Besides the initial two investors willing to put up $75,000 each, the two others wanted to buy into the deal at $100,000 each. This left the group $50,000 short of the required $400,000. Mr. Davidson and his associate managing investor agreed to contribute the additional $50,000 needed to satisfy the equity requirement. The resulting ownership percentages were as follows:

1. A & B $100,000 investors - 25% each

2. C & F initial investors at $75,000 - 18.75% each

3. Mr. Davidson (D) and his associate (G) split the remaining 12.5% - 6.25% each

The land was valued at $432,000, with the balance allocated to improvements. The properties qualified for the 125% accelerated depreciation method, and the improvements were to be depreciated over 20 years. The partners' average ordinary (marginal) income tax backet was 50%.

Aware of the condition of some of the projects included in the package, the investors required a means of divesting some of the properties over the next few years without violating a sales or mortgage restriction. The negotiated mortgage, therefore, had to include a mandatory release clause to enable the investors to sell off individual projects in the package without forfeiture or penalty.

The Closing

An agreement was reached between the Dallas partners and the new group of investors on the terms of the closing. Details of the closing statement included the following information:

Sales Price: $3,201,000

Expenses of Sellers:

Title Policy	$9,233
Mortgage Policy	15
Recording Releases	15
Total Expenses	9,263
Less: January Escrow Deposits	4,323
Unearned Insurance Premium	4,451
Net Expense of Seller	$ 489

Expenses of Investors

January Escrow Deposits	$2,660
Special January Escrow Deposit	4,323
Unearned Insurance Premium	4,451
Recording	100
Total Expenses of Investors	$ 11,534

These figures did not include commissions paid in relation to the sales transaction. The transaction was closed subsequent to the Dallas sellers' payment of the January escrow of $4,323. The investors reimbursed the sellers for the January escrow payments. An additional $2,660 in escrow payments was paid by the investors to supplement the escrow account. The net result of the closing was an additional $11,534 outlay to the investors, in addition to the $400,000 equity money.

Form of Ownership

The partners now had to determine the optimal form of ownership to employ in the operation of the properties. At the initial partnership meeting, Mr. Davidson, the partner with experience in real estate and property management, suggested a joint venture. Mr. Simpson, a 25% partner/investor, expressed his reluctance toward the suggestion by admitting that he was not very familiar with the joint venture form of ownership. For purposes of explanation, Mr. Davidson offered to draw up the joint venture agreement and submit it to the other investors for their approval and comments at the next meeting. The investors agreed to Mr. Davidson's offer, and the meeting was adjourned.

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QUESTIONS

1. What kind of a financial arrangement could be structured to meet the needs of the investors, the seller, and the lender?

2. Was this a good deal for the investors? Include a computer analysis of the investment to support your answer.

3. What agreements are made in a contract between the buyer and the seller in relation to the sale of an apartment project?

4. What is a joint venture? Compare and contrast the joint venture form of ownership with a general partnership. What are the responsibilities of the managing partner of a joint venture? What are the responsibilities of the managing partner of a partnership? What information is included in a joint venture agreement?

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DEMONSTRATION OF THE USE OF THE INVESTMENT PARAMETER MATRIX

Investment characteristics of each investment vehicle have been related to a standard set of factors and scored for relative favorability on a scale of 1, 3, 5 with 5 being the most favorable. Raw scores for each class of factors can be weighed for compatibility with particular investment objectives. The sum of the weighed scorer may help identify the type of investment best suited for a particular investor.

Six classes of investment characteristics were selected:

1. Current Income
2. Short Run Risk
3. Long Run Risk
4. Long Term Appreciation
5. Liquidity
6. Entrepreneurial Skills

Each of the six classes of investment characteristics is composed of a set of investment parameters which affect the favorability of a particular investment characteristic.

For purposes of illustration the investment objectives of a particular investor are assumed. For purposes of simplicity the investment objectives will be defined in terms of the importance of a class of investment characteristics rather than in terms of specific parameters. Either method may be employed.

Assume: Investor A assigns the following weights based on the importance of each of the six investment characteristics.

1.	Current Income	.10
2.	Short Run Risk	.30
3.	Long Run Risk	.20
4.	Long Term Appreciation	.20
5.	Liquidity	.10
6.	Entrepreneurial Skills	.10
		1.00

Assume: Investor B assigns the following weights based on the importance of each of the six investment characteristics.

1.	Current Income	.40
2.	Short Run Risk	.10
3.	Long Run Risk	.20
4.	Long Term Appreciation	.00
5.	Liquidity	.20
6.	Entrepreneurial Skills	.10
		1.00

RAW SCORES FOR INVESTMENT CHARACTERISTICS

		Farmland			
		Cash Rent	Crop Share	Livestock Share	Shopping Center
I.	Current Income	7	13	7	11
II.	Short Run Risk	16	8	12	16
III.	Long Run Risk	13	11	7	15
IV.	Long Term Appreciation	16	14	12	12
V.	Liquidity	16	16	6	12
VI.	Entrepreneurial Skills	21	15	11	19

Raw scores are based on the relative favorability of an investment type to the investment characteristics. Explanation of the assignment of raw scores for farmland and shopping center investments are included in later sections.

INVESTOR A

		Cash Rent	Crop Share	Livestock Share	Shopping Center
I.	Current Income	7 x .1 = .7	13 x .1 = 1.3	7 x .1 = .7	11 x .1 = 1.1
II.	Short Run Risk	16 x .3 = 4.8	8 x .3 = 2.4	12 x .3 = 3.6	16 x .3 = 4.8
III.	Long Run Risk	13 x .2 = 2.6	11 x .2 = 2.2	7 x .2 = 1.4	15 x .2 = 3.0
IV.	Long Term Appreciation	16 x .2 = 3.2	14 x .2 = 2.8	12 x .2 = 2.4	12 x .2 = 2.4
V.	Liquidity	16 x .1 = 1.6	16 x .1 = 1.6	6 x .1 = .6	12 x .1 = 1.2
VI.	Entrepreneurial Skills	21 x .1 = 2.1	15 x .1 = 1.5	11 x .1 = 1.1	19 x .1 = 1.9
		15.0	11.8	9.8	14.4

Raw scores are weighed by the relative importance of the investment characteristics. Weighed investment characteristics are summed to indicate which investment type best suits investor A's investment objectives. Apparently cash rent farmland or shopping center investments are to be preferred.

INVESTOR B

		Cash Rent	Crop Share	Livestock Share	Shopping Center
I.	Current Income	7 x .40 = 2.8	13 x .40 = 5.2	7 x .40 = 2.8	11 x .40 = 4.4
II.	Short Run Risk	16 x .10 = 1.6	8 x .10 = .8	12 x .10 = 1.2	16 x .10 = 1.6
III.	Long Run Risk	13 x .20 = 2.6	11 x .20 = 2.2	7 x .20 = 1.4	15 x .20 = 3.0
IV.	Long Term Appreciation	16 x .00 = 0	14 x .00 = 0	12 x .00 = 0	12 x .00 = 0
V.	Liquidity	16 x .20 = 3.2	16 x .20 = 3.2	6 x .20 = 1.2	12 x .20 = 2.4
VI.	Entrepreneurial Skills	21 x .10 = 2.1	15 x .10 = 1.5	11 x .10 = 1.1	19 x .10 = 1.9
		12.3	12.9	7.7	13.3

Raw scores are weighed by the relative importance of the investment characteristics. Weighed investment characteristics are summed to indicate which investment type best suits investor B's investment objectives. Apparently shopping center and crop share and cash rent farmland investments should be considered.

It is possible to introduce greater variability into the weighed investment characteristic sums by either employing a wider range of raw scores or weighing investment parameters individually.

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PRELIMINARY REMARKS: FARMLAND

This digest of investment parameters is based on discussions with Paul Craig, Wisconsin Farm Service, Inc., and Erlin Brannstrom, research associate, Dept. of Agricultural Economics, University of Wisconsin.

Each of the investment parameters have been discussed relative to three basic farm operation types: Cash rent, crop share, and livestock share. A more complete breakdown of the various enterprises has been suggested if further study of farmland investment is warranted.

by James Ablan
James Graaskamp

April 1976

I. Current Income

A. Cash on cash returns
B. Tax shelter returns
C. Control of timing of revenue stream

II. Short Run Risk

A. Potential variance in revenue stream
B. Potential variance in expense outlays
C. Net income sensitivity to retail price level
D. Time required to enter alternative land use plan

III. Long Run Risk

A. Resale price sensitivity to retail price level
B. Leverage
C. Vulnerability to political environment

IV. Long Term Appreciation

A. Cost of entry
B. Equity build-up returns
C. Price appreciation on resale
D. Capital gain returns

V. Liquidity

A. Search time
B. Cost of entry
C. Time horizon
D. Sale time

VI. Entrepreneurial Skills

A. Forecasting
B. Political
C. Planning and construction
D. Leasing and marketing
E. Property management

I. CURRENT INCOME

A. Cash on Cash Return

Major types of enterprises:	Cash Rent	Crop Share	Livestock Share
Return on cash investment:	8%	10%	8%

The above are historical averages for the past five years on equal shares, which have been adjusted for absentee ownership. Returns double those shown may be realized in the superior management.

Each of the major enterprises is a composite of several sub-categories. For example, under livestock, the return for feeder pigs was 14%, dairy cows 4%, and beef cattle 3%. The following breakdown is proposed by P.C.

Cash Rent	Crop Share	Livestock
Tillable Acres	Corn	Dairy Cows
Pasture	Soy Beans	Replacement Heifers
Buildings	Oats	Beef Cow-Calf
Houses	Hay	Feeder Cattle
	Wheat	Yearlings
	Peas	Feeder Pigs
	Sweet Corn	Sow to Finish

In the matrix cash rent, crop share and livestock share are scored 3, 5 and 1 respectively. In the near future grain farms are expected to yield higher returns due to better marketing skills and techniques utilized in a more favorable market. Crop shares are scored more favorably than cash rent

FARMLAND

	1 CASH RENT	2 CROP SHARE	3 LIVESTOCK SHARE	4	5 SHOPPING CENTER	6	7	8	9
I. Current Income									
A. Cash on cash returns	3	5	1		5				
B. Tax shelter returns	1	3	5		5				
C. Control of timing of revenue stream	3	5	1		1				
TOTAL	7	13	7		11				
II. Short Run Risk									
A. Potential variance in revenue stream	5	3	3		5				
B. Potential variance in expense outlays	5	3	3		5				
C. Net income sensitivity to retail price level	5	1	1		5				
D. Time required to enter alternative land use plan	1	1	5		1				
TOTAL	16	8	12		16				
III. Long Run Risk									
A. Resale price sensitivity to retail price level	5	5	1		5				
B. Leverage	5	3	1		5				
C. Vulnerability to political environment	3	3	5		5				
TOTAL	13	11	7		15				
IV. Long Term Appreciation									
A. Cost of entry	5	3	1		3				
B. Equity build-up returns	5	5	5		5				
C. Price appreciation on resale	5	5	3		3				
D. Capital gain returns	1	1	3		1				
TOTAL	16	14	12		12				
V. Liquidity									
A. Search time	3	3	1		1				
B. Cost of entry	5	5	1		5				
C. Time horizon	5	5	3		5				
D. Sale time	3	3	1		1				
TOTAL	16	16	6		12				
VI. Entrepreneurial Skills									
A. Forecasting	5	1	3		5				
B. Political	5	5	5		5				
C. Planning and construction	5	5	1		3				
D. Leasing and marketing	1	1	1		3				
E. Property management	5	3	1		3				
TOTAL	21	15	11		19				

since the latter represents a fixed return while the former affords greater flexibility to capitalize on opportune marketing. Livestock shares are scored the lowest since political pressure will hold down product prices while increased feed grain costs will raise expenses.

B. Tax Shelter Returns

Agricultural operations are permitted use of the cash or accrual basis of accounting to their distinct advantage. Almost all tangible property may be depreciated on a componentized basis. Due to rapid technological advances in livestock management techniques, the functional obsolescence of buildings proceeds at a faster rate than the actual physical obsolescence. The IRS recognizes this fact and publishes guidelines for asset depreciation which reflect functional obsolescence. The functional obsolescence for farm machinery is more accentuated than for buildings. Depreciation is also permitted on breeding cattle such that while the cattle are increasing in value they are being depreciated. The conversion of feed protein to animal protein promotes conversion of ordinary income to capital gains. Cattle must be held for two years and must be for dairy or breeding purposes to qualify for capital gains treatment. Investment tax credit is permitted on all personal property (e.g., silos, cattle, milking machinery) up to $100,000. Ten percent of the asset cost is a direct write off on the tax bill. A seven year holding period is required to avoid recapture. Orderly improvement programs can maximize this advantage.

Livestock farms offer more tax cover since more depreciable assets (building, machinery, cattle) are involved. In the case of cash rent or grain farms it should be noted that unused buildings cannot be depreciated.

The scores for cash rent, crop share and livestock share are 1, 3, 5 respectively. Livestock farms permit the most tax cover from depreciable assets and promote the conversion of ordinary income to capital gain. Crop share operations can take advantage of cash accounting since purchases are expensed in the year purchased, and sales included in the year sold.

C. <u>Control of Timing of Revenue Stream</u>

Certain livestock and all grain farms may alter the revenue stream by controlling the timing of product sales. In particular, grain may be stored for sale at a more opportune time or may be sold on the future market.

<u>Example</u>:

In the last year grain prices have decreased $1 per bushel.

300 acres at 125 bu/acre = 37500 bu x $3.50/bu - $131,250

300 acres at 125 bu/acre = 37500 bu x $2.50/bu - <u>$ 93,750</u>

29% loss

This loss could have been somewhat avoided by changing the normal revenue stream.

Livestock operations offer less control of revenues but more control of expenses since purchases of storable feed grain and hay will be reflected in the bottom line. In a livestock operation the conversion of feed protein to animal protein reaches a point of diminishing returns; expected market price increases must be substantial to warrant holding livestock once this point is reached.

Cash rent, crop share and livestock share are scored 3, 5, 1 respectively. Cash rental payments for land and/or buildings as determined in owner/renter negotiations usually include a portion of the crop as payment. This feature allows the owner some flexibility in the timing of crop share sales. Livestock sales face market prices and a constrained optimal sales time, thus there is little control of timing of revenue. As illustrated, grain operations offer the most flexibility in controlling the timing of the revenue stream.

II. SHORT RUN RISK

A. Potential Variance in Revenue Stream

Livestock and grain farms may produce orderly selling patterns based on production. With the exception of dairy farms, livestock production has more inherent variance than does grain production. Livestock prices have more variance than crop prices. In recent years the volatility of market prices has increased. Livestock production permits more managerial control in terms of animal husbandry practices and feed purchases. In livestock production feed costs represent at least 50% of the cost of production. Grain production is strongly dependent on the weather. Government policies are continuing major attempts to control and promote increased output. Grain farms have price guarantees in the form of loan guarantees should price expectation not be fulfilled. Dairy farm milk production enjoys very stable revenue flows since price floors are established by the Federal government.

The opportunity exists to choose enterprises which have favorable covariance characteristics. For example, when grain prices are high, grain farming is relatively profitable; high grain prices translate to high feed costs for livestock operations and consequently the profitability of feeder livestock enterprises will be depressed, vice versa.

Cash rent income is more stable than actual participation in the farming. Adjustments to rental rates usually follow grain market price trends by at least a one year lag.

Typically a cash rent position is in the form of a long term option to lease with the rental rate set on a yearly basis.

Cash rent, crop share and livestock share are scored 5, 3, 3 respectively. Cash rent is fixed at the beginning of the year, consequently there is little variance in the revenue stream. While livestock operations have the most inherent variance, they also permit greater managerial control. Consequently livestock share and crop share are scored the same.

B. Potential Variance in Expense Outlays

Controls of variable costs can be projected prior to enterprise entry. Orderly capital improvement programs can be followed. Total expenses are much more controlable than total revenues.

For grain farms a long planning time (Jan. 1-Mar. 1) permits more exacting estimates of expenses. Livestock enterprises have less control since the health of the animals and feed prices are more difficult to project. Expense variance in the cash rent situation can be contractually laid off on the lessee.

Cash rent, crop share and livestock share are scored 5, 3, 3 respectively. These scores parallel those for potential variance in revenue stream since the potential variance in a function of possible managerial control which is a function of the nature of the particular enterprise.

C. <u>Net Income Sensitivity to Retail Price Level</u>

The Consumer Price Index, a barometer of inflation, is in part composed of food prices (24.8%). Since 1972, the proportionate increases in food prices have outpaced increases in other goods and services measured by the index. However the increase in food prices is not reflected totally at the farm level; in fact, the farm retail price spread is continuing to widen, i.e., processors and distributors are receiving a larger share of the price increases.

Farm products fare market prices which are determined by supply and demand. While government policies have had the affect of increasing demand by increasing farm exports, government policies have also removed much of the control on supply. The result is that the market is given a freer rein in determining prices. The prices have been much more volatile.

Prices for feed grains (crop shares) are to a large extent influenced by exports. However large swings in prices have little effect on the retail price level. As feed prices increase, cattle feeding operations substitute grass for corn to cut feed cover and thus reduce the needed market price. The ability to do this has been increased by the USDA redefinition of meat grades. Now leaner beef (less corn and more grass feeding) can obtain the "choice" grade and market price. Even if feed substitution did not take place, the effect of large fluxuations in the market price for feed grains would little affect the retail price level (CPI). The approximate direct and indirect effect on annual averages per capita food costs of a $1/bushel change in the price of feed grain would be $30. That is, if increases in grain prices were fully reflected in the prices of livestock products, the average annual increase in food costs associated with a $1/bushel increase in grain prices would amount to slightly more than $30 per person. Even a doubling of all grain prices would add less than 1% to the overall index.

Dairy operations have price supports on the demand side but are susceptible to cost push inflation on the supply side which is strongly influenced by feed costs. 80% of the price of milk is composed of the cost to produce the milk. 50% of the cost is for feed, 15% for capital costs and interest, 15% for labor. Therefore while milk prices may closely parallel the CPI the net price to the farmer may be at variance with the index.

Cash rent operations may allow a price level adjustment in the form of an annually renegotiated rental charge.

Cash rent, crop share and livestock share are scored 5, 1, 1 respectively.

D. Time Required to Enter Alternative Land Use Plan

For farming an alternative land use plan refers to an alternative farm plan. The flexibility to change enterprises will be constrained by the cropping cycle and the number and type of buildings on a particular farm.

A switch from cash rent to crop share may take a year depending on the contractual arrangement. A switch from cash rent or crop share to a livestock operation may take two years since buildings must be constructed, a herd must be purchased and an operator must be found.

If cash rent, crop share and livestock share are the only alternatives the time required to enter a more intensive use would be greater or conversely it is easier to change to a less intensive use. Therefore cash rent, crop share and livestock share are scored 1, 1, 5 respectively.

III. LONG RUN RISK

A. Resale Price Sensitivity to Retail Price Level

Between 1964 and 1976 the average price per acre of Wisconsin farmland rose from an index figure of 100 to 265 or 10% per year if a constant rate is assumed. In the past three years Wisconsin farmland has increased 20% per year on average.

In recent years grain prices have increased markedly. If buyers are multiplying these prices by the anticipated yields and capitalizing the net income, some of the phenomenonal increase in land value may be explained. Present prices for farmland are based on future expectations. World population is ever increasing, there is finite cropland to support that population; exports of farm products (especially grain) are increasing.

In recent years the retail price level and the resale price for farmland have moved in the same direction; however, whether or not either is sensitive to the other is not documented. Net income appears to be rather insensitive to the retail price level, except in the case of cash rent wherein sensitivity can be contractually introduced. Price appreciation on resale is greatest for cash rent and crop shares. Most of the favorable future expectations are based on grain prices. For these reasons cash rent, crop share and livestock share are scored 5, 5, 1 respectively; this is more a reflection of post trends and hypothesized relationships than a postulate of existing documented facts.

B. Leverage

The net income and type of operation will dictate the degree of leverage desired. The volatility in commodity prices and the potential to store crops so as to realize revenue at opportune times reveal increased flexibility for low levered operations.

Agriculturally oriented banks in rural areas initiate mortgages for three to five years (longer amortization schedule with balloon payment) with payments to suit the particular farm. At the end of the period the bank will review the applicant and adjust the interest rate and/or amortization schedule. Crop share and cash rent typically make semi-annual or annual payments, while dairy farms make monthly payments.

Absentee owners are finding it increasingly difficult to obtain conventional mortgage financing in rural areas; the trend is toward land contracts.

A land contract will typically require a down payment of at least 30%, while conventional financing will require at least 35-40% down. When prices were more stable, a typical loan to value ratio was 50%. In the past five years loan to value ratios have varied due to short term financing and increased volatility in net income. The trend has been to establish lower loan to value ratios.

With cash on cash returns of 8-10% and short term financing, the possibility of negative leverage is present. The inability to convert appreciation in land value to cash available to amortize a mortgage necessitates substantial holding power so as to realize an appreciable return in the long run.

Loan to value ratios on mortgages for land and buildings are similar for all three enterprise types. Livestock operations require greater equity investments (lesser leverage) than crop shares (see Cost of Entry). Crop share enterprises require greater equity investment than cash rent. According cash rent, crop shares and livestock shares are scored 5, 5 and 1.

C. Vulnerability to Political Environment

Politicians are accountable to consumers; consumers are affected by prices. The degree to which a given enterprise is removed from the retail market is a measure of its political vulnerability.

Livestock and milk production are marketed through processors to the consumer and are the most vulnerable to domestic politics. Produce from cash rent farms may be marketed through processors to consumers (vegetables) or to farmers (feed grains); in either case the cash rent position offers insulation in that it is removed from contact with consumer markets. Grain farms which market feed grains are substantially removed from consumer markets in that produce from grain enterprises is sold to livestock producers. Consequently, cash rent, crop share and livestock share are scored 3, 3, 5 respectively.

IV. LONG TERM APPRECIATION

A. Cost of Entry

To be efficient each type of farm operation has a different economic scale. Crop land ranges from 400 to 700 acres in size at prices ranging from 500 to over 1000 dollars per acre. Cost of machinery can range from \$60,000 to \$90,000 for a 600 acre farm. Cost for seed, fertilizer and chemicals for say 600 acres will be approximately \$40,000.

A livestock dairy cow operation will require 70-80 cattle and probably 250 to 300 tillable acres. Typically average dairy cows range in price from \$600-800 per cow. The cost of milking operation buildings is approximately \$60,000-70,000.

A typical feeder cattle herd ranges from 700 to 1,000 steers. Steers are purchased at a weight of say 700 pounds for say 30¢/lb. Thus a herd will cost between \$150,000 and \$200,000.

Certain enterprises will require ownership of personal property such as livestock, feed and machinery. Except for livestock these items should be held clear of debt since feed disappears and machinery depreciates faster than scheduled amortization payments.

The rankings are self-explanatory due to investment in:

Livestock Share:	Crop Share:	Cash Rent:
Land Buildings Livestock Feed Crop Expenses	Land Buildings Crop Expenses	Land and/or Buildings

B. Equity Build-Up Returns

Typically a land contract will have a shorter term and lower interest rate than will conventional mortgage financing. With a land contract, equity will build at a faster rate. Mortgages from agriculturally oriented banks will structure equity build-up to suit the particular farm. The short term nature of these mortgages permits increased flexibility in this respect.

All enterprise types will have similar financing terms and thus similar equity build-up with respect to land. Livestock operations have more financable buildings than do crop share enterprises; it is also possible to finance the livestock. Livestock enterprises will have greater potential for equity build-up since it is possible to finance more of the operation; however, livestock enterprises require greater equity investments.. Equity build-up returns for livestock share and crop share are given equal scores. Cash rent operations may have financable buildings and thus are scored similar to the other enterprises. All enterprises are scored 5.

C. Price Appreciation on Resale

Between 1964 and 1976 the average price per acre of Wisconsin farmland rose from an index figure of 100 to 265 or 10% per year if a constant rate is assumed. In the past three years Wisconsin farmland has increased 20% per year on average.

Cash rent farms are easiest to liquidate and in the last five years have realized the greatest appreciation in land value. Presently there seems to be greater appreciation in quality farm land for grain production which is reflected by the cash on cash returns. Since land represents more of the total investment for cash rent and crop share enterprises, and it is land that is appreciating, livestock enterprises will have lesser appreciation since components other than land may not have been fully depreciated at the time of contemplated sale. For these reasons cash rent, crop share and livestock share are scored 5, 5, 3 respectively.

D. Capital Gain Returns

All three operation types will permit capital gain returns on the sale of land and buildings; however, livestock shares offer some additional capital gain returns in that breeder cattle and dairy cattle held for more than two years are permitted capital gains treatment.

