

12301 WILSHIRE BOULEVARD

LOS ANGELES, CALIFORNIA

**Piedmont Realty Advisors
650 California Street, 22nd Floor
San Francisco, California 94108
(415) 433-4100**