Cash rent, crop share and livestock share are scored 1, 1 and 3 respectively.

V. LIQUIDITY

A. Search Time

Search time for grain farms and cash rent opportunities is typically 6-12 months; search time for a livestock operation is typically 12-24 months.

Livestock farms require more search time since it is necessary to assemble more units of production. Search for a livestock farm must pay closer attention to economies of scale in the relation of land acres to buildings. Given the rapid technological advances in livestock management techniques, the economies of such an operation are in constant flux. While the search time for machinery for the various operations is the same, the purchase of the livestock and livestock feeds will require additional time.

The majority of farms transfer ownership on March 1st with contracts signed two to six months prior. The March 1st transfer date bears direct relation to the seasonal cropping cycle and the lead time needed to plan and get set up for the following year's operation.

Cash rent, crop share, and livestock share are scored 3, 3, 1 respectively.

B. Cost of Entry

Larger, more specialized, more costly enterprises are more difficult to liquidate. Sale of a livestock farm when the contemplated use is for crop shares will occasion difficulty since the prospective buyer does not plan to fully utilize the buildings in their most productive use. Cash rent operations have the least capital improvements and are the most flexible in terms of liquidity. Crop shares have a liquidity position similar to that of cash rent enterprises. Coupled with this factor is the increased demand, i.e., greater willingness to accept cost of entry, for crop share operation.

Consequently, cash rent, crop share and livestock share are scored 5, 5, 1 respectively.

C. Time Horizon

The holding period for absentee investors usually extends ten years or longer depending on the investment objectives. The typical minimum is five years. It is a common practice to increase or decrease the original acreage. There is a seven year minimum to avoid investment tax credit recapture on personal property. Dairy and breeding cattle must be held two years to permit capital gains treatment.

Livestock operations require investments in buildings and permanent improvements and therefore require a longer holding period to recover the fixed investment. The carrying charge of a fixed investment retards flexibility of farmland crop alternatives.

Cash rent, crop share and livestock are scored 5, 5, 3 respectively.

D. Sale Time

Scores for sale time parallel those for search time. Although cash rent enterprises have been easiest to sell in the past, this trend is changing to favor crop share operations. Livestock operations require selling the herd and sale in a market which now favors crop share operations.

Enterprises are scored 3, 3, 1 respectively.

VI. ENTREPRENEURIAL SKILLS

Professional consultants for price forecasting, planning, construction, leasing, and marketing are available. Technical assistance in fertility (Least Cost Fertilizer Program) and nutrition (Ration Balancing Program) are available through universities. These resources must be utilized by a team leader or farm manager who possesses absolute authority regarding timely execution of decision making.

Cash rent operations will require price forecasting, leasing, marketing and technical assistance skills. Grain farms will require all entrepreneurial skills needed to produce and market the crop. Livestock operations will require all the skill needed to produce the crop as well as skills for matching the crop production with the livestock operation. "Agriculture is no place for amateurs." P.C.

As shown in the rankings, certain skills are more demanding than others, but management cannot be stressed enough in whatever sub-heading is considered.

HORIZON MALL
BORDERTOWN, TEXAS
CASE STUDY

Ira N. Keough, an acquisitions associate at JMB Realty Corporation, was entering John Wilson's office to review the potential acquisition of Horizon Mall Shopping Center. Ira had been at JMB for one year, and Horizon Mall represented the first major transaction for which he had primary responsibility. Ira had learned of this investment opportunity on a recent trip to Houston. After completing a market analysis (see Exhibit D) and financial analysis of the center, Ira had negotiated with the seller, Phil Meyers, president of Ace Development Company and developer of the center, for the past three weeks. The current status of negotiations is presented in the proposed letter of intent (see Exhibit A). At this stage in the acquisition process, Ira was scheduled to review the deal with John Wilson, a senior acquisition officer at JMB known for his keen analytical insight into real estate equity investments and his creative structuring techniques. With sweaty palms, Ira entered John Wilson's office.

At the outset of the meeting, Ira summarized the deal structure under which JMB Real Estate Limited Partnership VI ("JMB-VI") would purchase a 75% interest in Horizon Mall for $6,000,000. (See Exhibit C for a summary of the investment criteria of JMB-VI).

Horizon Mall is an enclosed mall shopping center which contains approximately 420,000 square feet of gross leasable area of which JMB-VI would own approximately 311,000 square feet. The remaining 109,000 square feet is owned and operated by a J. C. Penney department store, which is physically attached to the mall. The other department stores in the center are Walmart (approximately 84,000 square feet) and Fair (a low to middle-price range, regional junior department store containing approximately 42,000 square feet). The remaining tenants include an Eckerd drug store (approximately 11,600 square feet), a General Cinema three-screen theatre (approximately 11,700 square feet), and approximately 161,700 square feet of mall stores. The mall is located on an approximately 75-acre site, at U.S. Highway 66 and State Highway 402 in Bordertown, Texas. Construction of the mall was completed in late 1979. Access to and visibilty of the mall are excellent.

Typically, investments in JMB-VI are evaluated on a pre-tax cash flow basis using a ten-year holding period. However, Horizon Mall was less than one year old, and nearly all tenants had signed leases at the prevailing market rent. Because there were few below-market leases in the mall, Ira belived that there was conceptual validity to valuing the mall based on a multiple of the stabilized year's net cash flow (i.e."capping" stabilized cash flow), rather than using discounted cash flow analysis. He also realized that present value analysis would be highly sensitive to the inflation rate assumptions and residual value assumptions used in ten-year projections. The seller agreed with Ira's method for valuing the shopping center. Their disagreement centered on the appropriate stabilized cash flow projection.

After lengthy discussions with Phil, Ira believed that he understood Phil's objectives in selling a joint venture interest in Horizon Mall. First, Phil needed to finance all development costs for Horizon Mall. Total development costs, including future leaseup costs, were anticipated to be approximately $20,300,000, of which $14,300,000 had been funded by a first mortgage loan. Consequently, Phil needed at least $6,000,000 cash from the sales transaction to fund the remaining development costs. Second, Phil hoped to make a profit on the transaction, although he was willing to forgo his profit if the mall's future performance did not meet certain achievement levels. Third, Phil wanted to retain as much equity in the mall as possible (Ira believed this to be at least 25%) in order to participate in the center's upside potential. The fact that Phil believed in the growth potential of this center (as evidenced by his desire to retain 25% ownership) was reassuring to Ira. Finally, Phil wanted to retain management of the center. The seller's needs, coupled with JMB-VI's investment objectives, had established the general parameters within which Ira had conducted the negotiations.

Ira and Phil had already agreed to buy the mall based on an 8% capitalization rate (or 12.5 times the net cash flow after debt service), reflecting current market yields for regional shopping malls in the sunbelt. However, Ira and Phil had been unable to agree on the mall's stabilized pro forma net cash flow on which the pricing was to be based.

Phil agrued that the stabilized pro forma net cash flow for the center would be approximately $725,000 at 97% occupancy. Using an 8% capitalization rate, this equated to an equity value of $9,062,500 or approximately $6,800,000 for 75% of the equity. Ira on the other hand, valued the mall between approximately $6,800,000 and $8,000,000, and JMB-VI's ownership position (75% of the equity) at between $5,100,000 and $6,000,000.(see Pro Formas, Exhibit B). Based on his own assumptions concerning absorption of vacant space, market rents, and stabilized occupancy levels, Ira projected stabilized pro forma cash flow to be approximately $640,000. This translated into a valuation of the equity at $8,000,000, consisting of a $6,000,000 value for JMB-VI's position and a $2,000,000 imputed equity position for Ace. Although Ira's market study suggested that the remaining space should be absorbed within 12 months, leasing activity at Horizon Mall had been sluggish during the previous six months. Ira was concerned that the mall might encounter difficulty attaining 95% occupancy. As a downside analysis, Ira used the center's current net cash flow of $544,000 (based on 78% occupancy for mall stores) to establish a floor value for JMB-VI's position. Ira reasoned that since the current tenants had reasonably strong sales the mall should be able to sustain its current level of operations.

In addition to being uncertain about the stabilized net cash flow, Ira had a number of reservations relating to Ace, a potential joint venture partner of JMB-VI. While recognized for building high quality projects, Ace was not particularly adept at managing construction costs. A case in point was Horizon Mall where development costs had exceeded the original construction budget by approximately $1,800,000. Furthermore, Ace had achieved inconsistent results as leasing agent and manager of other malls it owned. Ira was also familiar with a prior joint venture between Ace and another equity partner in which Ace had not always met its obligations under the partnership and management agreements. Finally, Ira had examined Ace's financial statements and concluded that while Ace had a net worth of approximately $12,000,000, the bulk of its real estate assets were highly illiquid, and subject to the same real estate risks as Horizon Mall.

After Ira had completed his presentation, John responded: "Horizon Mall appears to be a fine long-term asset which we would like to add to JMB-VI's portfolio. JMB-VI is overcommitted to office buildings, so buying this asset will fit well in diversifing the fund, both by property type and location. However, there are a number of short-term risks that we should try to address in the deal structure. You and Phil have agreed to price the mall based on an 8% capitalization rate applied to a reasonable stabilized pro forma cash flow. However, the mall's stabilized net cash flow could be anywhere between today's level of $544,000 and Phil's projection of $725,000. This uncertainty is largely due to the fact that the mall is still in the leaseup phase. If we could take a snapshot 12 months from now, we could probably agree with Phil on the mall's value. However, as a JMB-VI investment we are required to make a deal today, providing up front for the allocation of the maximum dollars to be invested by the fund. One approach you might consider is to commit to a specific maximum dollar investment today, subject to some adjustment in the future. These type of deals are often difficult to administer and it is important to define precisely the mechanics of any future adjustment of price or ownership interest. One final thought relates to JMB-VI's current yield on the investment. You should be aware that we've bought a few properties where tenancy and cash flow actually declined after closing. Under the current deal structure, JMB-VI receives an 8% preferred return ($480,000) on its investment. Since current yield is an important investment criteria you might also try to receive a guaranteed yield for a specified period of time. From a negotiating standpoint, it might be helpful to offer Phil something as a tradeoff in order to get a deal structure which is acceptable to us.

Case Assignment:

(1) Assess the risks and opportunities associated with investing in Horizon Mall.

(2) Present a modified deal structure which addresses these risks, as well as the needs of both buyer and seller. (Ignore the tax structure of this investment.)

(3) Evaluate the advantages and disadvantages of a joint venture deal structure. Pay particular attention to leaseup risk and JMB-VI's ability to gain protection through the joint venture structure (against Ace's potential failure to perform its obligations). Discuss the rights and controls which you think should be included in the joint venture and management agreements.

Note: The pro formas in Exhibit B are presented for illustrative purposes only. The important aspects of these pro formas are described in the case. The calculation of the pro formas is not intended to be a major focus of your analysis.

EXHIBIT A

(DRAFT)

July 28, 1980

Mr. Phil Meyers
Ace Development Corporation
101 Executive Lane
Secaucus, NJ

RE: Horizon Mall Shopping Center
Bordertown, Texas

Dear Phil,

This will outline the terms I discussed with you regarding the acquisition by JMB Real Estate Limited Partnership VI ("JMB-VI") of an interest, through a joint venture general partnership, in the recently completed Horizon Mall Shopping Center in Bordertown, Texas.

JMB-VI and Ace Development Company would form a joint venture general partnership ("joint venture") which would acquire the shopping center for a purchase price of $20,300,000. JMB-VI would contribute $1,000,000 as a down payment at closing (assumed to occur on September 15, 1980). On December 29, 1980, JMB-VI would contribute $5,000,000, subject to the funding of a $14,300,000 first mortgage loan from Alliance Life Insurance Company.

The joint venture partnership agreement would provide for a 75%-25% relationship between JMB-VI and your company as to cash flow and sale or refinancing proceeds. Taxable income and loss would be allocated in accordance with cash flow distributions, except that if there were no cash flow the allocation would be 99% to JMB-VI and 1% to you.

With respect to annual cash flow, JMB-VI would be entitled to receive a preferred return equal to the first $480,000 of such annual cash flow, you would receive the next $160,000, with any excess to be allocated 75% to JMB-VI and 25% to you. JMB-VI's preferred return would be cumulative for the first 24 months (cumulated to residual), and noncumulative thereafter.

With respect to proceeds of sale or refinancing, JMB-VI would first be entitled to receive any deficiencies in its cumulative preferred return and the next $6,000,000 of such proceeds. You would receive the next $2,000,000 with any excess to be divided 75% to JMB-VI and 25% to you.

Should any of the outlots be sold, the proceeds of such sales would be distributable 75% to JMB-VI and 25% to you.

The joint venture partnership would, at closing, enter into a management agreement with you under which you would manage the mall for an annual management fee equal to 3% of the rental revenues.

The foregoing is intended to reflect the items we discussed on Friday and to serve as the basis for further discussions. We still must review the leases and other documentation and further complete our market analysis, etc. prior to a final decision on the acquisition. Of course, no binding obligation on any party will be created until the execution of legal documentation satisfactory to all parties.

Yours very truly,

Ira N. Keough

cc: Sue Fourplenti, Esquire

EXHIBIT B

HORIZON MALL
BORDERTOWN, TEXAS
PRO FORMA STABILIZED NET CASH FLOW ($000)

	ACE	IRA	CURRENT
Occupancy-Mall Stores Only	97%	95%	78%
Income			
Rental Income:			
Walmart (84,000 sq. ft.)	266	266	266
Fair (42,000 sq. ft.)	183	183	183
Mall Stores (185,000 sq. ft.)	1949	1914	1763
Total Rental Income	2398	2363	2212
Expense Reimbursements:			
Common Area Maintenance	336	336	285
Real Estate Taxes	125	125	110
Common Area Utilities	400	400	330
Marketing	70	70	60
Other Revenues	10	10	10
Total Revenue	3339	3304	3007
Vacancy Allowance	(81)	(133)	-
Effective Gross Income	3258	3171	3007
Expenses			
Common Area Maintenance	(300)	(300)	(282)
Real Estate Taxes	(125)	(125)	(125)
Common Area Utilities	(400)	(400)	(368)
Marketing	(70)	(70)	(70)
General and Administrative	(130)	(130)	(118)
Other Expense	(26)	(26)	(22)
Management Fee (3%)	(70)	(68)	(66)
Total Expenses	(1121)	(1119)	(1051)
Net Operating Income	2137	2052	1956
Less: Debt Service $14,300,000; 9.25%; 9.87k; 30 year amortization; 20 year term	(1412)	(1412)	(1412)
Net Cash Flow	725	640	544

EXHIBIT C

INVESTMENT OBJECTIVES

The investment objectives of JMB Real Estate Limited Partnership VI are to provide Limited Partners:

- Current cash distributions;
- Capital appreciation through the increase in the value of the properties;
- Federal income tax deductions so that all or a portion of the cash distributions during the early years of operation will be "sheltered" from taxes; (Ignore for this case)
- Build-up of equity through the reduction of mortgage loans on the Partnership's properties.

INVESTMENT POLICY

JMB Real Estate Partnership-VI will invest in a diversified portfolio of income-producing real properties consisting primarily of existing commercial properties, such as shopping centers and office buildings. These properties will be located in various cities throughout the United States.

It is anticipated that the Partnership will use borrowed funds (leverage) in connection with the purchase of all or some of the properties.

The Partnership intends to hold the properties it acquires until sale or disposition appears to be most advantageous from the viewpoint of the Partnership and its investment objectives. It is presently intended that the properties will be sold or refinanced between the fifth and twelfth years after acquisition and the Partnership will seek to sell properties so that the average holding period for properties is between seven and eight years. However, the Partnership is not obligated to sell properties at any particular time.

The Partnership is self-liquidating in nature and no reinvestment of sale or refinancing proceeds in additional properties is permitted.

EXHIBIT D

MARKET REPORT

HORIZON MALL

BORDERTOWN, TEXAS

JULY, 1980

TABLE OF CONTENTS

II. MARKET ANALYSIS

This chapter contains an analysis of the retail market in Bordertown, Texas. The purpose of the analysis is to determine the market supportability of Horizon Mall. This analysis is based on demographic and economic trends, location and extent of competitive retail centers, and retail demand within the Bordertown trade area.

SUMMARY CONCLUSIONS

The market analysis of the Bordertown retail market indicates that adequate retail sales exist to support the 420,000 square foot Horizon Mall. Factors leading to this conclusion are:

(1) Bordertown has enjoyed a steady population growth of 5.24% during the 1970's and future growth is anticipated to continue at this historical rate. The Bordertown - Plainville - Oakridge SMSA has been targeted by Sales and Marketing Management's 1980 Annual Survey as the second fastest growing SMSA in the country for the next five years.

(2) Bordertown enjoys a dominant market share of department store type merchandise (DSTM) sales within its SMSA area. Typically, DSTM sales represent 18 to 22 percent of personal income in areas with a wide variety of retail shopping opportunities. In Bordertown, DSTM sales are approximately 100 percent of personal income, reflecting the large influx of commuter shoppers, particularly Mexican, to the area (see Table 9).

(3) Bordertown benefits from its Mexican sister city of Hildago which had a 1979 population of approximately 300,000. Hildago lacks significant first class retail store space, and Bordertown area retailers benefit from Mexican shoppers who travel to Bordertown to shop.

(4) Horizon Mall is located in the fastest growing section of Bordertown with significant residential development in the immediate vicinity of the Mall.

I. DESCRIPTION OF PROPERTY

Horizon Mall is an enclosed mall shopping center which contains approximately 420,000 square feet of gross leasable area of which the joint venture partnership will own approximately 311,000 square feet. The additional 109,000 square feet is owned and operated by a J. C. Penney department store, which is physically attached to the mall. The mall is located on an approximately 75-acre site, at U.S. Highway 66 and State Highway 402 in Bordertown, Texas. Construction of the mall was completed in late 1979.

The mall is of pre-cast concrete panel construction and has parking for approximately 2,300 cars. The first tenants occupied the mall in late 1979. The mall is presently 87% leased to 58 tenants (occupancy for mall stores only, excluding the department stores, is 78%). Tenants include J.C. Penney, which owns its store, a Walmart department store (approximately 84,000 square feet), a Fair junior department store (approximately 42,000 square feet), an Eckerd drug store (approximately 11,600 square feet) and a General Cinema three-screen theater (approximately 11,700 square feet). The leases have minimum lease terms (not including renewal options) of from 5 to 35 years and provide for minimum annual rentals ranging from $3.16 per square foot to $20.00 per square foot with an average annual base rental of $7.09 per square foot. Substantially all of the leases contain provisions pursuant to which the lessor will be entitled to participate in gross receipts of the tenant over specified levels (percentage rental revenue) and also provide for the tenants to pay their pro rata share of real estate taxes, insurance premiums and certain common area operating expenses.

DETAILED MARKET ANALYSIS

PROJECT DESCRIPTION

Horizon Mall is a newly constructed regional shopping mall which contains approximately 420,000 square feet of gross leasable area. The anchors of the mall are a 109,000 square foot J.C. Penney, an 84,000 square foot Walmart, and a 42,000 square foot Fair junior department store. Retail mall tenant space comprises the remaining 185,000 square feet of gross leasable area. The mall provides approximately 2300 parking spaces for customers, and has additional land available for outparcel development.

SITE AND AREA DESCRIPTION

The mall is located in the northeast quadrant of Bordertown, on the northeast corner of U.S. Highway 66 and State Highway 402. The mall is visible from both highways, is well marked by signs, and has convenient access via an on-off ramp from U.S. 66.

In the immediate vicinity of Horizon Mall are the following:

(1) Contiguous to the subject property on the north is Bordertown Country Club, a 700-acre residential comunity with an 18-hole golf course and 2000 residential home sites under development.

(2) Located directly across State Highway 402 is La Plaza Apartment complex with 182 units.

(3) Paredes Apartments, also on State Highway 402, has 152 units and is one half mile east of the subject.

(4) Immediately west of U.S. Highway 66 and south of State Highway 402 are two motel complexes:

   (a) Motel 6 with 120 units is currently under construction; and
   (b) Holiday Inn with 159 units built in 1971.

(5) Further south are the nearest competing retail facilities:

   (a) North Park Shopping Plaza contains 115,000 square feet and is anchored by Kroger; and
   (b) Bordertown Mall, containing 380,000 square feet, anchored by a Woolco Department Store and Aziz, a supermarket.

(6) Other neighborhood improvements along U.S. 66 and State Highway 402 consist of local service-type facilities, retail stores, fast food restaurants, service stations, additional motel complexes, and general commercial facilities.

Horizon Mall is a ten minute drive from the central business district of Bordertown. Residents from any point inside the city limits can drive to the site within fifteen minutes. The dominant population growth in the Bordertown area has occurred north of Boca Chica Boulevard area and this trend will increase the trade population in immediate proximity to Horizon Mall.

DEMOGRAPHIC TRENDS AND PROJECTIONS

The City of Bordertown is grouped with the neighboring cities of Plainville and Oakridge for SMSA demographic reporting purposes. For economic and trade area analysis Plainville and Oakridge could be considered a separate, or secondary market area, based on the availability of exisiting retail space, distance from Bordertown, and the projected opening of a four-anchor regional mall in Plainville during 1983 or 1984.

Population

The population of Douglas County, in which Bordertown, Plainville, and Oakridge are located, was approximately 190,200 in 1979. Average annual population growth for Douglas County for the period 1970-1979 was approximately 3.94% (See table 1). Bordertown grew at an average annual rate of 5.24% during this period which represents a rate of population increase 33% greater than the county increase. Bordertown now contains over 40% of the resident population of Douglas County.

The general market potential for the entire SMSA area was highlighted by the 1980 issue of "Sales & Marketing Managements' 1980 Survey of Buying Power" which picked the Bordertown - Plainville - Oakridge SMSA (table 2) as the second fastest growing metropolitan area for the 1980 - 1985 period. In addition, the SMSA was the single metropolitan area out of the 25 markets with the highest growth rate from 1972 - 1977, which is expected to accelerate during the 1977 - 1982 period.

Table 2

Fastest Growing Metropolitan Areas
1977-1982

Rank	S & MM Metro Market	1982 Population Forecast (000's)	% Growth 1977-82	1982 Household Forecast (000's)	% Growth 1977-82
1.	Richland-Kennewick Wash.	151.5	28.5%	63.2	15.0%
2.	Bordertown-Plainville-Oakridge, Texas	236.7	25.0	72.6	33.5
3.	Rapid City, SD	116.1	24.7	40.7	32.6
4.	Fort Myers, Fla.	207.1	23.6	86.8	30.9
5.	Santa Cruz, Cal.	204.7	22.6	87.4	30.1
6.	Olympia, Wash.	123.9	21.4	47.5	38.0
7.	McAllen-Pharr-Edinburg, TX	286.7	20.0	79.8	26.1
8.	Provo-Orem, Utah	217.5	19.8	61.4	24.8
9.	Las Vegas, Nev.	427.8	18.9	160.4	25.4
10.	Austin, TX	574.7	18.8	198.1	24.1

Bordertown also benefits from its Mexican sister city of Hildago which had a 1979 population of approximately 300,000. The existing economy is agrarian and considerably inferior in per capita income and standard of living to Bordertown. The near term potential for Hildago is influenced by the availability of inexpensive labor and energy. The Mexican government is providing for the growth of industry through urban improvement and industrial bond financing in the Hildago area. The residents of Hildago use Bordertown as their major retail center. As the Mexican government provides an increasing base for economic growth, the Hildago residents will have greater disposable income to spend at Horizon Mall and in other Bordertown shopping areas.

Income

Per capita income in the Bordertown - Plainville - Oakridge SMSA, although modest, has exhibited steady growth during the period from 1972-1977. The per capita income of $3,020 in 1977 represents a 50% increase over the 1972 per capita income of $2,014. Coupled with the significant annual population increase noted above, the SMSA is generating substantial increases in purchasing power.

Table 1

Population Trends and Estimates
Douglas County and Major Cities
1970-1979

Year	Bordertown Population	Percentage of County Pop.	Plainville Population	Percentage of County Pop.	Oakridge Population	Percentage of County Pop.	Douglas County Population
1970	54,892 (1)	39.11	33,503(1)	23.87	15,176(1)	10.81	140,368(1)
1974	64,900(2)	38.82	41,400(2)	24.76	17,900(2)	16.71	167,200(2)
1979	80,800(2)	42.48	46,500(2)	24.45	17,400(2)	9.15	190,200(2)
Average Annual Rate of Growth	5.24%		4.31%		1.63%		3.94%

(1) Source: 1970 U.S. Census

(2) Source: Sales & Marketing Management Survey of Buying Power

Employment

The employment base of the Bordertown area is undergoing substantial growth and diversification fueled by the availability of lower labor costs and dynamic petrochemical industry along the Gulf Coast. Tables 3 and 4 list major corporations and manufacturers located in the Bordertown area.

Unemployment statistics reflecting the unemployed portion of the Douglas County workforce from 1977-1981 are outlined below:

Unemployment Rates
Douglas County
1977-1981

1977	1978	1979	1980	1981
11.4%	10.2%	8.9%	10.5% (Est.)	10.5% (Est.)

Source: Texas Employment Commission, Bordertown Office

The figures tend to reflect the growing pains of an increasing population and a rapidly changing industrial and economic environment.

RETAIL SUPPLY AND DEMAND ANALYSIS

Retail Supply

A total retail supply of 1.2 million square feet exists in Bordertown excluding Horizon Mall (see Table 5). Horizon Mall's major competition is the Amigoland Mall consisting of 650,000 square feet of gross leasable area and anchored by Sears, Dillards, and Montgomery Ward. A new mall currently is planned for Plainville in 1983 or 1984 which could attract some shoppers who have in the past commuted to Bordertown to shop.

Table 3

BORDERTOWN, TEXAS — AREA FORTUNE 500 COMPANIES

RANKING		
1	GENERAL MOTORS CORPORATION	Automotive Components
2	EXXON	Petroleum Tank Farms
5	TEXACO	Petroleum Tank Farms
11	ITT AUTOMOTIVE ELECTRICAL PRODUCTS	Automotive Components
16	E. I. DUPONT DE NEMOURS	Chemicals
21	UNION CARBIDE CORP./3 DIVISIONS	Chemicals, Electronics, Air Separation
28	HALLIBURTON COMPANY	Drilling Chemicals & Barite
69	WEYERHAEUSER	Corrugated Boxes
75	BENDIX	Electronics
78	CONSOLIDATED FOODS CORPORATION	Seafood Processing
95	DRESSER INDUSTRIES	Drilling Mud
101	EATON CORPORATION	Electro-Mechanical Devices
113	SINGER/GENERAL PRECISION	Electronics
124	COMBUSTION ENGINEERING	Ores
176	QUAKER OATS/FISHER PRICE TOYS	Stuffed Toys
177	LEVI STRAUSS & COMPANY	Apparel
228	SUNBEAM CORPORATION	Electronics, Appliances
236	MCGRAW EDISON CO.	Electrical
259	ZENITH RADIO CORP.	Electronics
264	THE NORTON CO.	Abrasive Sand Paper
270	PENNWALT CORPORATION	Fluorspar Pellets
289	GENERAL CABLE CORP./SPRAGUE ELECTRIC	Electronics
331	PARKER-HANNEFIN/PARKER SEAL & IDEAL CORP.	Rubber Seals, Automotive Components
366	SHELLER GLOBE CORPORATION	Fractional Horsepower Meters, Meters, File Folders
482	PENN CENTRAL CORP./MARATHON LETOURNEAU	Offshore Drilling Platforms

Source: Bordertown Chamber of Commerce

Table 4

BORDERTOWN, TEXAS — AREA MANUFACTURING COMPANIES

COMPANY	
MITSUBISHI/KAWASAKI STEEL/RIVER STEEL	Construction Eqpt. Components
EAGLE INT'L WORLD MFG. HEADQUARTERS	Trailways Buses & Coaches
AQUASLIDE'N DIVE CORP.	Fiberglass Swimming Pool Diving Boards, Slides
HAGGAR COMPANY	Apparel
CTS CORPORATION	3.5 To 15 Inch Speakers, Electronics
CARLINGSWITCH	Electronics
CUTLER HAMMER	Electronics
DURO PAPER BAG MFG. CO.	Paper/Plastic Shopping Bags
NORTHERN ELECTRIC CO.	Electronics, Appliances
RANCO CORP.	Electro-Mechanical Devices
WINEGARD CO.	Electronics
AMERICAN SAFETY EQPT. CORP.	Automotive Seat Belts
CRC CROSE INT'L/CRC KELLEY PRODS.	Construction/Handling/Mining Eqpt.
TECCOR ELECTRONICS	Electronics
LEONARD ELECTRIC PRODUCTS CO.	Electronics
VAREL MFG. CO.	Petroleum Drill Bits
AMPLIFONE CORP.	Transformers, Electronics
PYRAMID MFG. CO.	Onshore Drilling Rigs & Platforms
PETRACO-VALLEY OIL & REFINING CO.	$400-Million Refinery
GULF ENERGY & REFINING CO.	Petroleum Refinery
BARBOUR ENERGY CO.	$750-Million Oil Refinery
HALLIBURTON CO./IMCO SERVICES	Barite & Drilling Chemicals
FINNING TRACTOR & EQPT. CO./CANADA	Caterpillar Eqpt. Refurbish Operation
ERICKSON BROS.	Nickle-Chrome Plated Truck Parts
OGLEBAY-NORTON CO.	Fluorspar Pellets
OZARKE-MAHONING CO.	Fluorspar Pellets

Source: Bordertown Chamber of Commerce

Table 5

Major Competing Retail Developments
Bordertown, Texas

Key	Name	Total Gross Leasable Area Sq. Footage	Major Tenant	Square Footage	# of Mall Shops
1	Amigoland Mall Regional enclosed mall Melvin Associates Opened January 31, 1974	650,000	Sears Dillards Wards	136,326 108,860 114,969	82
2	Bordertown Mall Enclosed mall Roy Martin & Associates Ltd. Opened February, 1972	380,000	Woolco	N/A	34
3	North Park Shopping Plaza Strip center	115,000	Kroger Family Center	54,000	39
4	Palm Village Shopping Center Strip center Dorfman Development	60,245	None	N/A	18
	Total estimated 1977 inventory	1,205,245			

Retail supply in Plainville and Oakridge is limited to strip centers pending the planned opening of a regional mall in Plainville during 1983 or 1984.

Source: 1980 Shopping Center Directory/The South; JMB Realty Corp

Table 7

Retail Sales Comparisons
Bordertown - Plainville - Oakridge
1974 - 1979

	Total Retail Sales	Food	General Merchandise	Furniture, Home Furnishings & Apparel	Automotive	Drug
Douglas County						
1974	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
1979	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Bordertown						
1974 % of County	49.27%	44.01%	57.03%	56.73%	47.59%	36.74%
1979 % of County	53.80	52.15	66.28	73.66	41.44	56.43
Plainville						
1974 % of County	36.48	35.90	40.88	34.53	41.51	39.80
1979 % of County	31.67	25.43	30.43	18.92	44.88	27.17
Oakridge						
1974 % of County	7.07	10.83	1.33	6.98	8.73	18.18
1979 % of County	6.56	11.66	0.89	4.27	9.57	11.23

Source: Sales & Marketing Management Annual Survey

Retail Demand

The Bordertown - Plainville - Oakridge SMSA has enjoyed substantial growth in retail sales as evidenced in Table 6 below.

Table 6

Retail Sales Trends
Bordertown - Plainville - Oakridge SMSA
1972-1977

	1972	1977	Average Annual Increase
Retail Stores	1,471	1,570	1.35%
Sales ($000's)	$302,185	$533,375	15.30%
Payroll ($000's)	$33,229	$62,853	17.83%
Paid Employees	8,239	10,680	5.93%

Source: U.S. Dept. of Commerce, Bureau of the Census, 1972 and 1977 editions of Major Retail Center statistics

In addition, the market share of the Bordertown area relative to the Plainville-Oakridge market has increased dramatically from 1974 to 1979 (Table 7), accentuating Bordertown's domination of the county's retail market. Whereas Bordertown represents approximately 42.48% of Douglas County's estimated 1979 population (Table 1), Bordertown's total retail sales during 1979 represented 53.80% of Douglas County's total retail sales. Even more striking are Bordertown's 66.28% share of general merchandise sales and 73.66% share of furniture, home furnishings, and apparel sales.

Retail Sales Potential

The retail sales potential of the Bordertown - Plainville - Oakridge SMSA can be measured by comparing retail sales of Department Store Type Merchandise (DSTM) to total personal income. As shown in Table 8, the percentage of per capita income spent on DSTM in Douglas County is 49.47%, which significantly exceeds a more typical ratio of 20% of per capita income expenditure for DSTM found in most metropolitan areas which have a more balanced inflow and outflow of retail expenditures.

Table 8

DSTM Sales as a Percent of Personal Income
Bordertown - Plainville - Oakridge SMSA
1977

Total Retail Sales		$540,121,000
Less:	Building Materials, Hardware, Home Supply, Mobile Homes	(26,143,000)
	Grocery Store Sales	(129,639,000)
	Automotive Dealers	(90,492,000)
	Gasoline Service Stations	(30,879,000)
Equals:	DSTM Sales	$262,968,000
	1977 Population Douglas County	176,000
	1977 Per Capita Income	3,020
	Total Personal Income 1977, Douglas County	$531,566,000
	DSTM Sales as % of Income	49.47%
	Typical DSTM Sales as % of Income	20.00%

Sources: (1) 1977 Census of Retail Trade, Geographic Area Series, U.S. Department of Commerce; (2) 1977 Per Capita Money Income Estimates for States, Counties, and Incorporated Places in the South Region of the United States, Population Estimates and Projections, U.S. Dept. of Commerce.

Note: Douglas County is conterminous with Bordertown - Plainville - Oakridge SMSA

The dominant effect of Bordertown's retail sales market position in the SMSA, and the effect of the Mexican population on retail sales, is measured when applying this same analysis to the city of Bordertown.

Table 9

DSTM Sales as a Percent of Personal Income
Bordertown, Texas
1977

Bordertown, Total Retail Sales	$278,169,000
Less:	
Building Materials	(8,167,000)
Grocery Stores	(64,909,000)
Automotive Dealers	(38,752,000)
Gasoline Service Stations	(12,219,000)
DSTM Sales	$154,122,000
1977 Population Bordertown	54,892
1977 Per Capita Income	2,796
Total Personal Income 1977, Bordertown	$153,478,032
DSTM Sales as % of Income	100.42%

Sources: (1) 1977 Census of Retail Trade, Geographic Area Series, U.S. Dept. of Commerce
(2) 1977 Per Capita Money Income Estimates for States, Counties, and Incorporated Places in the South Region of the United States, Population Estimates and Projections, U.S. Department of Commerce.

MARKET POTENTIAL, HORIZON MALL

In 1977, Bordertown had a total retail inventory of approximately 1.2 million square feet of gross leasable area (Table 5). With $154.1 million of DSTM sales in Bordertown during 1977 (Table 10), the Bordertown market could have supported between 1.5 million and 2.1 million square feet of DSTM sales, assuming average sales performance between $75 and $100 per square foot (Table 10). Thus, the existing supply of retail space was in balance with consumer demand.

Based on the strong recent history of retail sales increases in the market area, and expected population and household growth in the area, there appears to be adequate support for the 420,000 square foot Horizon Mall. Even assuming some dilution of support due to the projected development of a new mall in the Plainville area, it is anticipated that sales volume and market rents will continue to grow at a healthy rate.

Table 10

Supportable DSTM Space
Horizon Mall Primary Trade Area
1977

1)	Primary Trade Area DSTM Sales ($000's)	$154,122
(2)	Supportable DSTM Space at $75/sq. ft. at $100/sq. ft.	 2,054,960 1,541,220
(3)	Existing DSTM Space	1,205,245

Notes:

(1) Source: 1977 U.S. Census of Retail Trade, Geographic Area Series, U.S. Department of Commerce.

(2) Supportable retail or DSTM space is determined by applying industry standards of sales per square foot for DSTM space to DSTM sales estimates.

(3) From Table 5.

Source: JMB Realty Corporation

EMBARCADERO CENTER

A CASE STUDY

The Embarcadero Center, a five-block, 8.5-acre central city development, took 17 years to complete. This commercial element of a 51-acre "city within a city" redevelopment project required the cooperative efforts and combined creativeness of both the public and private sectors to make it work.

The Golden Gateway Redevelopment Project and its Embarcadero Center were certainly not an instant success. What was required was the transformation of a rundown section of the city, principally used as a produce market, to a vibrant, desirable addition in San Francisco that would connect the central business district with a potentially beautiful and functioning waterfront. This transformation required a vision by City officials for what its potential could be, the creativeness for producing a master plan for this vision, and persistence to stay with that plan until these goals were achieved.

Although this presentation deals primarily with the Embarcadero Center, its assessment with the entire Golden Gateway Redevelopment Project Area is important for a true understanding.

History

San Francisco was known originally as "Yerba Buena," and the land where Embarcadero Center now stands was among the first to see development activity. Early entrepreneurs sought to attract the lucrative world shipping trade to this potential port city.

This was not an easy task because tidal mud flats separated deep water from solid land. At about the same time (1847) that Yerba Buena became San Francisco, extremely long wharfs were constructed connecting deeper bay water with the shoreline. The first and longest wharf was located where the five blocks of Embarcadero Center are now located.

To accommodate the Gold Rush, shops, saloons, hotels, theaters, and warehouses lined these wharfs and were interconnected with a network of crosswalks.

However, the Gold Rush boom was shortlived; and as a result of abandoned ships, storms, neglect, and financial troubles, sections of the grid were abandoned and the tidal flats began to fill. This process evolved into a concentrated effort to fill these tidal flats, which culminated in construction of the current sea wall and permanent piers.

As with other parts of the downtown, the 1906 earthquake and resultant fire completely destroyed this area. Although the waterfront was rebuilt for commerce, by 1955 it was declared a blighted area, as it had become a congested, unsanitary, dilapidated produce market. The Board of Supervisors, San Francisco's governing body, took advantage of the then new Urban Renewal laws and created the Golden Gateway Redevelopment Project, one of the country's first. Goals for this area included:

a. Cleaning up a blighted 51-acre area.

b. Relocating the produce industry to a clean, efficient section of San Francisco.

c. Allowing for expansion of the Central Business District.

d. Increasing the city's tax base.

Redevelopment Process

The Redevelopment Agency (SFRDA), then under the leadership of M. Justin Herman, undertook one of the most ambitious redevelopment projects--the 51-acre, central city, mixed-use Golden Gateway. The concept was to create a mixed land use "city within a city." After lengthy economic, land planning, and urban design studies, it was decided that the Golden Gateway Project Area land uses would be principally housing, commercial, and park with sufficient amenities (i.e., shopping, restaurants, entertainment, parking) to support this section of the city.

With powers of eminent domain and purchase prices at fair market value, the SFRDA could acquire the many diverse ownerships allowing for the full assemblage and subsequent disposition of land. The waterfront produce market was relocated to new, much more suitably located facilities in South San Francisco. All residential tenants and other businesses from the area were similarly relocated to other parts of the city which better accommodated their needs. Detailed planning and engineering design studies (followed by construction of all civil engineering works) were completed during the acquisition period so that the marketing of land could proceed immediately thereafter.

Marketing of the Golden Gateway Project Area was divided into three sections: The first and largest section was the Golden Gateway residential development. Second were the public improvements, including M. Justin Herman Plaza. The third, the Embarcadero Center, is the commercial section and is the focus of this presentation.

The SFRDA requested private proposals for the five city blocks which now comprise the Embarcadero Center. The selected submission was from a partnership composed of David Rockefeller, John Portman, Trammell Crow, and subsequently The Prudential Insurance Company of America, to sequentially develop the full 8.5 acres in a coordinated, multi-use project. The principal land uses were 2.7 million square feet of office, an 800-room hotel, 325,000 square feet of retail/restaurants/entertainment, and parking for 2,400 automobiles--incorporated into a village-like environment interconnected by aerial walkways between blocks.

Development Concept

On the three podium levels, although the Redevelopment Plan called for parking, the developer proposed to build three levels of shopping, restaurants, and entertainment and develop it in a manner to connect the existing central business district to the Golden Gateway residential section. The required parking was then placed underground at a considerable expense, allowing for a meaningful specialty shopping center.

The disposition agreement with the SFRDA required an orderly development start for each block so that office space absorption into San Francisco's office marketplace could take place over a 10-year period. The developer desired to construct the first development block closest to the existing business district. The SFRDA did not want a development with only one or two blocks and therefore required the developer to construct the second building at the opposite end of the project--the Hyatt Regency Hotel. Construction starts for office blocks 2, 3, and 4 followed with a two-year cycle between buildings. Because of recession cycles during the development period, it was necessary to adjust the schedule to meet the city's overall market absorption rate.

Mortgage financing was acquired separately for each block of development. Except for the hotel and Two Embarcadero Center, which are combined, each block is a separate legal ownership entity, although all have the same participants.

Property management for the overall complex is by Embarcadero Center, Ltd., a company specifically established by David Rockefeller and John Portman to perform this function. The hotel, Embarcadero Center Five, was also developed by the Embarcadero Center Partnership and is managed by contractual agreement by the Hyatt Corporation.

As might be expected in pioneering a new, unique development concept, the project was not an immediate success. The Embarcadero Center had to compete for tenants in the overall San Francisco marketplace. Many of its competitors were positioned in well-established San Francisco locations. However, as time proceeded and the Embarcadero Center concept was understood, the project became popular and today is one of San Francisco's most prestigious addresses and provides approximately 10% of San Francisco's Class A office space.

Retail, likewise, had its shaky beginnings. It was not until the third block of development was completed that there was a sufficient number of shops, restaurants, and entertainment facilities to provide alternative choices which contributed to the center's success. Today, it is one of the Bay Area's most successful shopping centers, when compared to all types of shopping enclaves.

The Design

Private real estate development has as its principal goal economic success. The Embarcadero Center incorporates this idea. In addition, it is architect John Portman's concept that it is also the developer's responsibility to make a contribution to society. This is doubly true in the case of land acquired through the redevelopment process.

This idea has been accomplished by creating an environment for people. The principal element of the concept is the creation of a place where there is a refuge from vehicular traffic, congestion, and noise. Separation between the public arena and the private space is also provided by a three-level area which contains shopping, restaurants, entertainment, and landscaped open space which extends throughout the five development blocks. The private space is located in highrise towers above the three-level podium structure. Service and parking are located in several levels below grade.

A major pedestrian street along the Commercial Street corridor provides the primary interior circulation element. Off of this street are located escalators and stairs for vertical circulation. The office tower lobbies are located at the lobby (or second) level, causing their tenants to circulate up from the street level or down from the podium level.

The Embarcadero Center complex is essentially designed as a single building which, with each individual structure having a relationship with the whole, provides a commonality of materials, colors, forms, and textures. Each element is in context with the whole. Landscaping, fountains, pools, and major works of art contribute to the integration of the whole, forming a high-quality environment.

Although the overall density of development is very high, there is a feeling of space and tranquillity which is rarely achieved in the midst of today's high-density cities.

The success of the design has contributed much to the city of San Francisco for all to enjoy, whether tenant or visitor to the complex. This in turn has led to the financial success of Embarcadero Center, measured by high rental rates and sustained high occupancy levels.

Expansion of Embarcadero Center

In the early 1980s while completing construction of a new facility in San Francisco, the United States Federal Reserve Bank decided to offer the old Federal Reserve Building and land for sale. The property afforded a logical expansion of Embarcadero Center to the west. In July of 1982, the Federal Reserve selected a proposal by the Embarcadero Center ownership, which included preserving, restoring, and landmarking the old Federal Reserve Building.

The three-parcel acquisition with a land area of 1.6 acres allows continuation of the Embarcadero Center's development concept. The continuation of the central circulation spine along Commercial Street will provide pedestrian circulation into the expansion area by bridging Battery Street. A decorative landscaped stair ramp brings the pedestrian to street level and continues the Commercial Street pedestrian way from the Ferry Building one more block toward Chinatown's Grant Avenue.

This phase's centerpiece will be the landmarked Federal Reserve Building, which will provide 130,000 square feet of office space, while the banking hall and basement level will become a 35,000-square-foot food and entertainment center.

Opposite the Federal Reserve to the north will be a 360-room Park Hyatt Hotel, designed to fit the Embarcadero Center family of buildings. Both the hotel and the Federal Reserve's public areas are linked to the pedestrian bridge system.

Across Sacramento Street is located a 435,000-square-foot office tower of distinctive design compatible with the existing office towers. A rich base of granite is connected to a crenellated top by a curtain wall similar to the other Embarcadero Center office towers.

Just as the Hyatt Regency with its unique atrium, the parkway, M. Justin Herman Plaza, and the retail assemblage of Embarcadero Center Four create a major urban place, so will the Federal Reserve, Park Hyatt, and Commercial Street provide a similar setting on Embarcadero Center's west end.

Conclusion

From the City's standpoint, the 51-acre blighted area has been transformed into a meaningful and productive part of the city. The produce industry was relocated to new, clean, efficient facilities. From a very low tax base, the Embarcadero Center now contributes annually in excess of $12 million combined taxes. The central business district has expanded in a manner causing little if any negative environmental impact. Not only does the Embarcadero Center maintain the Justin Herman Plaza, it has provided in excess of 10 acres of privately owned, publicly used space on three levels throughout the complex. It is estimated that the daytime population of workers and visitors to Embarcadero Center is in excess of 12,000.

From the developer/owner's standpoint, an economically viable real estate development has been completed and is now in the process of being expanded. Substantial risk capital was required; however, through creative efforts it has been possible to create a central city complex that has long-term investment benefits and provides satisfaction to the ownership in making a truly remarkable contribution to San Francisco's urban society.

F A C T S H E E T

E M B A R C A D E R O C E N T E R

Nature of Development

"City within a city" complex including office, commercial, hotel, shopping, entertainment, and parking facilities. A major hotel and four office towers, each with three inter-connecting shopping levels. The entire project celebrated its completion in May of 1982.

Owners and Developers

The joint venture is composed of:

The Prudential Insurance Company of America
and Affiliates
David Rockefeller and Associates
John C. Portman, Jr., FAIA

Project Manager

Embarcadero Center, Ltd.

Location

Assessor's Blocks 230, 231, 232, 233, and 234, San Francisco, California. Bounded by Clay, Battery, Sacramento, Drumm, California, and Market streets and by M. Justin Herman Plaza and the Hyatt Regency San Francisco Hotel.

Land Area

8.5 acres, or approximately 370,000 square feet. Parcel is part of the 51-acre Golden Gateway Redevelopment Area.

Jurisdictional Public Agency

San Francisco Redevelopment Agency.

Developed Space

Over 2.75 million square feet of office space, approximately 325,000 square feet of retail space, 804-room hotel, 2,400 underground parking spaces, and over 200,000 square feet of landscaped public area.

Architect and Master Planner

John Portman & Associates, Architects and Engineers

Special Features

Five-block, 325,000-square-foot shopping area of more than 175 stores, restaurants, shops, and boutiques on three levels, connected by pedestrian bridges above the streets.

Particularly noteworthy artworks throughout the public areas of the development include major works of sculpture by Willi Gutmann, Nicolas Schoffer, Charles Perry, Barbara Shawcroft, Lia Cook, Louise Nevelson, and Jean Dubuffet. Embarcadero Center's investments in public artwork and landscaped area exceed $5 million.

Underground parking for 2,400 cars.

Extensively landscaped open space, connected by pedestrian bridges to the multimillion-dollar residential/office/commercial Golden Gateway Center.

20-story Hyatt Regency San Francisco Hotel with its spectacular 17-story atrium lobby.

An outdoor theater with seating for 250 people located in Justin Herman Plaza adjacent to Four Embarcadero Center.

Awards

Ninth Annual Esquire Magazine/BCA Award, 1974
Urban Renewal Program, Sixth Biennial HUD Design Award, 1974
Urban Land Institute's 1984 Award for Excellence, Large-Scale Development
1985 San Francisco Chamber of Commerce Business/Arts Award

Investment

Estimated total development cost of $375,000,000.

Economic Impact/Employment Data (Approximate)

Total population of center	15,000
Current annual employment payroll for center population	$500 million
Total current annual taxes (payroll, sales, property)	$18 million

Development Timetable

Phase 1	One Embarcadero Center		
	Security Pacific Bank Building. 45-story office building with three-level shopping gallery.		
	Groundbreaking	July 1968	
	Completed	March 1971	
Phase 2	Five Embarcadero Center		
	20-story Hyatt Regency San Francisco Hotel.		
	Groundbreaking	March 1971	
	Completed	May 1973	
Phase 3	Two Embarcadero Center		
	35-story office building with three-level shopping gallery.		
	Groundbreaking	March 1972	
	Completed	April 1974	
Phase 4	Three Embarcadero Center		
	35-story office building with three-level shopping gallery.		
	Groundbreaking	April 1974	
	Completed	September 1976	
Phase 5	Four Embarcadero Center		
	45-story office building with three-level shopping gallery.		
	Groundbreaking	January 1978	
	Completed	May 1981	

Building Areas by Use

	Assessor's Block #	Stories	Net Rentable Square Feet
One Embarcadero Center:			
Office Tower	230	40	691,000
Retail		3 levels	78,500
Other		2 levels	---
Two Embarcadero Center:			
Office Tower	231	30	650,000
Retail		3 levels	75,000
Other		2 levels	---
Three Embarcadero Center:			
Office Tower	232	30	648,000
Retail		3 levels	76,000
Other		2 levels	---
Four Embarcadero Center:			
Office Tower	233	40	759,000
Retail		3 levels	95,000
Other		2 levels	---
Five Embarcadero Center (Hyatt Regency Hotel) 804 rooms	234	20	

E M B A R C A D E R O   C E N T E R   W E S T

An expansion to the west of the Existing Embarcadero Center complex with a construction start scheduled for fall of 1986.

Nature of Development

Embarcadero Center West is a three-block, mixed-use development which features a new 24-story, 360-room hotel, a new 33-story office building and, as its centerpiece, a prominent national and city historical landmark, the nine-story original Federal Reserve Bank building of San Francisco, preserved and handsomely restored for public and commercial use. This development will be linked to the existing Embarcadero Center by a pedestrian bridge over Battery Street leading to a pedestrian ramp onto Commercial Street.

Owner

The joint venture is composed of:

The Prudential Insurance Company of America
David Rockefeller and Associates
John C. Portman, Jr., and Affiliates

Development Manager

Embarcadero Center, Ltd.

Architect and Master Planner

John Portman & Associates, Architects and Engineers

Location of Development

In the San Francisco central business district, the Embarcadero Center West project site includes three parcels of property bounded by Battery, Clay, Sansome, and Halleck streets in San Francisco, California.

Parcel 1 (Hotel)	Block 229, Lot 20
Parcel 2 (Former Federal Reserve Bank)	Block 229, Lot 3
Parcel 3 (Office)	Block 238, Lots 1 and 7

Land Area

Approximately 71,100 square feet, or 1.6 acres.

Jurisdictional Public Agency

City and County of San Francisco, City Planning Commission.

Developed Areas

Parcel 1	Approximately 285,000 square feet of hotel space, including 360 hotel rooms, restaurant, meeting rooms, and public open space.
Parcel 2	Approximately 140,000 gross square feet of office space and 50,500 gross square feet of restaurant and retail facilities within the renovated historical space.
Parcel 3	Approximately 480,000 gross square feet of office space, including below-ground parking with retail and public open space at street level.

Project Features

This development will be linked to the existing Embarcadero Center by a pedestrian bridge over Battery Street, where it will connect to a pedestrian ramp leading into the retail, hotel, and pedestrian activities on Commercial Street and the renovated former Federal Reserve Bank building. As a continuation of the pedestrian activities on Commercial Street from Justin Herman Plaza to Battery Street, Commercial Street from Battery to Sansome will be closed to vehicular access. Approximately 19,000 square feet of publicly accessible open space will be incorporated into this development. Additionally, the project sponsor is studying the feasibility of providing an on-site day care facility for workers and employees of the Embarcadero Center area.

Parcel 1 Features (Hotel):

- 24 stories above ground, three below
- Approximately 360 guest rooms
- Gross floor area approximately 285,000
- Auto entrance off Clay Street, pedestrian entrances off Clay and Battery streets
- Distinctive, Hyatt Regency-related architecture
- First three levels containing hotel activities, meeting rooms, restaurant, lounge, and public terrace
- Some guest rooms to include balconies or bay windows
- Hotel integrated with retail activities of the renovated former Federal Reserve Bank and also existing Embarcadero Center, providing an exciting western complement for the Embarcadero Center

Parcel 2 Features (Former Federal Reserve Bank):

- Building first constructed in 1923, with several subsequent additions
- Architect was the prominent George W. Kelham
- Total former Federal Reserve Bank property (ECW site) put up at public bid in 1982
- Renovation to include 140,000 gross square feet of first-class office space on the upper six floors
- Lower levels to include proposed food center and related retail
- Building one of the first of its kind to be completely seismically upgraded per current building codes
- New grand portico to be added at the east end in keeping with the people-oriented atmosphere of Embarcadero Center
- Building is eligible for the National Register of Historic Places

Parcel 3 Features (Office):

- 33 stories above ground, three below
- Approximately 480,000 gross square feet of office and retail space
- Retail space and open space at ground level
- Stunning, Downtown Plan-style architecture

Investment

Estimated total development cost: $270 million

Economic Impact/Employment Data

Projected net new permanent Bay Area jobs	12,400
Housing obligation fulfilled by sponsor	352 units
Projected annual revenues to the City	$5 million
Transit impact fee to be paid by sponsor	Approximately $2 million

Development Timetable

Parcel 1 (Hotel):

Projected construction commencement	May 1, 1986
Completion of construction	June 1, 1988

Parcel 2 (Former Federal Reserve Bank):

Projected construction commencement	June 1, 1986
Completion of construction	January 1, 1988

Parcel 3 (Office):

Projected construction commencement	May 1, 1986
Completion of construction	June 1, 1988

850

CASE STUDY

Submitted By: JMB REALTY CORPORATION

February 11, 1986

LATE NEWS FLASH!!
January 20, 1986

Since this case was prepared, Colonel Khadafy has been causing trouble in the Mediterranean, and Libyan assets have been frozen in the U.S.A. Several Italian oil companies had been intending to pursue joint ventures with Libyan oil companies but now have decided to pursue joint ventures with a couple of Atlanta-based firms; consequently the Atlanta office market has tightened up. New leases have been signed which will increase the buildings cash flow by $500,000 per annum beginning in 1986 and extending over the next five to seven years. Furthermore, options under these leases, if exercised, could provide an additional $1,000,000 p.a. for the building's cash flow after 1995. As a result of these changes, Carlotta feels more positive in underwriting a higher residual.

Meanwhile, in Los Angeles the 40,000 square foot potential tenant (proposal 2) turned out to be expansion space for a Libyan investment fund which invested Libyan assets in U.S. banks. Since the Libyans have had their assets frozen, this deal is now dead. The remaining proposal has been accepted and the building will soon be 72% occupied, rather than 80%, as had been previously hoped. Furthermore, the "worst-case" lease-up is now feared to last until June 30, 1989, and the downside risk to JMBDIP has been increased by $2 million to a total additional exposure of $4 million.

This additional information should be taken into account when you answer the questions posed in the case.

CASE

Nathaniel P. Vance opened the door to his new office at JMB Realty Corporation's headquarters on the 39th floor of the John Hancock Building in Chicago. The corner of his mouth slowly turned upward into a small smile as he surveyed the expansive room. Tastefully decorated with emphasis on grey flannel and walnut cabinetry, the office offered a magnificant view of both the Lake Michigan coast and the Chicago skyline. Taking a seat at his desk, Nate stroked the rich, Corinthian leather on the chair's well-proportioned armrests. His small smile suddenly turned into a broad grin as he thought to himself: "Hmm, this new office is not too bad. I guess it was worth the five tough years of dealmaking. Plus, with my new promotion to Acquisitions Investment Committee Member (or "Godfather" for short), I've got a lot more responsibility." As Godfather, Nate would not only be overseeing five dealmakers but also be serving on the Investment Committee, the five-person group which decides on all property investments made for JMB's publicly sponsored Limited Partnerships.

Nate picked up the pile of mail that lay opened and neatly stacked in his leather-lined letter tray. His new administrative assistant had stacked the mail in order of its importance, starting with his Mileage Plus Update from United Airlines. (Nate has been accumulating miles for the ultimate prize: a two-week excursion to Tahiti with the United flight attendant of his choice; his new account balance showed him just 20,000 miles from his goal.)

Next in the pile was a manila folder holding three Investment Memorandums that described potential deals that the Investment Committee would review at its next meeting. These memos had been prepared in great detail by JMB critics: the selfless, hard-working, aggressive recent business school graduates who assist the dealmaker in market and economic analyses of potential investments. Investment Memorandums summarize all the salient information necessary in analyzing an investment and are the bases for discussion in Investment Committee meetings. Nate remembered his days as a critic; they were heady times marked by red-eye flights, romantic encounters in overbuilt markets, and slide-rule number crunching.

But with his days as critic and then dealmaker now over, Nate had the luxury to find deals neatly packaged in Investment Memos in his letter tray. Nate's smug smile, which had returned as he reveled once again in his new status, disappeared quickly as he began to leaf through the three memos. "My God!" he thought, "there is no 'slam dunk' amongst these three. This Godfather business might not be as easy as I had thought."

Nate read on. One deal, a major office building in downtown Los Angeles, was only partially leased (albeit to a very high credit tenant) and faced a potentially tough leaseup period. Another, an office/R & D project in suburban San Diego, was fully leased but faced problems in the future. The third, a sparkling jewel of a building, in a secondary location in an otherwise vibrant suburban submarket of Atlanta, provided fixed, above-market master lease payments for 15 years.

Nate read each of the Investment Memos in great detail because he knew that he would be called upon today at his first Investment Committee meeting to prioritize the potential of each deal and substantiate his opinion for the order he picked. While he had clearly demonstrated his ability as dealmaker

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-- his promotion was evidence of that -- he would now be the rookie Godfather and would thus be scrutinized on his first few decisions.

"At first glance," Nate thought, "I wouldn't do any of these deals. At the same time, I know that almost all real estate markets are extremely tough today, and we can't just close up shop." Nate, of course, understood that investors' continued interest in real estate meant that it was the responsibility of JMB's acquisition department to find the best opportunities available and structure around any potential problems.

All three of these properties were potential investments for the same public limited partnership: JMB Diversified Investment Properties-MCMLXXXVI (JMBDIP-MCMLXXXVI). Each of these investments was the appropriate size for the fund. An investment in any of them would commit enough dollars in this fund so that JMBDIP-MCMLXXXVII could go "effective," or start raising funds. In addition, investments made to date in JMBDIP-MCMLXXXVI had been mostly in shopping centers and a few office projects in the South and Midwest. An investment in an office building or R & D project on the East or West Coast would enhance the diversification, by location and property type. (See Exhibit A for the investment objectives and policies of JMBDIP-MCMLXXXVI).

At this point, Nate went with his instincts and thought back to those lonely nights near closing time at La Terrasse, where one often looked for "deals", but was rarely satisfied with the available opportunities. Nate, turning to his old reliable "confidence builder", opened the bottom drawer to his desk, pulled out a bottle of Glenfiddich, and poured himself a shot (or two) of scotch as he began to weigh the three alternatives and prepare his comments for the Investment Committee meeting that afternoon . . .

Assignment:

As an Acquisitions Godfather, Nate is an integral part of the decision-making process for all investments made by JMB's publicly offered funds. Decisions by the Investment Committee are made on a consensus basis, as opposed to a majority rule. Therefore, it is extremely important that Nate's reasoning be well developed for discussion with other members of the Committee. Decisions are an easy and natural outgrowth of these discussions.

Imagine that you are in Nate's position. You should analyze each of the attached Investment Memorandums, focusing especially (but not exclusively) on the following areas:

1) Quality of project
2) Location
3) Leasing status
4) Market factors (both short-term and long-term)
5) Credit (of tenants, of developer)
6) Upside potential
7) Downside risks
8) Deal structure
9) Numerical analysis
10) Potential to restructure deal (if necessary)
11) Likelihood of closing deal

Rank each of the deals in the order in which you would advise doing them. Instead of making yes/no decisions on each property, you should concentrate more on the substantiation of your ranking. Adequate reasons should be provided for both why you would and would not do each of the deals. Be sure to consider possible changes to deal structures that may help to overcome your concerns about the specific deals. (What is the likelihood that the seller will accept your changes?)

Notes to the student: The buildings described in this case are composites of a number of different properties in diverse locations. It will be fruitless for you to try to identify these buildings; identification of a similar property will be of no benefit in analyzing the deals. All pertinent information necessary for preparing your analysis is provided for you herein.

The numerical analysis provided has been presented in a simplified form and should be accepted largely as fact. A Godfather would not crunch 10-year projections himself, but would rely on the analysis provided by the critic. Ten and fifteen-year analyses have been excluded from the presentations. Try to draw conclusions based on your "gut" reading of the facts. Do not hide behind numerical analysis, but evaluate the real estate, the risk, and the deal structure.

A Godfather often uses simple "rules of thumb" to compare deals in a "short-hand" analytical way. Similarly, your emphasis should be on the issues involved in evaluating real estate portfolio decisions. You might, however, consider (perhaps in your analysis of upside/downside) changes to the stabilized pro-formas shown for each deal. You may find it useful to look at effective rents (face rents discounted for concessions) to underwrite the upside potential for each deal.

Limit yourself to a pre-tax analysis, ignoring the tax benefits of the investments. Also, analyze each property on a free and clear, unleveraged basis. (Ignore the differences or benefits of the first mortgage financings.) Assume each property, upon full lease-up, meets the near-term cash flow objectives.

EXHIBIT A

INVESTMENT OBJECTIVES

The investment objectives of JMB Diversified Investment Properties-MCMLXXXVI are to provide Limited Partners:

- Current cash distributions (low in yrs. 1-3; increasing thereafter);
- Capital appreciation through the increase in the value of the properties.

Anticipated funds available for acquisitions: $300,000,000

Anticipated leverage: Between 60 and 67% of purchase price.

INVESTMENT POLICY

JMB Diversified Investment Properties-MCMLXXXVI will invest in a diversified portfolio of income-producing real properties consisting primarily of recently completed commercial properties, such as shopping centers, office buildings and high quality industrial projects. These properties will be located in various cities throughout the United States.

It is anticipated that the Partnership will use borrowed funds (leverage) in connection with the purchase of some of the properties. The overall objective of the fund is to achieve 2:1 leverage (67% of economic value in the form of debt). The anticipated leverage in each deal presented will be acceptable to the fund.

The Partnership intends to hold the properties it acquires until sale or disposition appears to be most advantageous from the viewpoint of the Partnership and its investment objectives. It is presently intended that the properties will be sold or refinanced between the 5th and 12th years after acquisition, and the Partnership will seek to sell properties so that the average holding period for properties is between 7 and 8 years. However, the Partnership is not obligated to sell properties at any particular time.

The Partnership is self-liquidating in nature and no reinvestment of sale or refinancing proceeds in additional properties is permitted.

Note:

(1) Each of the three deals represents less than 10 percent of the total investible funds of JMBDIP-MCMLXXXVI. To date, $250 million has been invested; as a policy, the next fund cannot be sold to the public until the prior fund is 90 percent specified. Any of the three deals will allow JMB to market the next fund to the public.

(2) If the committee so elected, all three deals could be pursued.

INVESTMENT MEMORANDUM

THE COLOSSUS CORPORATION TOWER

LOS ANGELES, CALIFORNIA

THE COLOSSUS CORPORATION TOWER
LOS ANGELES, CALIFORNIA
INVESTMENT MEMORANDUM

PROPERTY DESCRIPTION

The Colossus Corporation Tower (the Project), completed in 1984, contains approximately 500,000 net rentable square feet of space. The Project was developed by Colby Enterprises, a major developer of office properties in the Los Angeles/Southern California area. The structure encompasses 24 floors and is extremely well located in downtown Los Angeles, California. The Colossus Corp Tower is generally recognized as "the place to be" in downtown Los Angeles.

Colossus Corp. leases 250,000 square feet (approximately 50% of net rentable area) which includes some of the first floor and all floors from the mezzanine through the 12th floor. The building's lobby is housed in a two-story glass enclosed pavilion called King's Court Pavilion, which provides restaurants, retail and public spaces for tenants and outside customers.

The Project has the capacity to park 750 on-site vehicles (380 leased to Colossus), a good parking ratio for a downtown LA office building.

The Colossus Corp. Tower is situated on the north side of 4th Street extending the full block between Hope Avenue and Pray Street. It is in Los Angeles' prestigious Bunker Hill area and is close to the center of downtown Los Angeles. The location of The Colossus Corp. Tower is generally recognized as the premier office location in downtown Los Angeles, with great potential for long-term growth in demand and asset value.

The Colossus Corp. Tower is of steel frame construction with lightweight concrete floors and is supported on spread footings and drilled-and-belled caissons. An exterior wall system of polished Cornelius marble cladding and aluminum window wall with insulating solar bronze reflective glass effectively delivers visual impact and creates an air of prestige and refinement. The off-site parking structure consists of two levels above grade and one level below grade and is constructed utilizing concrete slabs, beams and columns.

MARKET ANALYSIS

The downtown Los Angeles office market is currently in somewhat of a shambles from a landlord's perspective. There are approximately 2.0 million square feet available to lease in buildings competitive with The Colossus Corp. Tower. Furthermore, an additional 3.8 million square feet of competitive space are expected to be completed between the end of 1987 and early 1988. Annual absorption in downtown Los Angeles has averaged approximately 1.2 million square feet per year for the last five years, which indicates that the current softness in the market may firm over the next two years, but quickly return by 1987 and continue for three to four years. Nevertheless, the long-term prospects for the market are excellent. The Bunker Hill area in particular should be in high demand once the oversupply has worked itself out of the market.

LEASING STATUS

Currently, The Colossus Corp. Tower is 60% leased to two tenants. While it was clearly a coup to land the Colossus Corp. deal 18 months ago, before the market turned soft (and at rates $5 per square foot above the current market of $23 per square foot net), Colossus was able to negotiate a 25% equity stake in the building as part of the deal. The remaining 10% of space that has been leased (50,000 square feet) represents the only lease signed in the year since opening, which is a further indication of the softness of the market. The developer, Colby Enterprises, claims that they consciously avoided leasing in the difficult market of 1984 and early 1985. With many tenants now "in the market", Colby Enterprises feels they can get their share of tenants and lease the project quickly.

It is hoped that the building will be 95% leased as of January 1, 1988, but in the worst case, the building is expected to be 95% leased and paying rent as of January 1, 1989. There are currently two major deals pending that have been proposed to tenants; if signed, these deals would bring the building to 80% occupancy as of June 1, 1986. Colby Enterprises is confident that they can do both deals, but JMBDIP is not as confident.

While leasing has progressed slowly since leasing half of the building to Colossus, it is expected that because of its quality and location that ultimately the Colossus Corp. Tower will be leased to credit tenants, primarily law, international trading, and consulting firms. The question is one of cost: How much will it cost to fill up this project in the currently tough market.

DESCRIPTION OF FINANCIAL DEAL

The Colossus Corp. Tower is currently owned by a partnership which is comprised of Colossus (25%), and the developer, Colby Enterprises (75%). Colossus has indicated that they are not interested in selling any portion of their position at any price whatsoever. The property is currently subject to a $100 million first mortgage loan at a 10.5% interest rate, with interest only payments throughout the life of the 12-year loan. The property is currently managed by Colby Enterprises Managers, a subsidiary of the developer, for a fee equal to 3% of gross receipts.

The partners have experienced a disappointing negative cash flow due to the weakness in the Los Angeles office market (approximately 60% of the Colby Enterprises portfolio is located in Los Angeles). Additionally, Colby Enterprises recently committed to begin a new 1 million square foot office building as soon as the Colossus Corp. Tower is 90% leased (this new building is included in the 3.8M new development number). In an effort to increase their liquidity, Colby Enterprises has actively been seeking partners in its Los Angeles buildings.

About three months ago, Colby Enterprises approached JMB with the intent of selling two-thirds of its 75% ownership position in The Colossus Corp. Tower to raise cash to help fund anticipated deficits in this property. Colby Enterprises indicated that they believed in the market in a long-term sense, and that they wished to remain a partner in the building to share in expected appreciation; the fact that they wanted to remain a partner in the building confirmed JMB's thoughts about the ultimate strength of the market and this building.

<u>Current Deal Between Colby Enterprises and Colossus Corp.</u>

Cash Flow:
- No preferences
- All available proceeds split 75/25 between Colby Enterprises and Colossus Corp. respectively
- Any fill up obligations (operating deficits) shared 75/25.

DESCRIPTION OF FINANCIAL DEAL (continued)

Refinancing or Sale:
- No preferences
- All available proceeds (after repayment of debt) split 75/25 between Colby Enterprises and Colossus Corp. respectively

Colby Enterprises approached JMB with a desire to sell a 50 percent interest in the building, with no preferences on cash flow and sales proceeds.

Proposed Transaction

The proposed deal contemplates that JMBDIP will acquire a 50% interest in the asset by acquiring 2/3 of Colby Enterprises' interest for $30 million. The current deal, as shown above, will stay intact, and JMBDIP's share of cash flow and sale proceeds will be paid out of Colby Enterprises' 75 percent share of available benefits. The following describes how the 75 percent partnership between JMBDIP and Colby Enterprises will share the benefits between them:

Cash Flow (of 75% to JMBDIP/Colby Partnership):

- JMBDIP gets Guaranteed Returns of 6%, 7%, 8%, and 8% for 1986, 1987, 1988, and 1989. Any excess cash flow goes to Colby.

- After 1989, JMBDIP gets an 8% cumulative preference with all excess cash flow split 2/3:1/3.

Refinance or Sale (Of 75% to JMBDIP/Colby Partnership):

1) Any contributions for excess operating deficits repaid to contributing partner.

2) JMBDIP gets the first $60 million.

3) All excess proceeds split 2/3:1/3.

DESCRIPTION OF FINANCIAL DEAL (continued):

Operating Deficits:

This is the only area that has been revised from the current Colossus/Colby partnership structure. Under the revised structure, the partners will contribute the following:

	%	Amount	Additional %
JMBDIP	--	--	50%
Colby	75%	$12 million (A)	25%
Colossus	25%	$ 4 million	25%
		$16 million	

(A) Paid from JMBDIP's $30 million purchase of its 50% interest.

The $16 million deficit reserve fund will be established upon the admission of JMBDIP as a partner in the deal. If operating deficits exceed $16 million, each partner will be responsible for its pro-rata share of deficits. If the full $16 million is not used, the partners will split the remaining proceeds pro-rata. JMBDIP has assumed no capital will be distributed to the partners.

JMBDIP's internal downside analysis shows a potential additional investment of $2 million (50% of $4M excess deficits over $16 million). In evaluating JMBDIP's return on investment, this potential downside must be factored into a review of the pricing. This aspect of the deal has been highly negotiated, and though it is unusual, JMBDIP has agreed to accept this risk.

Additionally, JMB's guaranteed return will be fully secured by a letter of credit (through 1988).

In evaluating the pricing of this deal, JMB feels that due to the significant preferences on Colby's position in the deal, JMBDIP's $30 million of equity has acquired approximately 65%

<u>DESCRIPTION OF FINANCIAL DEAL</u> (continued)

of the asset (JMBDIP owns only 50% of the ultimate upside, but has significant preferences). Therefore, the asset price for JMBDIP's interest is:

JMBDIP Equity:	$30 million
"True" JMBDIP Ownership Position:	65% (Colossus: 25%; Colby: 10%)
Imputed Equity Value:	$46.15 million ($30M div. by 65%)
Add: Debt	$100 million
Asset Value:	$146.15 million
Asset Square Feet:	500,000
Price/Foot	$292/sq.ft.

Though this is a high price per square foot, other buildings in downtown Los Angeles have traded at or near this price in the last six months. The price per foot would be even higher (over $300 per square foot) if the "downside" fill up operating deficits are realized. There is no assurance that JMBDIP's fill-up obligations will be limited to the additional $2 million.

The most critical factor in evaluating the price/foot is to compare this price to the <u>effective</u> rent per square foot (i.e., discounting the "face" gross rent to factor in the above-standard concessions). The attached market study discusses this aspect of the deal and the attached rent roll outlines the current and contemplated concessions necessary to lease the property.

STABILIZED PROFORMA (1988) (000's)

Gross Rents (C)			
Colossus (250 sf @ $35/sf)	$ 8,750		
MF&P (50,000 sf @ $30/sf)	1,500		
Proposal 1 (60,000 sf @ $29/sf)	1,740		
Proposal 2 (40,000 sf @ $30/sf)	1,200		
Spec. Space (100,000 sf @ $31/sf)	3,100 (A)		
Total Gross	16,290		
Less: 5% (non-Colossus) vacancy	(377)		
Effective Gross		15,913	
Parking Income		1,544 (B)	
Total Income		17,457	
Less: Expenses (500,000 sf @ $7.50 sf)		(3,750)	
Net Operating Income			$13,707
Less: Debt Service			(10,500)
Anticipated NCF			3,207
25% to Colossus			(802)
Available to Colby and JMBDIP			2,405
JMBDIP 8% Return			(2,400)
Available to be split 75/25			5

(A) Includes top 2 floors in building
(B) 750 stalls @ $120/month (+6%, 3 yrs.) @ 120% oversell.
(C) Gross rents are actual (and/or anticipated) face rents, no discounting of rents has been included to factor in concessions

CRITIC SUMMARY

Strengths:

- Excellent long-term potential arising from superb location, high quality construction, and high-credit, long-term lead tenant.
- Lead tenant also an owner; therefore, not likely to move when lease expires in 1998.
- Some renewed leasing activity seen in the market lately. This is reflected in the expanding "prospect list" of tenants.
- Above average parking for a downtown L.A. Building.
- Opportunity to do deal with Colby, a good source for future deals.
- Downtown market mostly 10-15 year leases, with "bumps" (increases in rent) in 6th and 11th year; therefore, little rollover risk.

Weaknesses:

- Heavy concessions to tenants makes pricing analysis difficult.
- High price per foot, could be a marketing issue.
- Possibility that Operating Deficit Reserve is insufficient; JMBDIP has unlimited downside risk related to fillup.
- Extremely soft office market at present.
- Possible heavy criticism from underwriters for sharing in lease-up risk.
- Colby has questionable ability to put its share of deficits if significant additional funds are required.

THE LOS ANGELES REGION

Los Angeles is the second largest Metropolitan Statistical Area (MSA) in the United States. It has consistently been one of the fastest growing of the nation's major population centers. The Los Angeles area's 1980-1984 growth rate of 7.6% almost doubled the combined increases of New York, Chicago and Philadelphia, the country's first, third and fourth largest metro areas respectively. Of the ten largest metropolitan areas in the United Sates, only Dallas and Houston experienced higher rates of growth. Growth in the Los Angeles area appears to be accelerating, with recent rates of employment and population expansion both up over previous years.

1980 - 1984
POPULATION TRENDS
TEN LARGEST METRO AREAS IN U.S.

Metropolitan Population Ranking	Statistical Area	1984 Population	% Change Since 1980
1	New York	17,807,800	1.5%
2	**Los Angeles**	**12,372,600**	**7.6%**
3	Chicago	8,034,900	1.2%
4	Philadelphia	5,755,400	1.3%
5	San Francisco	5,684,500	5.9%
6	Detroit	4,577,700	(3.7%)
7	Boston	4,026,500	1.4%
8	Houston	3,565,100	15.0%
9	Washington D.C.	3,429,400	5.5%
10	Dallas	3,348,100	14.2%

Source: U.S. Bureau of Census; Department of Commerce.

Los Angeles is one of the strongest, most dynamic business centers in the world. It has a broad based, diversified economy that has made it only mildly subject to cyclical swings in the national economy. The Los Angeles region leads the nation in manufacturing jobs, with many of these in aerospace, electronics and other high-growth industries. Los Angeles is also a major national and international distribution center, an important financial center, and a primary gateway to the Far East. Twenty-three Fortune 500 companies have their headquarters in the Los Angeles metro area.

An area of the local economy that has demonstrated particularly strong growth in recent years is the finance and business services sector. Expansion of this segment of white-collar employment has stimulated strong office demand through the Los Angeles area.

DOWNTOWN LOS ANGELES

Los Angeles has emerged as the focal point for this country's business relationships with the Pacific Basin countries including Japan, Hong Kong, Taiwan, Korea, Singapore and China. The port of Los Angeles is now the second largest port complex in the United States behind New York, and accommodates two-thirds of the foreign port tonnage coming from the Far East.

As the center of this vital link to the Orient, downtown Los Angeles has experienced major real estate development activity over the past five years. New projects continue to flourish with growth accelerating in all categories of office, retail, housing, hotel and restaurant development. The downtown has been transformed into a major world business and financial center. The money center banks, like Chase, Citicorp and Manufacturers Hanover are striving to establish major presences accompanied by virtually all of the major New York law firms, seven of the "Big 8" CPA firms, and additional foreign and domestic banks. Major corporate tenants include the Atlantic Richfield Company (Arco), Union Oil, Pacific Telesis, Southern California Gas, Carter Hawley Hale and, within the last two years, AT & T and Colossus Corp.

The downtown financial core, where the Colossus Corp. Tower is located, is generally recognized as being bounded by the Harbor Freeway to the west, 1st Street to the south, Olive Oil Street to the east and 30th Street to the north. Just north of that core is Bunker Hill which is the focal point of Los Angeles' cultural and governmental activities, with such amenities as the Music Center and the planned Music Center expansion, new Museum of Contemporary Art, new Bella Lewitsky Dance Center, proposed Ritz Carlton Hotel, new YMCA Executive Fitness Center, new restaurants, retail and upscale housing. Bunker Hill also hosts the largest concentration of city, county, state, and federal government and judicial activities outside of Washington D.C. Accordingly, the Colossus Corp. Tower is and will continue to be ideally positioned in the heart of the growth pattern.

DOWNTOWN LOS ANGELES OFFICE MARKET

The downtown Los Angeles office market has a total inventory of approximately 20.5 million square feet with 15.3 million square feet of this inventory in Premier, Class A, and Class B properties. In those categories a total of 2.0 million square feet is available immediately with 750,000 square feet of that available for full floor users.

Annual absorption in downtown Los Angeles has averaged approximately 1.2 million square feet per year over the past five years. For the next five years, it is projected that the annual demand for downtown office space should range between 1.2 - 1.5 million square feet. This demand would be increased if major tenants from elsewhere in the Los Angeles Basin, or from elsewhere in the U.S. or the Far East, move downtown.

According to active downtown brokers, there is currently extraordinary leasing activity downtown with over 1.5 million square feet of identified tenants in the market for 25,000 square feet or more. These large tenants will relocate or commit primarily to Premier or other Class A buildings in 1985 and 1986. This level of activity is the strongest in more than three years, and indications point toward absorption of 1.5 million square feet or more in 1985 and possibly 1986.

In 1987 and 1988, approximately 3.8 million square feet of new Class A space will be introduced into the downtown area, of which approximately 3.1 million is currently unleased. New "fringe" located space being introduced in three Class A projects are scheduled for opening, with only about 1.7 million square feet of unleased space currently available in these projects. Therefore total new vacant space in 1987 and 1988 totals 4.8 million square feet.

Current Rental Rates and Concessions

Latest leasing activity in the four best buildings in downtown (including the Colossus Corp. Tower) indicate the rental market to be as follows:

Term:	10-15 years (over 10,000 sq. ft.) 5 years (under 10,000 sq. ft.)
Gross Rent:	\$28-32/sf (years 1 - 5) \$32-36/sf (years 6 - 10) 90-100% of market (beyond 10 years)
Expense Stop:	\$6.50-7.00/sf (new stop if "market" bump in 11th year)
Tenant Improvements:	\$15-20 standard; usually giving \$10-15/sf over-standard; as high as \$40/sf over-standard for law firms
Free Rent:	6 - 9 months (5-year leases) 12-15 months (10-year leases) 15-18 months (15-year leases)

Typically, major international firms and law firms are demanding large tenant improvement concessions and having the landlord finance the tenant work. This is accomplished by amortizing the additional tenant work over the term of the lease. On average, this is inflating the gross rent on most leases by \$2-3/sf.

RENT ROLL

Tenant	Square Feet	Term	Gross Rent	Expense Stop	Net Rent	Tenant Improvements	Free Rent
Colossus	250,000	15 years	Years 1-5: $35.00 with bumps to market in years 6 and 10	$6.50	$28.50	$30/SF	None
MF & P (major law firm)	50,000	15 years	$30.00 with bump to $35 in year 6, and 90% of market in year 11	$6.50	$23.50	$55/SF	12 months
Proposal 1*	60,000	10 years	$29.00 with bump to $33 in year 6	$7.00	$22.00	$50/SF	12 months
Proposal 2*	40,000	15 years	$30.00 with bump to $34 in year 6 and 90% of market in year 11	$7.00	$23.00	$40/SF	15 months
Spec. Space	100,000	10 years	$31.00 with bump to market in year 6	$7.00	$24.00	$35/SF	12 months

*At present time, tenant has not agreed to final lease terms; these terms represent the expected deal.

INVESTMENT MEMORANDUM

THE HASKELL TECH CENTER

SAN DIEGO, CALIFORNIA

THE HASKELL TECH CENTER
SAN DIEGO, CALIFORNIA
INVESTMENT MEMORANDUM

DESCRIPTION OF PROPERTY

The Haskell Tech Center is a suburban office/research and development center comprising 600,000 square feet of space: 150,000 square feet of office space in a single 8 story tower; 450,000 square feet in five 1- and 2-story R&D facilities. The project is located just off Interstate 11 in the Empire Valley/Mesa area of metropolitan San Diego.

The project consists of six buildings surrounding a one-acre Japanese garden. The relative quality of the project is very high both in terms of materials used in construction and facilities provided. The garden enclosed by the project includes a Japanese restaurant, a fitness center, tennis and volleyball courts for use by the tenants and on weekends their families. The costs of these amenities are passed through to the tenants as an additional expense.

The project is fully leased at rates approximately 15% above current market rents (see market study). The considerable leasing success was the result of being the first project to complete construction, combined with the high quality and visibility of the project. The project thus did not face the tough competition prevalent in today's severely overbuilt market.

Baby Blue Corp., the lead tenant for the project occupies approximately 40% of the total rentable square footage, taking 90,000 square feet of office and 150,000 square feet of R&D space. As the largest tenant, Baby Blue Corp. has exclusive signage rights on the buildings. Baby Blue Corp. is an advanced technology company specializing in computer widget lubrication, a fast growing, but highly competitive field in hardware manufacturing. Baby Blue Corp. has been a leader in this field since its founding in 1974. Acquired in 1984 by the New York Stock Exchange Blue Chip firm of General Synergy Corp. (a major technology conglomerate), Baby Blue Corp. recently has been facing stiff competition in its product lines and reported a 13% decline in sales last year and a corresponding 20% decline in margins.

The balance of the space is taken by national, high quality tenants such as Hues Corp. and Lockneed Corp. A rent roll summarizing the leases is included herein.

DESCRIPTION OF FINANCIAL DEAL

One month ago, Neal N. Prey, the Los Angeles office acquisition person, discovered the opportunity to acquire a joint venture interest in The Haskell Tech Center. At the time, Eddie Haskell, an elderly gentleman, had just begun considering the possibility of selling an equity interest in the project to fund the "gap" between his mortgage commitment and his costs.

The first mortgage loan commitment was received 90 days ago. Eddie was very disappointed that no lender would provide a loan in excess of $52,000,000 (at 11.5%, the then current market rate, for a term of 10 years, with no amortization for the first three years). Given Haskell's total projected cost, through breakeven, of $70-$71 million, Neal proposed a deal structure which seemed to satisfy Haskell's major concerns:

(1) Pull out enough equity to meet his full cost obligations,

(2) Pull out an upfront profit of $2-$3 million,

(3) Keep a minimum of 25% of the equity, including an "imputed equity" level on both cash flow and sales proceeds, and

(4) Maintain property management.

Neal, a quick and savvy acquisition person looked at Eddie's proforma and priced the deal as follows:

(1) Free and Clear NOI (Net Operating Income):	$ 8,075,000
(2) Appropriate Cap Rate:	10 percent
(3) Property Value	$80,750,000

Neal reasoned to Haskell that a 10 percent cap rate was appropriate due to the fact that (1) most (over 52%) of the project is leased for 6 years or less, giving more risk to the cash flow, (2) the current overbuilt situation (see market study) means that the project is leased at rents in excess of current market levels, and (3) the credit of the major tenant, Baby Blue Corp., is questionable.

Valuing the property at roughly $81,000,000, Neal offered Haskell $21,750,000 for a 75 percent interest in the project:

JMBDIP Equity:	$21,750,000	(75 percent)
Haskell's Imputed Equity:	7,250,000	(25 percent)
Total Equity	$29,000,000	
Loan	52,000,000	
Property Value	$81,000,000	

Neal and Eddie agreed that JMBDIP would receive an 8 percent guaranteed return in 1986 and 1987, and Eddie would keep any excess cash flow. After 1987, cash flow would be shared as follows:

Level 1:	$1,740,000, or an 8 percent cumulative preference to JMBDIP.
Level 2:	The next $580,000 to Haskell on a non-cumulative basis.
Level 3:	Excess proceeds shared 75/25.

Sale or refinancing (the decision to be made solely by JMBDIP) will be shared as follows:

Level 1:	Any deficiency in the cumulative return will be paid to JMBDIP.
Level 2:	JMBDIP receives $21,750,000
Level 3:	Haskell receives $7,250,000
Level 4:	All excess proceeds split 75/25.

JMBDIP will receive guarantees from the Haskell Company assuring completion of any tenant improvements yet to be done. Haskel will provide JMBDIP with letters of credit which fully secure the guaranteed return through 1987.

1986 STABILIZED PROFORMA ($ 000's)

Net Revenues:

Building B (high-rise; 150,000 sf @ $18/sf)	$ 2,700
Building A/C (R & D; 120,000 sf @ $14/sf)	1,680
Building D (R & D; 60,000 sf @ $13/sf)	780
Building E/F (R & D; 70,000 sf @ $12/sf)	840
Building G/H (R & D; 150,000 sf @ $13/sf)	1,950
Building I/J (R & D; 50,000 sf @ $11/sf)	550
Total Net Operating Income	$ 8,500
Less: Vacancy 5%	(425)
Effective Net Operating Income	8,075
Less: Debt Service	(5,980)
Net Cash Flow	$ 2,095

ROLLOVER SCHEDULE

Year	Square Feet	% of Total	
1986	- 0 -	0%	
1987	10,000	2%	
1988	- 0 -	0%	
1989	180,000	30%	
1990	70,000	12%	
1991	50,000	8%	
1992	- 0 -	0%	
1993	50,000	8%	
1994	240,000	40%	(Baby Blue Corp.)
	600,000	100%	

RENT ROLL

	Square Feet	Term	Net Rent
Baby Blue Corp.			
Office	90,000	9 years	$18
R & D	150,000	9 years	$12
Hues Corp. (R & D)	120,000	4 years	$14
Lockneed Corp. (R & D)	60,000	4 years	$13
Byte Mi and Son (R & D)	70,000	5 years	$12
Lockneed Corp. (Office)	10,000	1.5 years	$18
Chau Li's Chop Shop (R & D)	50,000	6 years	$11
Silicon Sally and Assoc. (Office)	50,000	8 years	$18

DEVELOPER BACKGROUND

The Haskell Company is a San Diego-based development company who has developed more than 8 million square feet of office and industrial space throughout the United States. The company currently manages 3.6 million square feet of office, industrial and R & D space. With corporate offices in Newport Beach and Denver, it is headquartered in the Haskell Tech Center, San Diego.

CRITIC SUMMARY

Strengths:

- Physically attractive, institutional quality office park.
- Full leasing is a result of excellent timing and strength of demand for above-average space.
- No rollover risk for next three years.
- Deal structure gives JMBDIP a higher than normal cash flow return during first 2 years.
- Deal structure is better than average in terms of pricing off of face rents.

Weaknesses:

- While Baby Blue Corp. has been acquired by a major corporation with excellent credit, the parent has not agreed to guarantee Baby Blue Corp.'s lease obligation. The creditworthiness of the Baby Blue Corp. unit by itself is difficult to determine. Baby Blue Corp. is the only lease over 6 years (9 years).
- Current severe softness in market could last 4-5 years before equilibrium returns. Due to recent emergence of the Empire Valley market, any long-term absorption trend is difficult to discern (particularly in light of the current difficulties of many high-tech firms). With most leases five years or less, lots of rollover risk for JMBDIP in 4-6th year of ownership. No protection for this under current structure.

SITE AND AREA DESCRIPTION

The building is located on Sassafrass Road, just off Elm Blvd. in the Empire Valley/Mesa area of metropolitan San Diego. The project sits on a bluff overlooking Empire Valley and Interstate 805, providing both excellent visibility and immediate access to Interstate 11.

Immediately to the west of the site is Empire Valley, Torrey Pines and the University of San Diego. Proximity to the University, the Salk and Scripps Institutes and other research centers has caused this region to become the primary R&D center for the San Diego metropolitan area.

To the south lies a suburban office district of growing importance, University Town Center-Golden Triangle. This area in turn borders on the major residential areas of La Jolla and University City.

To the north lie the residential areas of Carlsbad, Encitas and Solana Beach.

Downtown San Diego lies 15 minutes south of the project. Transportation is excellent based on proximity to I-11 and the San Diego Freeway, both for access to Downtown and to Mission Valley, the other significant office district.

DEMOGRAPHIC TRENDS AND PROJECTIONS:

Population:

The population of the San Diego metropolitan area, which includes La Jolla, Mission Valley, Empire Valley and Old Town was estimated at 962,000 in 1984. Over the past five years growth has occurred at an average annual rate of approximately 2.41%. This rate of growth is expected to continue through 1990. Growth has occurred primarily along Mission Valley and I-11, a trend that is expected to continue.

Employment:

The composition of employment has changed little over the past ten years. A major area employer is the U.S. Navy which maintains one of its largest bases in the city of San Diego.

The Service industry is the largest employer covering 25% of the work force. This includes businesses involved in tourism, health care accounting and legal services. This sector has grown continuously for the past five years.

Employment: (continued)

The second largest employer is the Retail Trade Sector with 23.7% of total county employment in 1984.

The third largest employer in the San Diego Metropolitan area is the government, accounting for 19% of total employment. It should be noted that prior to 1979 the Government was the largest area employer.

Manufacturing was the fourth largest employment sector in 1984, accounting for 16% of total employment. Manufacturing related to advanced technology has experienced constant growth since the mid 70's. Engineering, research and development, and light manufacturing employment is the fastest growing element in this segment. The only decline in the manufacturing sector has been in canned and frozen seafood.

Office Space Supply and Demand:

Like other cities, San Diego's downtown has been the domain of financial, legal and other service industries. However, the growth of the suburban office districts has not only attracted corporations and owner-occupied structures but has also provided competition for financial and other service industries which normally locate in a downtown area. The excellent highway access (less than 15 minutes) between all the San Diego office markets makes tenant mobility an important factor when evaluating the submarkets of development.

Office Space Supply:

In San Diego County there is a total inventory of 21,973,887 square feet of office space. Of this, approximately 5,932,950 (27%) is currently vacant. Empire Valley has a total inventory of 883,126 square feet with 203,119 (23%) available (see table). Projects under construction in Empire Valley total 670,511 square feet.

Average annual absorption levels since 1980 have been at 1.5m square feet for the county and 60,000 square feet for Empire Valley. Whereas the Mission Valley, Kearney Mesa and University Town Center areas have attracted financial and other service industries as well as small businesses, absorption in Empire Valley has been primarily accounted for by the advanced technology manufacturers who also use the R&D space. Due to the recent emergence of the Empire Valley, the use of annual absorption numbers is difficult at best. For example, in 1984, 200,000 square feet of office space was leased in the Empire Valley submarket.

Most people in the market, feel that effective rental rates (after free rent and other concessions) for office space average $1.35 per square foot per month, or $16.20 per square foot per year. Rental rates are quoted on a triple-net basis.

R&D Space Supply:

The two major R&D districts of Tony Pines and Empire Valley/Mesa have a combined total inventory of 14,000,000 square feet. The available square footage is 2,035,000 or 15% (table). Space under construction or approved is 1,410,000 square feet. Total annual absorption for the two areas is estimated at 700,000 square feet (table). Estimated effective net rents average $.90 per month ($10.80 per year) for R&D space in Empire Valley. Demand has come from high technology and scientific firms, expanding from the University area wanting to maintain their proximity to the research centers. A total of over 7 million square feet of space is proposed for this area (table). Again, absorption numbers are difficult to use. Clearly, development and leasing have accelerated over the last five years, but recent employment cutbacks by high-tech firms may severely retard this growth in the near future.

The near term trend is likely to reduce effective rents for R & D space from the current $10.80 per square foot to as low as $9 per square foot in the next 12 months.

Recent leasing activity in the area indicates the following:

	6 Months Ago	Current
Average Size of Lease	+30,000 sf	under 20,000 sf
Term	5 years	5 years
Face Rent	$1.20-1.30/mo. ($14.40-15.60/yr.)	$1.16/mo. ($13.92/yr.)
Tenant Work	$15-20/sf	$20/sf
Assume Old Lease	occasionally	usually
Free Rent	12-15 months	15-18 months

The good news is that there are good tenants for the good projects. Generally, the major concessions are being offered by the inferior location and inferior quality projects where the majority of vacant and recently completed projects are found. Projects of the quality and location of Haskell are not prevalent and have little current vacancy.

INVENTORY OF OFFICE SPACE SAN DIEGO COUNTY

Submarket	Existing Square Feet	Available Square Feet	Percent Available
Empire Valley	883,126	203,199	23%
Downtown	6,784,451	1,696,113	25%
Mission Valley	3,153,057	504,489	16%
Kearney Mesa	2,712,151	623,795	23%
La Jolla	743,880	223,164	30%
University Town Center	1,296,775	518,710	40%
Other Areas	6,400,447	2,163,560	34%
Total:	21,973,887	5,933,030	27%

Source: JMB Realty Corporation

INVENTORY OF R&D SPACE

Submarket	Existing Square Feet	Available Square Feet	Percent Available
Empire Valley	12,000,000	1,735,000	14%
Tony Pines	2,000,000	300,000	15%

PROPOSED SPACE

	Proposed	Under Construction/ Already Built
Rivers Corporate Business Park	2,200,000 (A)	268,000 (A)
Sea View		110,000 (B)
Lush Mira Mesa Business Park	5,000,000 (B)	--
Haskell Tech		570,000 (A)
Empire Valley Science Park		213,000 (B)
Empire Corporate Center		101,000 (B)
Koll Empire Valley		137,000 (B)

(A) Strong location and good quality

(B) Poor location or poor quality

Source: JMB Realty Corporation

INVESTMENT MEMORANDUM

DRYSDALE BANK OF GEORGIA BUILDING

ATLANTA, GEORGIA

DRYSDALE BANK OF GEORGIA BUILDING
ATLANTA, GEORGIA
INVESTMENT MEMORANDUM

DESCRIPTION OF PROPERTY

The Drysdale Bank of Georgia (DBG) Building, named in honor of the late founder Milburn Drysdale, is a 12-story office building containing 400,000 square feet of rentable area with an adjacent six-story parking structure containing 1,400 parking spaces. The office building and parking structure are located at 200 Hathaway Parkway just off Interstate 285, on an approximately 22-acre site in Fulton County, Georgia, near the northwestern city limits of the City of Atlanta.

Completed in April 1984, the office building is a concrete structure, with a curtain wall facade of striking green spandrel glass and bronze tinted glass. The related parking structure is a precast concrete decked garage with a roof garden on top.

The office building is currently approximately 71% leased to four tenants under leases having minimum terms (not including renewal options) which vary in duration from three to 10 years with annual base rents ranging from $19.00 to $21.00 per square foot. The average annual base rent is approximately $20.00 per square foot. The Drysdale Bank of Georgia occupies approximately 58% of the building as its corporate headquarters under a lease expiring in April 1994.

The tenants include the following:

Tenant	Square Feet	Original Term
Drysdale Bank of Georgia	232,000	10 years
Clampett Mutual Insurance Co.	26,000	10 years
Ellie Mae Broadcasting Co., Inc.	13,000	10 years
Asbury, Johnny, & Duke	13,000	10 years

The Drysdale Bank of Georgia has two consecutive 10-year renewal options at the then-prevailing market rate. Clampett Mutual Insurance Company has a 5-year renewal option at 90% of the then-prevailing market rate. Ellie Mae Broadcasting Company, Inc. has a 10-year renewal option at the then-prevailing market rate.

The following is a schedule of the expiration of present leases (assuming no renewals) and base rents allocable thereto:

Year of Exp. of Lease	Number of Tenants	Square Feet
1987	0	0
1989	1	13,000
1994	2	245,000
1995	1	26,000

DESCRIPTION OF SELLER

The seller of the property is DoubleNaught Development Corp. which is owned through various corporate entities and holding companies by a wealthy Moldavian, Jethro Bodine. (Moldavia is a tiny European country that has recently experienced a palace coup. The monarch-in-exile is believed to be somewhere in Colorado). Bodine also owns DBG Financial Corp., the bank holding company which owns the Drysdale Bank of Georgia, which is the building's major tenant. DoubleNaught will be the lessee under the master lease described above.

DESCRIPTION OF FINANCIAL DEAL

JMB was originally interested in the Drysdale Bank of Georgia Building because of its high quality construction and location in an expanding suburban market. Unfortunately, JMB and the developer, Jethro Bodine, were very far apart on price. Because Jethro had incurred unusually high costs in order to deliver above-standard construction and high quality finishes, he was forced to ask a price higher than economically justifiable on market rental rates. Carlotta A. Portroy, the local JMB acquisitions officer, would not be deterred, and sought to find a deal structure that satisfied both parties. Carlotta knew that Jethro would accept nothing less than a price equal to his cost, and would be much more willing to do a deal with JMB if she could provide him with a small developer's profit. Carlotta, a southern belle at heart, filled her mint julep glass, leaned against the magnolia tree outside JMB's Atlanta office and restructured the deal as follows:

Bodine's Cost: $58,000,000

Carlotta's Stabilized Proforma (1987):

Gross Rent Revenues	8,000,000
Vacancy (5%)	400,000
Effective Gross Revenues	7,600,000
Operating Expenses and Real Estate Taxes	2,600,000
Net Operating Income	5,000,000
Value at 9% Cap Rate	$55,550,000

Thus, the highest price Carlotta could justify, using current effective market rents, would be $55,550,000, or still $2,450,000 below the developer's cost. Carlotta then contemplated Bodine's latest suggestion that he would master lease the building back from JMBDIP for fixed rental payments for a 15-year term. The master lease payments plus a justifiable residual value for the property would have a net present value at a 13% discount rate sufficient to allow Bodine to recoup his costs. Carlotta pulled her portable computer in front of her and created the following property and master lease projections:

Year	Projected Net Cash Flow Before Tenant Improvements, Leasing Commissions and Debt Service as Projected by Carlotta (and confirmed by JMB Critic)	Master Lease Payments
1986	$ 4,500,000	$6,000,000
1987	5,000,000	6,000,000
1988	5,100,000	6,000,000
1989	5,200,000	7,000,000
1990	5,400,000	7,000,000
1991	6,500,000	7,000,000
1992	7,000,000	8,000,000
1993	7,200,000	8,000,000
1994	8,000,000	8,100,000
1995	8,100,000	8,200,000
1996	8,100,000	9,000,000
1997	8,200,000	9,000,000
1998	8,200,000	9,500,000
1999	8,500,000	9,500,000
2000	8,500,000	9,500,000

The proposed master lease payments as shown above would provide a 13% internal rate of return on an investment of approximately $60,000,000. "I think this is it," thought Carlotta. "I can justify the higher price because of these above-market guaranteed lease payments and Bodine can pull out a small profit. He won't mind bearing the additional leasing risk because as owner of the major tenant and client or owner of most of the other tenants, he is in a position to control the leasing and rollover risk on a bulk of the space. Also, like most developers, Bodine is an optimist and believes that he can lease the property at rents in excess of his master lease obligations."

Carlotta knew that JMBDIP could arrange a first mortgage loan for the property in the amount of $35,000,000. This loan would bear interest at 11.0% per annum, interest only, for a term of 10 years. JMBDIP's required cash at closing, then, would be $25,000,000 to acquire 100% of the fee title to the property.

Carlotta, energized by what she considered a brilliant proposal, drained the mint julep jigger and dialed up Bodine on her cordless phone.

CRITIC SUMMARY

Strengths:

- Excellent quality building (15-20% higher in quality than other buildings in the area) located in the fastest growing section of Atlanta.

- Expensive interior finish; being image conscious, the bank spent more money on the lobby, elevators, and common areas than was economically justified (for this suburban location).

- Building is situated on top of a ridge providing excellent visibility from the freeway and panoramic views for tenants.

- Master lease results in predictable and increasing cash flows over a 15-year period.

- Leveraged internal rate of return is 14.5%.

Weaknesses:

- While the property is in an excellent general area, it is not one of the best locations within its submarket. In fact, its tertiary location is not expected to improve in the near term because most current development is occurring in other sections of its submarket. Furthermore, the property is one mile from the nearest highway interchange and the access consists of a two-lane road. The property, which is freestanding, has no amenities (such as restaurants, services, health clubs, shops) unlike most other suburban Atlanta office buildings located in high density office parks.

- The northwest Atlanta office market is substantially overbuilt.

- The master lease payments exceed the projected cash flow from the property.

- The reputation and liquidity of the seller have been rumored to be less than exemplary. While the seller holds approximately $100 million of U.S. real estate, it has been impossible to directly collateralize his master lease payments at the DBG building.

- Nearly all leasing to date has been to the bank or to Bodine-affiliated firms.

- The building has a glitzy "art deco" look that may be too progressive for the conservative taste of the Atlanta market.

- Unclear in the current deal structure as to who is responsible for paying future tenant improvements and leasing commissions.

- High construction costs will require premium rents from outside tenants if the bank leaves; availability of this sort of tenant in the suburbs is questionable.

MARKET STUDY

Summary

In summary, the overall market and the specific submarket in which the building is located are becoming overbuilt and will remain very competitive for the next 3 to 5 years. Developers appear to be willing to do very aggressive deals on first generation space; however, significant concessions are not prevalent on rollover/second generation space.

GENERAL POPULATION/ECONOMIC OVERVIEW

Population

The State of Georgia is the 12th largest state and the 5th fastest growing state in the nation. The State's population in 1980 was approximately 5.5 million, representing 16% of the total population in the Southeast and 2.4% of the population in the nation. The primary concentration of population in the state is in the Atlanta metropolitan statistical area, which consists of 18 counties covering 5,147 square miles.

Atlanta is the 10th largest metropolitan statistical area in the nation with an estimated total population of 2.3 million in 1983. This represents a 26.7% (or 2.4% p.a.) increase from 1973 and an 8.5% (or 2.8% p.a.) increase from 1980. The major growth over the last five years has occurred in the northern suburbs, primarily in Cobb, Gwinnett and northern Fulton Counties. The seven counties which surround downtown (Clayton, Cobb, DeKalb, Douglas, Fulton, Gwinnett and Rockdale Counties) are known as the Atlanta Region and comprise approximately 83% of the MSA's total population.

Employment

Atlanta has a well-diversified economy which is not dependent on any single industry. According to the Georgia Department of Labor, Atlanta has over 2,700 manufacturers which provide 14% of the area's non-agricultural employment. The primary industries in terms of employment are metals and machinery (22%), transportation equipment (15%), food and kindred products (13%), printing and publishing (12%) and textiles and apparel (9%). The highest growth over the last ten years has been in the printing and publishing industry (74%) and the metals and machinery industry (26%). The Atlanta area is involved in predominantly high value added manufacturing versus low value added, labor intensive manufacturing. The following companies are among the major non-public employers (over 5,000 employees) in the area: General Motors, Lockheed-Georgia Corp., Western Electric, Eastern Airlines, Delta Airlines, Georgia Power, Southern Bell, Sears Roebuck & Co., and Rich's.

Total non-agricultural employment was estimated to be 1,140,000 for the Atlanta SMSA in August, 1984 (according to the Department of Labor, State of Georgia Employment Security Agency). This represents a 7.8% increase over the prior year. A breakdown of the employment sectors is shown below:

Construction	62,000	5.4%
Manufacturing	156,000	13.7%
Transportation/Communications/Utilities	96,000	8.4%
Trade-Wholesale and Retail	325,000	28.5%
Finance/Insurance/Real Estate	78,000	6.9%
Services	258,000	22.6%
Government	165,000	14.5%
	1,140,000	100%

Total non-agricultural employment grew at a 5.4% average annual rate between 1975 and 1980 and continued to grow at a 2.9% average annual rate between 1980 and 1983. The Atlanta SMSA's unemployment rate stood at 4.8% in August, 1984 compared to 5.9% for the State of Georgia and 7.3% for the nation. The SMSA's unemployment rate has been consistently below the state and national averages for the past 5 years.

Corporate Headquarters

Due to its location, accessibility, moderate seasonal climate, cost of living and cost of labor and office space, Atlanta has become a popular national and regional headquarters location. The following Fortune 500 companies are among those which have headquarter facilities in Atlanta: Georgia Pacific, Coca Cola, Delta Airlines, Fuqua Industries, The Southern Company, Genuine Parts Co., National Service Industries, and Gold Kist.

Transportation

Atlanta was founded in 1837 as a railroad terminus and developed into the major transportation, distribution, communication, administration and financial center of the Southeast. Atlanta's geographic location made it a natural intersection for highway, rail and air routes. The area is currently served by 17 passenger airlines, 3 buslines, 2 railroad systems (comprised of seven railroad companies), several hundred regulated "for hire" motor carriers, and MARTA, which is one of the most successful mass transit bus/rail systems in North America.

Hartsfield International Airport, which is located approximately 8 miles south of downtown Atlanta, is the second busiest airport in the world and is one of the primary connecting points in the nation's air route pattern. The airport underwent a major expansion in 1980 which added an international terminal. A fourth runway is currently under construction and scheduled for completion in 1985. The airport is designed to be expandable in order to accommodate substantial growth in the future and it will be tied into the MARTA rapid rail system by 1988. The airport provides non-stop service to 119 cities and has 5 commuter lines.

Atlanta is one of the leading interstate highway centers of the nation and is the hub of the Southeast system with six converging legs of three major interstates (75, 85, 20) and a 64-mile beltway system (285) with 8 lanes in most sections. A $1.2 billion expansion and upgrade is currently underway on I-75, I-85, and the Downtown connector, with completion scheduled for 1986. The benefits of the roadway improvements are already being noticed by downtown commuters.

Governmental/Financial

Atlanta is also the major governmental center in both the State (being the State Capital) and the Southeast. Approximately 70 federal government agencies have southeast operations centers in Atlanta. Atlanta is also the financial hub of the region and contains the regional headquarters of the Federal Reserve Bank and the FHLB. Atlanta is expected to gain increased importance as a regional banking center as deregulation of the industry continues.

Education

The Atlanta area as 19 public school systems as well as 28-degree granting colleges, junior colleges and universities, include Emory University, Georgia Institute of Technology and Georgia State University. Atlanta is also a major center for technical and vocational training.

Summary

Atlanta is the primary transportation, distribution, convention, financial and governmental center of the Southeast and the 10th largest metropolitan statistical area in the nation. The economy of Atlanta is diversified and has a strong, growing non-agricultural employment base. The fastest growing employment sector in recent years has been Services, which currently provides 22.6% of Atlanta's non-agricultural jobs. The unemployment rate for the SMSA (as of 8/84) was 4.8% and has consistently remained below the state and national averages for the past 5 years. Atlanta is well positioned to continue growing and creating jobs due to its central and accessible location, highly developed transportation system and business infrastructure, moderate but seasonal climate and low cost of living and conducting business.

LOCATION

The DBG Building is located in the Hathaway Center, which is a 100+ acre development, comprised mostly of residential properties. The park is heavily forested and located on hills overlooking I-285 in the northwest quadrant of metropolitan Atlanta in Fulton County, Georgia. The park is approximately 1-1/2 miles northeast of the I-285/I-75 intersection (Galleria, Major Artery, Circle 75) and is bounded by the Succotash National Park and Succotash River on the west and Updown Drive (which intersects I-285 on the east. The site is located within 15 minutes of 3,500 hotel rooms, 2 major shopping malls and major restaurants. However, there are very limited amenities in the park itself as compared to projects such as the Galleria, Major Artery, Perimeter Center, etc.

A building directly competitive with the Drysdale Bank Building is currently under construction on a site located on the north side of Hathaway Parkway overlooking the forest and river valley. The building will contain 266,000 NRSF when completed in early 1985. There are no signed leases for this building but there are rumors that the developers are negotiating with IBM as a major tenant. This 12-story building is of a competitive quality (with respect to the DBG building) and has a stainless steel accented black granite skin, a two-story marbled lobby, eight cornered offices per floor, minimal interior columns, eight elevators and an adjacent parking garage with covered access.

In addition, a third building in a multi-building sub-development is planned. This building will be interconnected with buildings I and II on 4 of 9 floors and will contain 234,000 NRSF. IBM is expected to lease this building, but there is no formal commitment.

The DBG Building is located on a 22-acre site in Hathaway Center just off of Hathaway Parkway, which is the primary road in the park that is accessible from Updown Drive (which intersects I-285) and the Major Artery Parkway. The building has excellent visibility from I-285 and magnificant panoramic views which will remain unobstructed due to the building's positioning on the side of a hill. The building is difficult to locate by those unfamiliar with the area. There is already heavy rush hour traffic into and out of the office park. The traffic problem should intensify when the DBG and the other new buildings are completed and/or leased up.

OFFICE MARKET SUMMARY

Overall Atlanta Metropolitan

71.7 million square feet of total office space with 9.7 million square feet (13.5%) vacant. Vacancy excluding owner-user space equals 16.4%. Approximately 12.7 million square feet currently under construction (4.4 million scheduled for delivery by year-end 1984). 30.7 million square feet of new space projected (by DataBank, Inc.) to be built in the next 3 years (including space currently under construction) assuming no major downturn in the economy and based on building permits, plans and zoning requests at Planning Department and conversations with developers and brokers. Estimated current net absorption level of 7 million square feet per year. Current available and under construction supply of space (excluding 5% normal vacancy factor) equals 2.6 years based on 7 million square feet per year stabilized absorption. (Assumes no new projects or phases are started).

45.4 million square feet of existing "quality" office space with 6.2 million square feet (13.6%) vacant. Approximately 9.2 million square feet currently under construction (1.4 million square feet pre-leased and 3.7 million square feet scheduled for delivery by year-end 1984). Approximately 3.8 million square feet were absorbed in 1983 and 3.6 million square feet are expected to be absorbed in 1984. Current available and under construction supply of space (excluding 5% normal vacancy factor) equals 3.5 years based on 3.75 million square feet per year stabilized absorption. (Assumes no new projects or phases are started).

Submarkets

The Atlanta office market can be broken down into 21 separate submarkets.

The largest submarket in terms of total existing space is Downtown with 10.1 million square feet (22%), followed by Cumberland/Powers Ferry with 6.7 million square feet, Buckhead/Lenox Square with 4.9 million square feet (11%) and Perimeter Center with 4.9 million square feet (11%). However, Downtown falls short of each of the other three major submarkets in terms of both current construction and recent absorption. These statistics reflect the explosive level of activity in the Cumberland/Powers Ferry, Buckhead/Lenox Square and Perimeter Center submarkets over the past five years which resulted from a major move by space users to areas easily accessible from and in closer proximity to the higher quality and safer residential areas in the northern suburbs and the more prestigious residential and retail areas in Buckhead. The Downtown area over this same period was perceived negatively as a result of crime and racial tensions, lack of nearby high-end residential areas and heavy construction on the interstate highway system.

At present, the Downtown area appears to have reached its low point and most existing tenants will probably stay and continue to expand. Downtown should also become more desirable as the area becomes increasingly accessible due to the completion of the interstate highway construction (1986) and the MARTA rail linkage to the Buckhead/Lenox Square area (1984) and the airport (1988). However, based on conversations with local developers and brokers, it is unlikely that Downtown will recapture tenants from the now well-established suburban submarkets or experience significant levels of growth at the expense of the suburban submarkets in the foreseeable future.

Cumberland/Powers Ferry Submarket

The DBG Building is located in the Cumberland/Powers Ferry submarket which surrounds the intersection of I-285 and I-75 in northwest Atlanta and contains buildings located in both Cobb and Fulton Counties. As of June, 1984, this submarket contained 74 Class A buildings and 30 Class B buildings totaling 6.7 million square feet (excluding owner-occupied, governmental, medical, condo and business park space and buildings under 20,000 square feet). This represents 15% of the total metropolitan market and the 2nd largest submarket. Vacancy in this submarket as of 6/84 was 13.9% (Class A and B0 and 14.0% (Class A0, which compares to 10.1% (Class A and B0 and 9.8% (Class A0 for the submarket as of 12/83 and 13.6% for the total metropolitan market as of 6/84. 22 of 28 buildings reported higher occupancy in 6/84; however, 3 new buildings totaling 900,000 square feet (North 210, 200 Galleria, DBG Building) were completed in the 1st half of 1984. A total of 455,592 square feet of net absorption was reported for the sixth month period, which was by far the highest level of absorption in metropolitan Atlanta. Crow's Galleria project (Buildings 100 and 200) accounted for 25% of net absorption in the submarket. Net absorption for the twelve months of 1983 totalled 942,974 square feet, also the highest level in metropolitan Atlanta. Leases signed by IBM at Hathaway and Wildwood accounted for 320,000 square feet (34%) of the net absorption in 1983. New occupancy by national firms at the Galleria (Crow), Overlook (Crow) and Circle 75 (B.F. Saul) were also significant.

As of 6/84, there were 2.3 million square feet of Class A and B office space under construction in 15 buildings, representing 25% of total Class A and B construction in the metropolitan Atlanta market. Approximately 10% of this space was preleased. Excluding a normal 5% vacancy factor, this represents a 2.8 year supply of space assuming 1 million square feet of space per year of stabilized absorption <u>and no new construction is started</u>. In terms of new construction, there is substantial developable land in the area and strong developers willing to take on leasing risk. Crow alone is expected to start 2 new Class A buildings in 1985 totaling 885,000 square feet (300 Galleria and Overlook III). In addition, Lincoln Property Company has reportedly tied up a substantial office site in the southeast quadrant of I-275 and I-75 and Metro Development has control of 40 acres at the intersection of I-285 and Paces Ferry Road. Databank, Inc. estimates that a total of 6.7 million square feet of new office space will be completed by 1/88 (including projects currently under construction) based on information obtained from the local Planning Department interviews with developers and brokers. This estimate includes 1.5 to 2.0 million square feet of business park, condo and owner-user space.

Based on the foregoing, the area will become very competitive over the next few years and vacancy should increase substantially as the 2.3 million square feet under construction is delivered and the expectations of a surplus of space intensify. The area should continue to experience strong levels of absorption since it is now well established and has a strong mass of expanding firms and a large availability of relatively inexpensive high quality office space. The area is also in close proximity to Atlanta's most desirable residential areas and is accessible from all directions by the interstates (I-285 and I-75). A major negative factor, however, is the increasing level of traffic congestion. This will most likely be addressed only a piecemeal basis in the near future.

BUZZ COULON
THE BOSTON COMPANY

	COLOSSUS CORPORATION TOWER	HASKELL TECH CENTER	DRYSDALE BANK
1. Location/Quality			
Property Type			
Location			
Linkages			
Construction Quality			
On-site Amenities			
2. Market Analysis			
Current Outlook			
Long-term projections			
Employment base, diversification			

	COLOSSUS CORPORATION TOWER	HASKELL TECH CENTER	DRYSDALE BANK
3. Leasing Status			
Current Occupancy			
Leasing history, rate of leaseup			
Future projections			
4. Credit			
Tenants			
Developer			

	COLOSSUS CORPORATION TOWER	HASKELL TECH CENTER	DRYSDALE BANK
5. Deal Structure			
Proposed Transaction ownership position			
Current Cash			
Revisionary proceeds or refinance			
Reserve for operating			

6. Numerical Analysis

- °rental rates and concessions
- °Determination of effective rents in the marketplace
- °Leaseup predictions and assumption of leasing risks
- °Overall upside and downside risks for each property
- °Deal structure/restructure, ranking, liklihood of closing, and what would be paid for the properties

FREMONT CALIFORNIA

SHOPPING CENTER

CASE STUDY

DATA

University Of Wisconsin

School Of Business

Real Estate

Department

SHOPPING CENTER

SUMMARY SHEET

LOCATION: Southwest corner of Mowry Avenue and Fremont Boulevard, Fremont, California.

LAND: 37.38 acres (Excluding 15 acres owned by Montgomery Wards)

IMPROVEMENTS: Gross leaseable area of 442,564 square feet; 3,576 parking spaces. (Excluding 184,500 square feet of Montgomery Wards)

FINANCING: As of July 1978 the property was encumbered by six mortgages with remaining balances totaling $3,750,823. The annual mortgage payments total $490,558. The interest rates on the mortgages range from 6% to 7.5%, and the maturity dates range from 1986 to 1992.

PROFORMA 1979:

Gross Revenue	$2,511,104
Net Expenses	490,948
Net Income	2,020,156
Debt Service	490,558
Cash Flow	1,529,598

1977 GROSS SALES: $55,355,207
This figure is for the 79 tenants who report sales. The sales per square foot for these 79 tenants was $151 in 1977. These figures do not include Montgomery Wards.

NUMBER OF TENANTS: 93

BOBANDRAY REALTY INVESTORS DOES NOT WARRANT OR GUARANTEE ANY INFORMATION SUBMITTED WITH THIS OFFERING. ANY PROSPECTIVE BUYER MUST VERIFY THE INFORMATION FOR HIMSELF. ONLY DESIGNATED BROKERS ARE ALLOWED TO PRESENT THIS PROPERTY ON BEHALF OF BOBANDRAY REALTY INVESTORS.

INTRODUCTION

Bobandray Realty Investors (BARI) will entertain offers for acquisition of the Shopping Center ( ), Fremont, California through a tax free exchange. A 23.7 acre parcel adjacent to The may also be purchased with The at the buyer's option. This parcel is controlled by BARI through an option. While BARI expects to continue to exercise control of this parcel there is no guarantee that it will continue to be available.

No minimum value for The has been established. The terms of acquisition are to be all cash or cash to the existing loan or a new loan to be obtained by the buyer at his expense. The sale must be accomplished through a tax-free exchange for other properties to be approved by BARI prior to closing. BARI will not accept any proposal involving a guarantee, leaseback, or carried-back second mortgage.

Any offer which is subject to obtaining financing must stipulate the anticipated amount of the loan, its terms and where the loan is to be obtained.

A minimum deposit of $50,000 must accompany an offer. An additional minimum $150,000 or a higher sum as BARI may require as a condition of acceptance must be deposited immediately upon acceptance of a proposal by BARI. The deposits will be non-refundable except for failure or inability of BARI to satisfy any conditions of an accepted offer.

This package contains information about Center which we believe to be correct. The information is based on records in our files, conversations with the Center's management, and actual financial reports; however, we do not warrant or guarantee the accuracy of all of the information.

No further written information will be provided until an escrow has been opened by BARI and the buyer. At that time BARI will permit examination by the buyer of its records relative to the Center and provide other available data and reports BARI may have and buyer may request. All parties will be required to acknowledge, as part of the closing documentation, that BARI is relieved of all responsibility with respect to all financial information, physical condition of the center, and any other matters relating to The

This offering is being made available to a limited number of licensed real estate brokers. BARI has also reserved a list of principals with whom BARI has discussed the property on a direct basis with no broker involvement. A prospective buyer should assure himself he is working through an authorized broker or directly with BARSI as advisor to BARI. BARI reserves the right to withdraw the Center from exchange for any reason without liability to any participating real estate broker or buyer.

The Trustees of BARI have authorized an exchange of the for two or more other properties for the following reasons:

1) The appreciation of this investment combined with a reduction in the Trust's total assets makes this investment the largest single asset in the portfolio. As a result a large portion of the Trust's assets are concentrated in this investment and does not result in prudent portfolio diversification.

2) While we believe the center will continue to be a good investment as is, we feel there is potential for greater appreciation by remodelling and possibly expanding the center. This activity exceeds the present limitations of the Trust's investment policy.

The is an open mall regional shopping center. The property is located on the southwest corner of Mowry Avenue and Fremont Boulevard in Fremont, California. The center was opened in 1961, and has been developed in several phases by the Hapsmith Company. The Gross Leaseable area of the entire center is approximately 626,000 square feet on 52.4 acres. The major tenants within the center are Montgomery Wards (own 15 acres of land and 184,500 square feet of improvements), Mervyn's Department Store, Safeway Supermarket, Frys Supermarket, and Longs Drug.

The portion of the center offered for exchange has a gross leaseable area of approximately 442,000 square feet and is situated on 37.38 acres. In addition, the property owner controls the vacant 23.7 acres south of the Hub. This land is available for possible expansion of the center. The center has 93 tenants and generated $55,355,207 of gross sales (not including Montgomery Wards) in 1977. The table below outlines the growth in gross sales for the during the past six years:

GROSS SALES OF

Year	# Stores Reporting	Gross Sales*
1977	79	55,355,207
1976	80	51,300,031
1975	79	47,792,199
1974	77	43,615,271
1973	74	39,471,206
1972	69	34,157,148

* These sales do not include Montgomery Wards

A significant number of leases within the center are below market, and offer an opportunity to release space at a higher minimum base rent. The owners during the past two years have released space between $8 to $13 per square foot on a triple net basis. The trade area map on page of this package identifies the location and major tenants of major shopping centers in the Bay Area.

AREA DESCRIPTION

Fremont is located on the eastern side of the San Francisco Bay approximately 22 miles south of Oakland, 15 miles north of San Jose, and 40 miles southeast of San Francisco. The city of Fremont is the fourth largest city in the Bay Area. Fremont has grown from a population of 24,100 in 1956 to 120,000 in 1975. This represents a compounded growth rate of 8% during this period. The primary trade area of the is defined as the cities of Fremont, Newark, and Union City. The estimated population within this trade area in 1978 was 198,000 people and is expected to grow to 240,000 by 1990. It is anticipated the majority of the growth between 1978 and 1990 in Alameda County will occur within the primary trade area. Consequently, this trade area is one of the Bay Area's most rapid growth areas.

Highways in and around Fremont are excellent. The Nimitz Freeway (17) runs north to south through Fremont, connecting the city with Oakland to the north and San Jose to the south. Interstate 680 in the southeast section of the community connects Fremont with Stockton and Sacramento to the east and San Jose to the south. The Dumbarton Bridge (84) provides access to the San Francisco pennisula. The construction of the new Dumbarton Bridge should improve the accessability to the pennisula and as a result have a favorable impact on future industrial and residential growth in the Fremont area. Fremont serves as the southern terminal for BART. This rapid transit system provides access to several major cities in the Bay Area and provides an easy commute to San Francisco. AC Transit, surface bus system, provides additional public transportation in and around Fremont. Rail transportation is provided by Southern Pacific and Western Pacific Railroads. Trucking is supplied by 50 common carriers.

The economic base of the area is diverse and should continue to grow. There are in excess of 125 plants in the area. Leading group classes are: Auto assembly, fabricated metal products, furniture manufacturing, and electronics. The following tables will show the distribution of the labor force by category, and who the major employers are in the Fremont-Newark area:

FREMONT-NEWARK AREA

LABOR FORCE DISTRIBUTION

Category	% Labor Force*
Agriculture, Agriculture Services	3.9%
Construction	3.4%
Manufacturing	31.4%
Trans/Comm/Utilities	3.7%
Retail Trade	
Wholesale Trade	20.9%
Finance/Real Estate/Insurance	3.4%
Services	15.2%
Government	17.9%
	100.0%

* Estimated Total Employment 46,730

MAJOR EMPLOYERS IN FREMONT-NEWARK AREA

Name of Company	Employment	Type of Business
General Motors	5,300	Passenger Cars, Trucks
Safeway Stores Inc	907	Grocery Distribution
Washington Hospital	595	General Hospital
City Fremont	533	Municipal Government
US Government FAA	458	Air Traffic Control
Fleming Foods	400	Grocery Distribution
CT Supply	260	Food Cans
Insured Transporters	250	Auto Transit

The city of Fremont has 5700 acres of industrial zoned land and approximately 40% is vacant. Vacant parcels range in size from 1/2 to 500 acres. The general plan has allocated for industrial development in a manner that will stimulate the economic environment of the area over the long run.

The   is located in the 277 acre Central Business District of Fremont. The master plan calls for this area to be the downtown business district of Fremont. Expansion of retail space within the CBD is rigidly planned and the orderly growth pattern of this area should continue. Further development of the CBD will benefit the   Increased retail activity draws a greater number of people to the area and benefits all of the merchants.

The trend of Fremont area continues to improve. Home values range from $65,000 to $200,000 and new homes are generally selling from $75,000 to $150,000. Recently Fremont has been attracting a more affluent household. This is probably a function of the available supply of vacant land, completion of the Bay Area Rapid Transit System (BART), and an award winning general plan that has resulted in a well planned city. In summary the city has great potential for accommodating future growth.

PHYSICAL DESCRIPTION

General:

The was constructed in several phases. The area which fronts on Mowry Avenue was completed in 1962. The remainder of the main mall was completed by 1965. The majority of the peripheral land construction took place between 1965 and 1967. The Marie Callender Pie Shop and the adjacent 3 store commerical building was finished in 1972. Bobs Big Boy was constructed in late 1977.

In general the stores are one story and the architecture of the different buildings is unified by a steel framed and paneled roof canopy extending across the store fronts. The stores on the main mall have double store fronts which face the parking areas and the open mall which runs through the middle of the shopping center. Heating and air conditioning for the tenants is provided by individual roof mounted units. All of the stores are sprinklered with the exception of the original section that fronts on Mowry Avenue.

Exteriors:

The mall buildings of the contain brick, concrete, tile and aggregate exteriors. Many stores facing the mall consist of red brick fronts or mosaic tile and exposed aggregate or patterned concrete block fronts. The mall overhangs are supported by metal posts, many detailed by patterned concrete blocks.

The display windows are primarily framed with aluminum casement. The malls are wide and well landscaped. Walks are comprised of smooth concrete, small exposed aggregate or brick. Numerous concrete planters and benches are located throughout the malls. Each planter contains large mature trees and flowers which are changed frequently so that the planters remain continually in bloom. The main cross mall leading to Mervyn's store contains a fountain surrounded by a flower-filled planter.

The parking areas are well landscaped with mature trees throughout. The Hub surrounds a small attractively landscaped public park which contains the Carriage House, a historical building.

Interiors:

The interiors of the stores generally consist of plaster, wood paneling and some stone veneer. Surfaces are painted or wallpapered. Ceilings are composed of acoustical plaster and sprinkler systems are installed throughout the center. Store interiors are comprised of smooth concrete, tile or terrazzo.

Physical Description - Cont'd

Access:

The main access to the is provided by Mowry Avenue or Fremont Boulevard. Mowry Avenue is the main east-west thoroughfare for Fremont and connects with the Nimitz Freeway a mile west of the shopping center. Fremont Boulevard is the main north-south thoroughfare and connects with the Nimitz Freeway (17) on the north and the Mission Pass Freeway (680) to the south. Fremont Boulevard provides five entrances to the center; Mowry Avenue two entrances; Walnut Avenue and Argonaut Way each have three entrances. The southern terminal of BART is approximately 1½ miles east of the center. A local bus system provides public transportation around the community.

Land Area: 37.38 acres

An additional 23.7 acres of land is optioned by BARI and may be assigned to the purchaser if they desire. This land has been brought under control to provide flexibility if an expansion of the center is pursued.

Parking Spaces: 3,576 spaces

Gross Leasable Area:

Floor Area	402,494 s.f.
Mezzanine Area	26,970 s.f.
Basement Area	13,100 s.f.
Total Area	442,564 s.f.

Montgomery Wards has 184,500 square feet of area on their 15 acres. This would result in a total building area of 626,308 square feet for the entire Shopping Center.

PROFORMA ASSUMPTIONS

1) Base Rents 1978 $1,415,173

Base rental increases in 1979 from releasing		$ 21,602
MERVYN'S EXPANSION Estimated % rent on projected sales of $215 p.s.f. for 12,600 s.f.	$80,500	
Hickory Farms $10 x 2,800 s.f.	$28,000	$ 108,500
		$1,545,275

2) Overage rents of $1,015,815 were estimated calculated by increasing the 1978 figure by 12.5%. During the past five years overage rents have been increasing at a compounded rate of 15.75%. The largest % increase for one year was between 1975 and 1976 when it was 30.8% and the smallest increase was 13.8% between 1976 and 1977.

3) A 4% management fee is included in the $120,000 Administration expense. BARI currently has a 4% management contract with the Hapsmith Company.

4) Property taxes are estimated to be $265,000 in the wake of Proposition 13. Tenant reimbursements of $70,000 were calculated on a tenant by tenant basis according to their leases.

5) Extraordinary expense of $145,596 in 1977 and $32,414 in 1978 were excluded. These were omitted because they were capitalized expenses.

FINANCIAL STATEMENTS

	Fiscal 1974	Fiscal 1975	Fiscal 1976	Fiscal 1977	Fiscal 1978 [1]	Proforma 1979	
RENTAL INCOME							
BASIC	$1,189,653	$1,207,347	$1,235,199	$1,264,618	$1,360,206	$1,545,289	
						(50,000)	3% Vacancy
OVERAGE	434,753	507,702	664,223	756,056	903,278	1,015,815	
GROSS REVENUE	$1,624,406	$1,715,049	$1,899,422	$2,020,674	$2,263,484	$2,511,104	
EXPENSES							
ADVERTISING & PROMOTION	$ 21,278	$ 20,515	$ 19,170	$ 21,486	$ 17,554	$ 22,000	
COMMON AREA MAINTENANCE	128,787	128,468	135,866	155,241	167,152	180,000	
REPRESENTATIVE ON PREMISES	29,928	38,665	46,066	59,009	59,556	70,000	
ADMINISTRATION	69,375	69,566	92,775	98,083	111,274	120,000	
REPAIRS	12,181	19,348	33,618	20,720	16,917	35,000	
INSURANCE	3,400	13,399	17,505	51,756	52,000	55,000	
PROPERTY TAXES	312,494	326,563	328,253	379,465	428,094	265,000*	
TOTAL EXPENSES	$ 577,443	$ 616,524	$ 673,253	$ 785,760**	$ 852,547**	$ 747,000	
TENANT REIMBURSEMENTS							
PROPERTY TAXES	$ 100,757	$ 91,531	$ 92,761	$ 123,145	$ 174,770	$ 70,000*	
COMMON AREA MAINTENANCE	115,585	118,467	117,353	140,632	149,557	161,052	
HUB MERCHANTS ASSOCIATION	10,390	16,363	30,966	23,019	25,095	25,000	
TOTAL TENANT REIMBURSEMENTS	$ 226,732	$ 226,361	$ 241,080	$ 286,796	$ 349,622	$ 256,052	
NET EXPENSES**	$ 350,711	$ 390,163	$ 432,173	$ 498,964	$ 502,925	$ 490,948	
NET INCOME	$1,273,695	$1,324,886	$1,467,249	$1,521,710	$1,760,559	$2,020,156	

* Reflects anticipated reduction in real estate taxes based on tax reform initiative (Proposition 13).

** Excludes extraordinary expenses of $145,596 in 1977 and $32,414 in 1978. These expenses are capital contributions and are non recurring items.

MORTGAGE SUMMARY

LENDER	MORTGAGE BALANCE 7/27/78	MONTHLY PAYMENT	INTEREST	MATURITY
Pacific Mutual	1,641,933	20,927.00	6%	12/1/86
Mason McDuffie	1,434,114	12,886.03	6%	2/15/92
Mason McDuffie	88,980	1,140.55	6.75%	2/15/87
Mason McDuffie	63,308	824.08	7.5%	4/1/87
North Western Mutual Life Insurance Co.	331,713	3,355.00	7.25%	3/1/91
United California Mtg. Company	190,775	1,747.15	6.85%	12/1/92
	3,750,823	40,879.81 x 12 = $490,557.72		

Loan Prepayment Penalties:

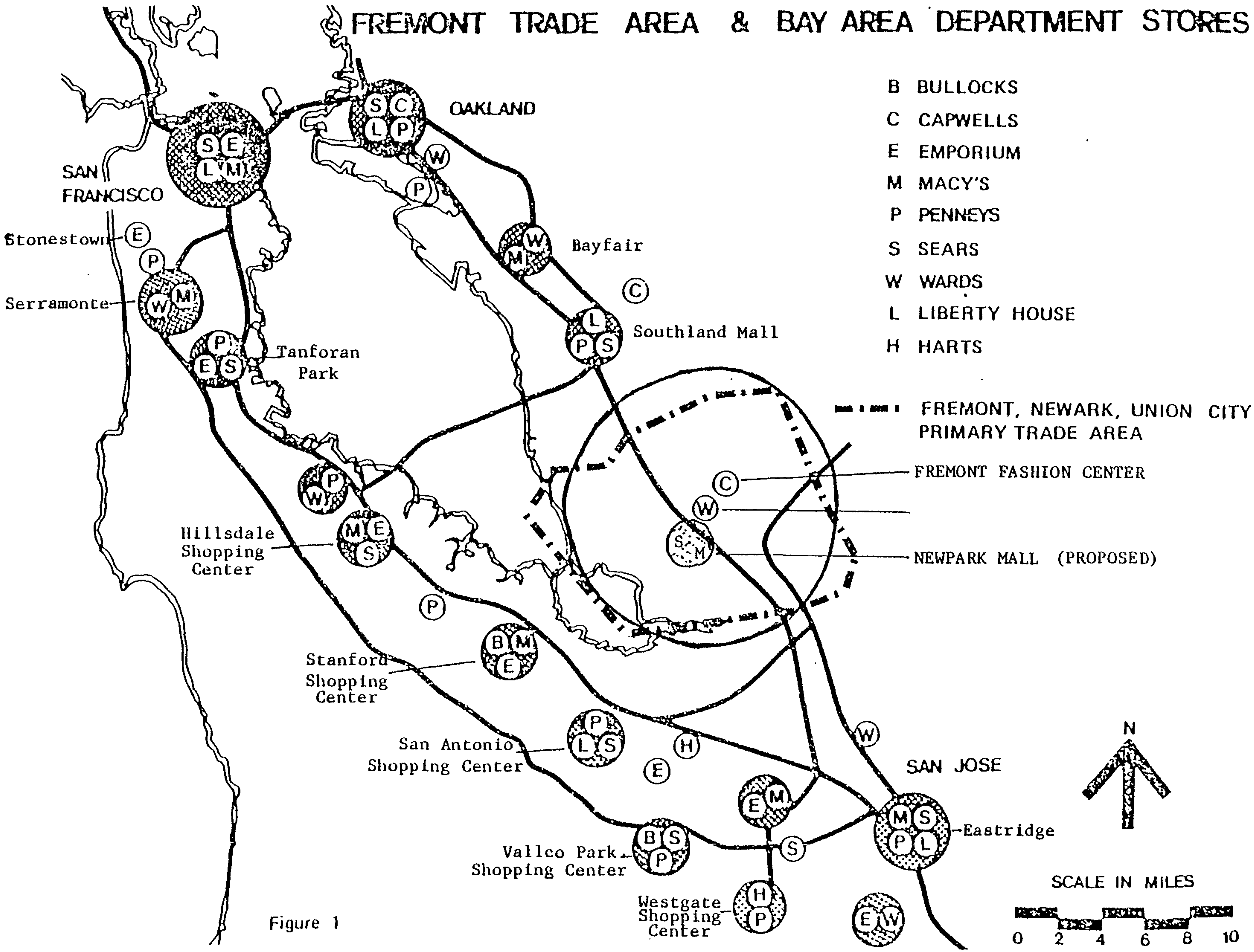
1) Up to a $410,000 may be prepaid each calender year without penalty on the Pacific Mutual Mortgage. This right is non-cumulative. A 3% penalty will be assessed on any excess payment made over $410,000.

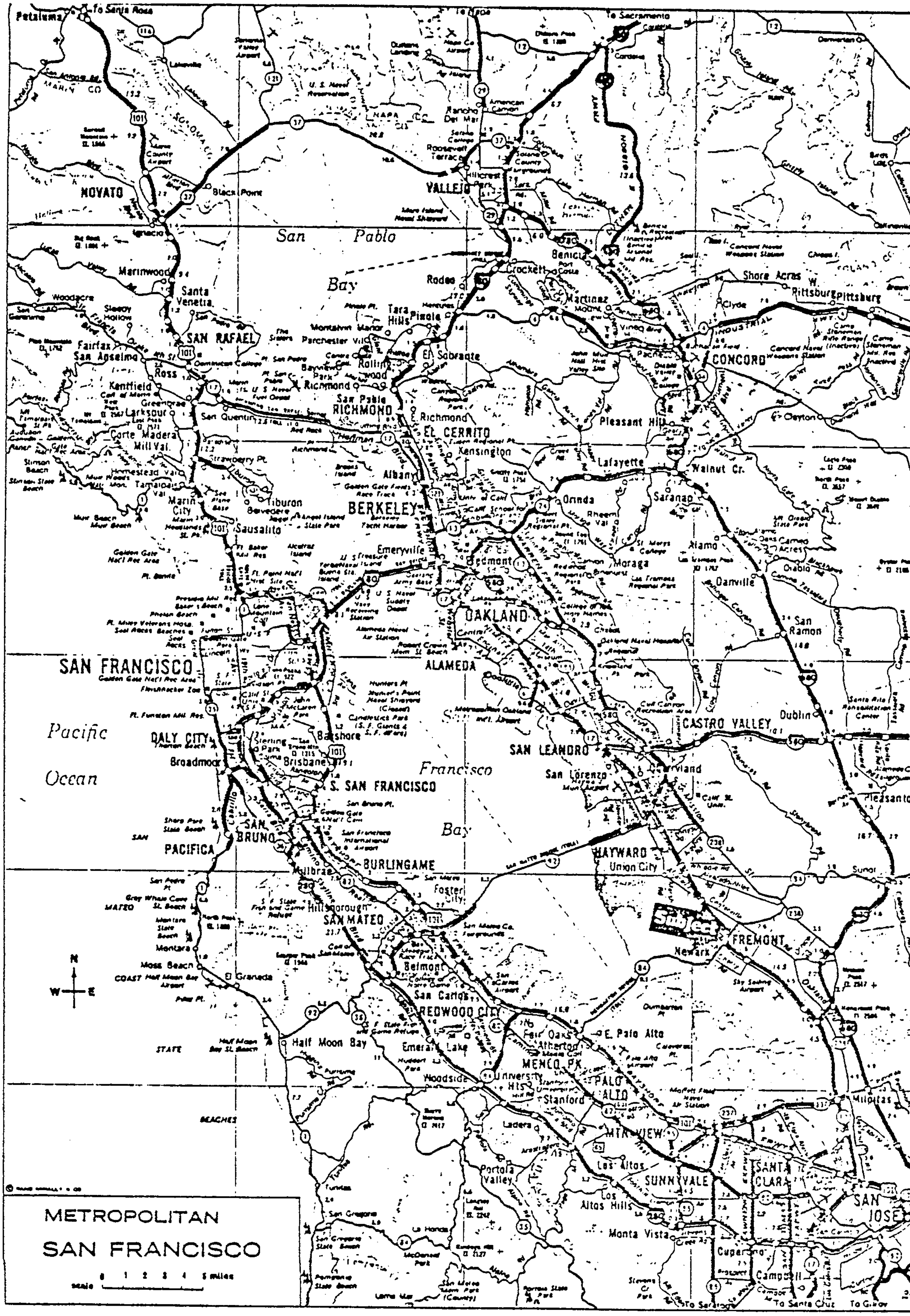
2) Up to $300,000 may be prepaid on the first Mason McDuffie mortgage without a penalty being assessed. Regular principal amortization payments are included in the $300,000. A 1% prepayment penalty will be assessed on any excess payment. This mortgage must be fully prepaid prior to any prepayment of the other two Mason McDuffie mortgages. The maximum prepayment on the latter two Mason McDuffie mortgages would be $37,500 with any excess payments being assessed a 1% prepayment penalty. All of the Mason McDuffie mortgages have been sold and assigned to National Life and Accident Insurance Company.

3) The Northwestern Mutual mortgage may be prepaid by $22,000 a year without penalty. Any excess payment will be assessed the following prepayment penalty: On and after 11/1/75 a 7% penalty, after 11/1/79 a 6% penalty, after 1/1/83 a 5% penalty, and after 1/1/87 a 4% penalty.

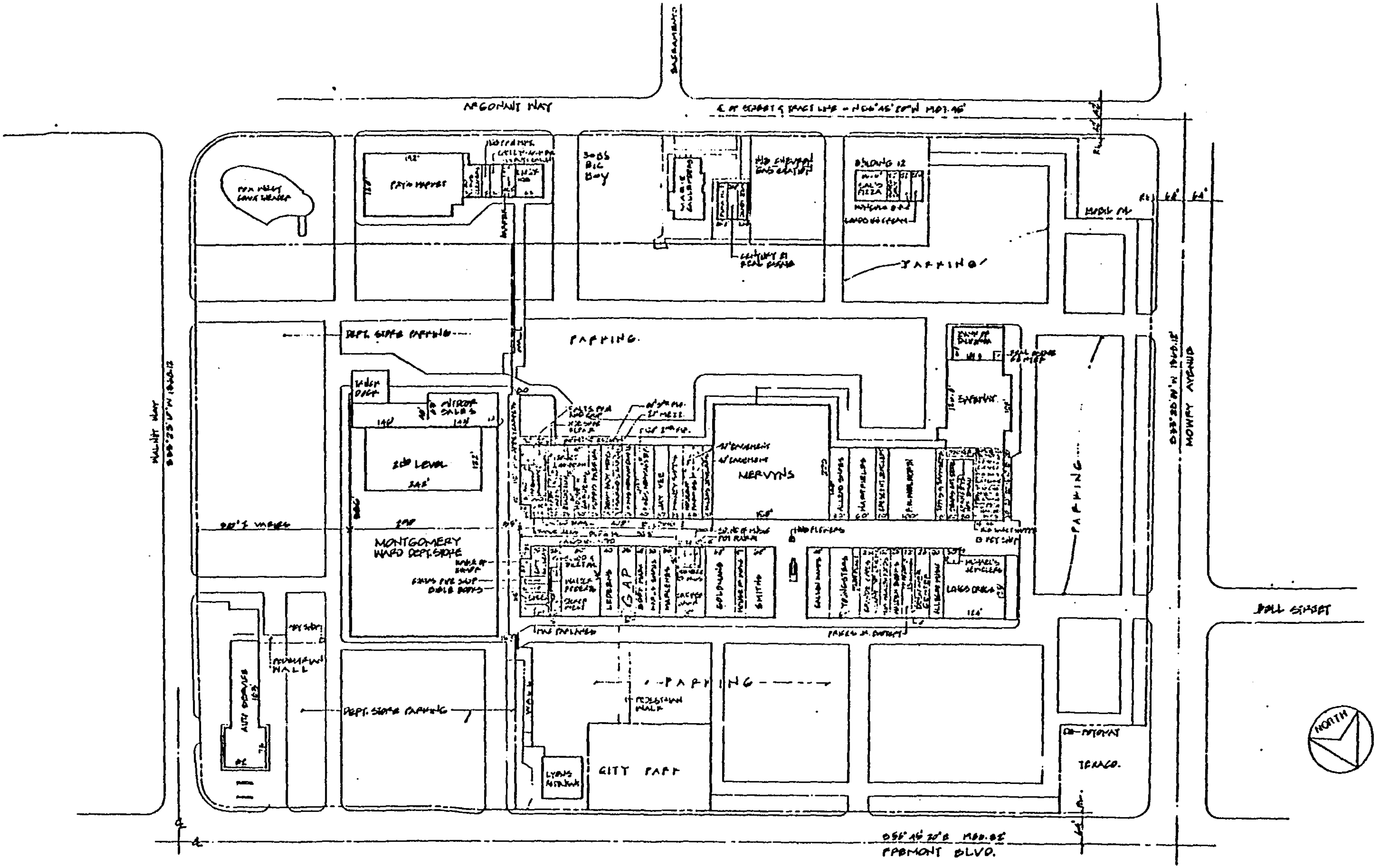
4) The United California Bank mortgage may be prepaid by $25,000 a year without penalty. This right is non-cumulative though a 5% prepayment penalty will be assessed against any unpaid principal balance in excess of $25,000. The 5% penalty will be reduced ½% per annum after 11/3/72.

To prepay all loans as of January 1, 1979 would result in a total prepayment penalty of $71,005.


FREMONT TRADE AREA & BAY AREA DEPARTMENT STORES
B BULLOCKS
C CAPWELLS
E EMPORIUM
M MACY'S
P PENNEYS
S SEARS
W WARDS
L LIBERTY HOUSE
H HARTS
FREMONT, NEWARK, UNION CITY PRIMARY TRADE AREA
SAN FRANCISCO
OAKLAND
Stonestown
Serramonte
Tanforan Park
Bayfair
Southland Mall
FREMONT FASHION CENTER
NEWPARK MALL (PROPOSED)
Hillsdale Shopping Center
Stanford Shopping Center
San Antonio Shopping Center
Vallco Park Shopping Center
Westgate Shopping Center
SAN JOSE
Eastridge
N
SCALE IN MILES
0 2 4 6 8 10
Figure 1



METROPOLITAN
SAN FRANCISCO
scale 0 1 2 3 4 5 miles
Petaluma
To Santa Rosa
To Sacramento
MARIN CO
NAPA CO
NOVATO
Black Point
Ignacio
Marinwood
Santa Venetia
Woodacre
Sleepy Hollow
SAN RAFAEL
Fairfax
San Anselmo
Ross
Kentfield
Greenbrae
Larkspur
San Quentin
Corte Madera
Mill Val.
Strawberry Pt.
Tiburon
Belvedere
Marin City
Sausalito
Muir Beach
Stinson Beach
American Canyon
Rancho Del Mar
Roosevelt Terrace
Hillcrest Park
VALLEJO
San Pablo
Bay
Rodeo
Crockett
Benicia
Port Costa
Martinez
Tara Hills
Pinole
Montalvin Manor
Parchester Vil.
Rolling wood
El Sobrante
Richmond
San Pablo
RICHMOND
E. Richmond
EL CERRITO
Kensington
Albany
BERKELEY
Emeryville
Piedmont
Orinda
Lafayette
Pleasant Hill
Shore Acres
W. Pittsburg
Pittsburg
Clyde
CONCORD
Clayton
Walnut Cr.
Saranap
Rheem Val.
Moraga
Alamo
Danville
San Ramon
Dublin
Pleasanton
Sunol
To Stockton
OAKLAND
ALAMEDA
SAN FRANCISCO
Pacific
Ocean
DALY CITY
Broadmoor
Brisbane
Bayshore
S. SAN FRANCISCO
Francisco
Bay
SAN BRUNO
PACIFICA
Millbrae
BURLINGAME
Hillsborough
SAN MATEO
Foster City
Belmont
San Carlos
REDWOOD CITY
Montara
Moss Beach
El Granada
Half Moon Bay
Emerald Lake
Woodside
Fair Oaks
Atherton
MENLO PK.
E. Palo Alto
PALO ALTO
Stanford
Ladera
MTN. VIEW
Los Altos
Los Altos Hills
Portola Valley
SUNNYVALE
SANTA CLARA
SAN JOSE
Milpitas
Monta Vista
Cupertino
Campbell
To Saratoga
To Santa Cruz
To Gilroy
SAN LEANDRO
San Lorenzo
Cherryland
CASTRO VALLEY
HAYWARD
Union City
Newark
FREMONT
San Gregorio
La Honda
Tunitas



THE MAJORITY OF THE TENANTS WITHIN THE CENTER
ARE LOCATED AS REPRESENTED. A FEW
EXCEPTIONS DO EXIST DUE TO TENANT CHANGES.

SHOPPING CENTER

SHOPPING CENTER
LEASE SUMMARY
AS OF MAY 1978

STORE	SQ. FT.	YEARLY MINIMUM RENT	YEARLY RENT PER SQ. FT.	LEASE TERM	LEASE EXPIRE DATE	% RENT	CAM %	TAX %	TAX BASE YEAR	COMMENTS
Abbey Carpets	1,368	$10,944.00	$ 8.00	5	11/82	5%	1.08(2)	1.1444	NET	
Allegro Music	4,200	30,240.00	7.20		9/82	6%	1.74(1)	1.7372	NET	
Allen's Shoes	4,200 1,700 base.	9,000.00	2.14	15	9/83	5%	2.44(1)	2.4404	1964-65	Taxes deducted from overage-5 yr. option same terms-CAM 1/2 of 1% Option exercised
Animal Farm	1,400	10,944.00	2.44	5	4/83	7%	1.11(2)	1.1712	NET	
Sumitomo Bank of California	6,380 1,620 Mez.	24,612.60	3.85	30	10/92	--	3.31(1)	3.2462	1963-64	CAM 15¢ per sq. ft. rent adjusted 10th & 20th year cost of living
Beadazzled	2,000	24,000.00	12.00	10	3/86	8%	1.60(2)	1.6731	NET	
Bob's Big Boy	4,600	42,999.96	9.34	20	4/98	5%	1.20			
Book Mark	2,800	15,072.00	5.38	9yrs.5mos	6/85	7%	2.32(2)	3.8482	25¢ base	
Brennan's Magnavox	2,700	12,960.00	4.80	10	9/78	4%	2.14(2)	2.2587	1968-69	September 1, 1978 expires
Century 21	1,400	4,899.96	3.50	10	11/83	--	33.20(5)	33.0892	NET	
Chancey's	3,240	15,600.00	4.81	10	12/81	5%	1.34(1)	1.3401	1964-65	
Coiffure Chic	1,033	4,586.52	4.44	5	3/80	9%	2.30(4)	10.9312	25¢ base	
Crescent Jewelers	2,800	24,000.00	8.57	12	4/89	4 1/2	1.16(1)	1.1581	NET	
Crocker Bank	6,400	24,000.00	3.75	25	5/89	--	5.10(2)	5.3540	1968-69	10 yr. option-negotiated rent

STORE	SQ. FT.	YEARLY MINIMUM RENT	YEARLY RENT PER SQ. FT.	LEASE TERM	LEASE EXPIRE DATE	% RENT	CAM %	TAX %	TAX BASE YEAR	COMMENTS
Curto's Pipe Shop	900	$ 7,200.00	$ 8.00	5	10/82	7%	.71(2)	.7529	NET	
Dandy Dogs	992	3,470.88	3.50	15	11/88	6%	25.00(5)	23.4459	NET	5 yr. option same terms
Davis Baby News	3,500 2,000 mez.	18,900.00	5.40	10	10/85	6%	4.38(2)	4.6011	25¢ base	New lease 11/75; 5/77 escalates to 18,900; 11/80 escalates to 21,000
Designers Mart	3,500	17,499.96	4.99	10	5/84	5%	1.45(1)	1.4477	1974-75	
Fox Fremont	12,060	33,000.00	2.73	25	11/92	12 1/2	26.88(4)	NET		Taxes deducted from overage; 2-5 yr. option-same terms
Fremont Lock & Key	56	4,800.00	85.71	3	4/80	15%	.02(1)	.0231	NET	
Fry's Market	23,347	45,999.96	1.97	20	1/88	1 1/2	$3499.92(4) Year	NET on Parcel 501-976-6-10. 71.17% of 87.67% of land on Parcel 501-976-8-5		Taxes deducted from overage. CAM max. $3500 1st ten years $4000 second 10 years
Gallenkamp Shoes	5,600	14,000.04	2.50	20	3/83	6%	2.32(1)	2.3163	1963-64	Taxes deducted from overage
Gallery Interiors	1,350	12,000.00	8.88	10	8/84	5%	.56(1)	.5584	1963-64	
The Gap	3,500	45,500.04	13.00	5	7/82	5%	1.45(1)	1.4477	NET	2-5 yr. options
Gift Gallery	2,975	24,990.00	8.40	10	6/86	6%	2.37(2)	1.6606	NET	
Goldman's	8,400 3,600 mez.	24,000.00	2.85	20	5/84	4 1/2	----(1)	------	---	No CAM clause, no tax clause
Hardy Shoes	1,500	6,000.00	4.00	15	3/81	6%	1.20(2)	1.2548	1968-69	Taxes ded. from overage CAM max 1/2 of 1% 5 yr. option same terms

STORE	SQ. FT.	YEARLY MINIMUM RENT	YEARLY RENT PER SQ. FT.	LEASE TERM	LEASE EXPIRE DATE	% RENT	CAM %	TAX %	TAX BASE YEAR	COMMENTS
Hartfield's	8,400 1,800 base.	$18,000.00	$ 2.14	20	1/84	4%	4.22(1)	4.2190	1966-67	Taxes deducted from overage. CAM max
House of Fabrics	5,600 1,200 base.	16,800.00	3.00	10	9/81	5%	5.42(2)	5.6886	1968-69	New lease 10/71 taxes ded. from overage
House 'N Garden	4,800	28,800.00	6.00	6	5/81	6%	3.82(2)	4.0155	.25¢ base	Original lease renewed 6/75
House of Wong	2,800	13,440.00	4.80	10	12/83	6%	1.16(1)	1.1581	1964-65	Original lease renewed 12/73
Household Finance	1,080	7,800.00	7.22	5	12/82	--	.45(1)	.4467	1963-64	Esculates to $8400 12/80;option excerised
Barber Shop	594	4,752.00	8.00	5	12/82	6%	.25(1)	.2456		
Chevron	30,000	10,500.00	.35	20	6/88	8%	----(5)	NET		2-5 yr. options rent increase to $12,000
Cleaners	2,160	8,676.00	4.01	15	1/83	8%	4.81(4)	22.8572	1966-67	
Flower Shop	64	2,280.00	35.62	3	10/79	6%	$120 yr.	-----	------	Lease renewed 11/1/76 for 3 years
Health Foods	2,800 400 mez.	19,200.00	6.00	5	5/80	5%	1.32(1)	1.3236	25¢ base	
House of Wigs	800	9,600.00	12.00	5	7/1/83	10%	.64(2)	.6692	NET	New lease 7/1/78 5 years
Mongolia BBQ	1,320	4,752.00	3.60	5	8/79	5%	23.06(3)	16.6540	25¢ base	
Shoe Repair	1,021	4,896.00	4.79	10	7/79	10-8	.81 (2)	.8541	1969-70	
Sweet Shoppe	450	4,320.00	9.60	5	9/81	8%	.19(1)	.1861	NET	New lease into effect 10/1/76
Theater Barber	466	3,727.92	8.00	5	7/1/83	9%	1.06(4)	4.9312	NET	

STORE	SQ. FT.	YEARLY MINIMUM RENT	YEARLY RENT PER SQ. FT.	LEASE TERM	LEASE EXPIRE DATE	% RENT	CAM %	TAX %	TAX BASE YEAR	COMMENTS
Vineyard Deli	906	$ 4,892.40	$ 4.76	5	6/82	6%	2.01(4)	9.5873	NET	Effective 7/1/77 new lease $4892 1st 30 months; $5436.00 2nd 30 months
Wash and Dry	1,260	7,560.20	6.00	5	10/82	10%	14.68(3)	15.8971	NET	Lease amended 12/15/77
Ice Cream Bar	489	8,232	16.83	10	12/1/87	8%			NET	
Ivar Johnson Music	1,010	5,448.00	5.39	10	5/83	4%	.42(1)	.4177	1964-65	
Jay Vee	4,200 900 mez.	10,500.00	2.50	15	7/81	5%	4.06(2)	4.2264	1968-69	Taxes deducted from overage
Jerri B										
Karl's Shoes (National Shoe Co Ltd)	4,200 1,200 mez.	14,400.00	3.42	10	4/79	6%	4.30(2)	4.5174	1968-69	Taxes deducted from overage; lease expires 5/1/79
Kern's Cleaners	1,350	7,290.00	5.40	10	1/83	10%	.56(1)	.5584	1963-64	
King Norman's Toys	9,100 4,800 mez.	31,800.00	3.49	15	8/81	5-41/2	11.07(2)	9.2859	1968-69	
Kinney Shoes	4,900	17,150.00	3.50	20	8/86	6%	$979.92yr(2)	4.0991	1968-69	Taxes deducted from overage
Koma	1,400	4,899.96	3.50	3	12/83	5 1/2	33.20(5)	33.0892	NET	7 yr. options-same terms
La Femme Beauty	756	4,082.40	5.40	10	12/82	8%	.31(1)	.3127	1963-64	
Dr. R.M. Layne	940	5,076.00	5.40	5	8/79	6%	.39(1)	.3888	1964-65	
Ledeen's	5,600 800 mez.	22,399.92	3.99	10	9/82	6%	5.07(2)	5.3540	1968-69	

STORE	SQ. FT.	YEARLY MINIMUM RENT	YEARLY RENT PER SQ. FT.	LEASE TERM	LEASE EXPIRE DATE	% RENT	CAM %	TAX %	TAX BASE YEAR	COMMENTS
Liquor Hub	3,300	$13,860.00	4.20	15	1/83	4%	7.36(4)	34.9207	1968-69	
Loard's Ice Cream	1,350	5,544.00	4.10	15	7/80	6%	15.72(3)	17.0325	1966-67	
Long's Drugs	14,900 3,184 mez. 1,250 outdoor	29,475.00	1.97	20	2/83	2%	8.00(1)	7.9831	1963-64	Taxes deducted from overage; 10 yr option, same terms CAM max 1/4 of 1%
Lyon's	6,800	35,262.36	5.18	20	3/87	5%	5.42(2)	NET	----	Taxes deducted from overage; charges deducted from overage
MacFarlane's	1,486	7,128.00	4.75	15	4/81	6%	1.18(2)	1.2431	1968-69	
Margo's Cards	2,800 400 mez.	20,160.00	7.20	10	10/86	6%	2.55(2)	2.6770	NET	20,160 1st 2 yrs 21,184 2nd 2 yrs 23,520 last 6 yrs
Marie Callender	6,650	38,400.00	5.77	25	5/98	5%	1.57(5)	NET	----	
Marlene's	4,900	12,600.00	2.57	10	1/83	5%	3.90(2)	4.0991	1968-69	Optioned exercised 5-25-77; taxes deducted from overage; CAM maximum 1/2 of 1%; 5 yr option same terms
Mervyn's	50,600	102,300.00	2.02	20	1/86	3%	28.21(1)	28.2099	1964-65	Taxes deducted from overage; CAM maximum 1/4 of 1%; 30 year option same terms $24,888 ded. in installments from overage for elevator
Michael's Jewelers	1,050 966 mez.	12,600.00	12.00	5	6/81	6%	.83(1)	.8065	1963-64	New Lease 6/1/76

STORE	SQ. FT.	YEARLY MINIMUM RENT	YEARLY RENT PER SQ. FT.	LEASE TERM	LEASE EXPIRE DATE	% RENT	CAM %	TAX %	TAX BASE YEAR	COMMENTS
Milen's Jewels	2,800 2,400 base	$13,999.92	$ 5.00	10	1/82	3%	2.23(2)	3.3462	1968-69	Taxes deducted from overage; exercised option expires 1/31/82
Morris Fabrics	3,500	21,349.92	6.09	5	9/82	5%	2.79(2)	2.9279	NET	5 yrs net tax
Motherhood Maternity	1,050	5,400.00	5.14	10	2/84	6%	.43(1)	.4798	1964-65	Lease renewed 8/1/74
Orange Juluis	400	4,980.00	12.45	15	11/81	8%	.32(2)	.3346	1968-69	2-5 yr. option terms same
Cookie Place (Potpourri lease)	356	4,800.00	13.48	5	1/81	10%	.32(2)	.2978	NET	
Price's Jr. Boots	1,380	7,344.00	5.40	10	4/83	6%	.57(1)	.5708	1963-64	Lease renewed 5/1/73
Safeway	21,528	39,839.88	1.85	20	10/82	1 1/4%	8.91(1)	12.7100	1964-65	Tax ded. from overage; CAM max. 1/4 of 1% 3-5 yr options-same terms
Sal's Pizza	3,996	14,400.00	3.60	7	4/80	7%	46.54(3)	50.4164	1966-67	5 yr. option neg. basis
Salt's Fish & Chips	1,080	12,960.00	12.00	10	2/88	5%	.86(2)	.9034	NET	
Dr. Sand	810	7,290.36	9.00	5	3/81	8%	.65(2)	.6776	25¢ base	
Sear's	2,896	14,480.04	5.00	3	12/78	--	1.20(1)	1.1979	25¢ base	
Shelly's Cocktails	1,584	7,608.00	4.80	15	6/83	6%	3.53(4)	16.7724	1968-69	
Shirtique	1,080	7,776.00	7.20	5	11/81	7%	.86(2)	.9034	NET	
Singer Company	1,320	7,920.00	6.00	10	2/84	4%	1.05(2)	1.1042	1973-74	New lease 3/1/74 Taxes ded.from overage
Smith's	8,400 3,000 mez.	21,000.00	2.50	20	3/83	4%	----(1)	4.7154	1963-64	Taxes ded. from overage 10 yr. option-same terms CAM max.$1,300

STORE	SQ. FT.	YEARLY MINIMUM RENT	YEARLY RENT PER SQ. FT.	LEASE TERM	LEASE EXPIRE DATE	% RENT	CAM %	TAX %	TAX BASE YEAR	COMMENTS
Sounds of Music	756	$ 9,072.00	12.00	5	3/9/83	6%	.60(2)	.6324	NET	
Topps & Trowers	2,344	14,064.00	6.00	10	5/83	6%	.97(1)	.9695	1963-64	
Trend O' Fashion	1,935	9,675.00	5.00	10	3/83	6%	.80(1)	.8003	1963-64	
Walden Books	3,500 500 mez.	1,749.96	5.00	15yrs. 5mos.	1/87	5%	1.65(1)	1.6545	1964-65	Taxes ded. from overage
Wigs Unlimited	1,000	7,200.00	7.20	5	6/80	10%	.80(2)	.8365	NET	Effective 9/1/76 NET tax clause
Winchell's Donuts	1,150	8,280.00	7.20	10	12/88	5%	.48(1)	.4756	NET	New lease effective 1/1/78; CAM max. 1/4 of 1% new lease
Woolworth's	14,000 6,000 base.	30,000.00	2.05	15	1/88	4 1/4%	----(1)			No CAM clause, no tax clause, option exercised expires 1/88
Youngsters	8,400 3,600 mez.	48,000.00	5.71	10	3/28/88	6-5%	4.96(1)	4.9636	NET	4/1/81 rent increase to $60,000.00,4/1/83 rent increase to $72,000
Vacant	11,200								NET	
Yogurt Etc.	770	6,159.96	7.99	15		8%	.61(2)	.6441	NET	
Montgomery Ward's	184,500	--------	-----	--		---	$1740 yr.	-----		
Office	756									

Total Floor Area	402,494
Total Mezzanine	26,970
Total Basement	13,100
Total Area	442,564
Total Base Rents	1,415,172.80

SHOPPING CENTER
LEASE TURNOVER SCHEDULE

DATE	NAME OF TENANT	SQUARE FEET
1979		
April 30	Karl's Shoes	4,200
July 11	Shoe Repair	1,021
August 14	Mongolia BBQ	1,320
August 31	Dr. Layne, Optometrist	940
October 31	Flowers	94
		7,575 s.f. 1.9%
1980		
March 31	Coiffure Chic	1,033
April 14	Sal's Pizza - 5 year option on negotiated basis	3,996
April 30	Fremont Hub Lock & Key Co.	56
April 30	Wash and Dry	1,260
May 31	Health Foods	2,800
June 15	Wigs Unlimited	1,000
July 21	Loard's Ice Cream	1,350
		11,495 s.f. 2.86%
1981		
January 1	Potpourri	356
March 3	Hardy Shoes - 5 year option with 6 months notice	1,500
March 15	Dr. Sand, Optometrist	810
April 24	MacFarlane's Candies	1,486
May 31	House 'N Gardens	4,800
May 31	Michael's Jewelers	2,016
July 27	Jay Vee	5,100
August 23	King Norman's	9,100

1981 (cont'd)

September 30	House of Fabrics	6,800
September 30	Sweet Shoppe	450
November 2	Orange Julius - 2 - 5 year options with 6 months notice	400
November 30	Shirtique	1,080
December 31	Chancey's Restaurant	3,240
		37,138 s.f. 9.2%

1982

January 31	Milen's Jewelers.	2,800
June 30	Vineyard Deli	906
July 25	Gap - 2 - 5 year options with rent increase	3,500
September 18	Ledeen's	5,600
September 24	Allegro Music	4,200
September 29	Morris Fabrics	3,500
October 1	Curto's Pipe Shop	900
October 31	Safeway 3 - 5 year options with 180 days notice	21,528
November 16	Abbey Carpets	1,368
December 6	La Femme Beauty Salon	756
December 12	Barber Shop	594
December 31	Household Finance	1,080
		46,732 s.f. 11.6%

1983

January 13	Liquor Hub	3,300
January 13	Cleaners	2,160
January 23	Kern's Cleaners	1,350
January 31	Marlene's	4,900
February 1	Long's - 10 year option with 6 months notice	14,900

1983 (cont'd)

March 27	Gallenkamp Shoes	5,600
March 27	Smith's - 10 year option with 6 months notice	8,400
March 31	Trend O' Fashion	1,935
April 30	Price' Jr. Boot Shop	1,380
May 14	Topps & Trowers	2,344
May 31	Ivar Johnson Music	1,010
June 3	Shelly's Cocktail Lounge	1,584
July 1	House of Wigs	800
July 7	Theater Barber Shop	466
September 3	Allen's Shoes	4,200
November 30	Century 21 Real Estate	1,400
December 16	KOMA Restaurant	1,400
December 22	House of Wong	2,800
		59,929 s.f. 14.9%

1984

January 31	Hartfield's	8,400
February 28	Motherhood Maternity	1,050
February 28	Singer Company	1,320
May 31	Goldman's	8,400
May 31	Designer Center	3,500
August 31	Gallery Interiors	1,350
		24,020 s.f. 6%

1985

June 16	Book Mark	2,800
October 31	Davis Baby News	3,500
		6,300 s.f. 1.6%

1986

January 31	Mervyn's - 10 year option with 2 year notice	50,600
March 31	Beadazzled	2,000
June 28	Gift Gallery	2,975
August 31	Kinney Shoes	4,900
October 1	Margo's	2,800
		63,275 s.f. 15.7%

1987

January 31	Walden Books	3,500
March 6	Lyon's Restaurant	6,800
		10,300 s.f. 2.6%

1988

January 28	Fry's Market	23,347
January 31	Woolworth's	14,000
February 1	H. Salt Fish & Chips	1,080
June 30	Chevron 2 - 5 year options with 60 days notice with rent increase	30,000
November 30	Dandy Dogs 5 year option with 90 days notice	992
December 31	Winchell's Donuts	1,150
		70,569 s.f. 17.5%

1989

April 30	Crescent Jewelers	2,800
May 31	Crocker Bank 10 year option with 180 day notice with negotiated rent	6,400
		9,200 s.f. 2.3%

1992

October 9	Bank of California	6,380	
November 1	Fox Theater 2 - 5 year options with 6 month notice	12,060	
		18,440	s.f. 4.6%

1993

March	Yogurt Etc.	770

1998

May 24	Marie Callender's	6,650

OVERAGES PAID IN 1977 *

TENNANT	OVERAGES PAID	SALE P.S.F. IN 1977
Abbey Carpets	3,767	$243.42
Allegro Music	11,678	104.48
Allen's Shoes		64.04
Animal Farm		
Beadazzled		67.99
Bob's Big Boy		
Book Mark	1,556	96.09
Brennan's Magnavox		96.10
Century 21 Real Estate		
Chancey's Restaurant		43.18
Coiffure Chic	4,150	90.22
Cookie Place-Cookies Etc.		
Crescent Jewelers	16,575	231.38
Crocker Bank		
Curto's Pipe Shop		49.08
Dandy Dogs		128.83
Davis Baby News	7,952	126.96
Designer's Mart		51.95
Fotomat Drive-thru		
Fox Theatre		15.60
Fremont Hub Lock & Key	836	458.63
Fry's Food Store	50,531	265.74
Gallenkamp Shoes	18,201	111.26
Gallery Interiors		120.45
The Gap		
Gift Gallery		144.54
Goldman's	8,348	89.63
Hardy Shoes	4,695	116.12
Hartfield's	3,674	74.24
House of Fabrics		58.63
House 'N Garden		44.99
House of Wong	493	79.80
Household Finance		
Barber Shop		69.24
Cleaners	2,773	66.37
Flower Shop	62	576.23
Health Food Center	4,681	171.40
House of Wigs	1,475	81.98
Mongolian BBQ		34.87
Shoe Repair	868	63.06
Sweet Shoppe	737	118.34
Theater Barber Shop	252	70.04
Vineyard Deli	108	82.11
Wash & Dry	543	22.46
Ice Cream Bar		
Ivar H. Johnson Music Co.	1,049	175.09
Jay Vee's		47.89
jerri B		
Karl's Shoes		50.44
Kern's Cleaners & Coin-op		36.23
King Norman's Toys	23,586	130.41
Kinney Shoes	15,426	111.24

* These figures are based upon a calender year basis

TENANT	OVERAGES PAID	SALE P.S.F. IN 1977
Koma Restaurant		NR
La Femme Beauty Salon	256	$ 78.45
Dr. R. M. Layne	399	91.70
Ledeen's	35,060	183.29
Liquor Hub	3,527	143.02
Loard's Ice Cream	4,375	94.57
Long's Drug Store	72,726	356.53
Lyon's Restaurant	11,939	223.81
MacFarlane's Candies	2,542	115.13
Margo's Cards & Gifts		73.13
Marie Callender	2,183	145.18
Marlene's	16,168	130.80
Mervyn's	300,885	278.79
Michael's Jewelers	20,077	534.47
Milen's Jewelers	8,031	318.18
Montgomery Ward's		
Morris Fabrics	3,184	118.39
Motherhood Maternity	728	93.15
Orange Julius	2,909	250.56
Pant Place		
Potpourri'	730	88.53
Price's Jr. Boot Shop	3,430	137.01
Real Estate Center		
Safeway	34,947	272.84
Sal's Restaurant		43.81
H. Salt Fish & Chips	10,436	380.86
Dr. Sand	13,482	325.32
Sear's Roebuck & Co.		
Shelly's Cocktail Lounge	3,807	106.43
Shirtique	1,189	
Singer Company	307	140.42
Smith's	16,586	118.91
Sounds of Music	4,622	230.14
Sumitomo Bank		
Topps & Trowsers		76.33
Trend O' Fashion		48.25
Walden Books		54.92
Wigs Unlimited	429	58.31
Winchell's Donuts	4,384	166.01
Woolworth's	6,163	70.84
Yogurt Submarine		
Youngsters	16,517	110.31
Hickory Farms	1,521	
Chevron	3,022	5.83
Stereo West	10,141	435.85
Total	784,221	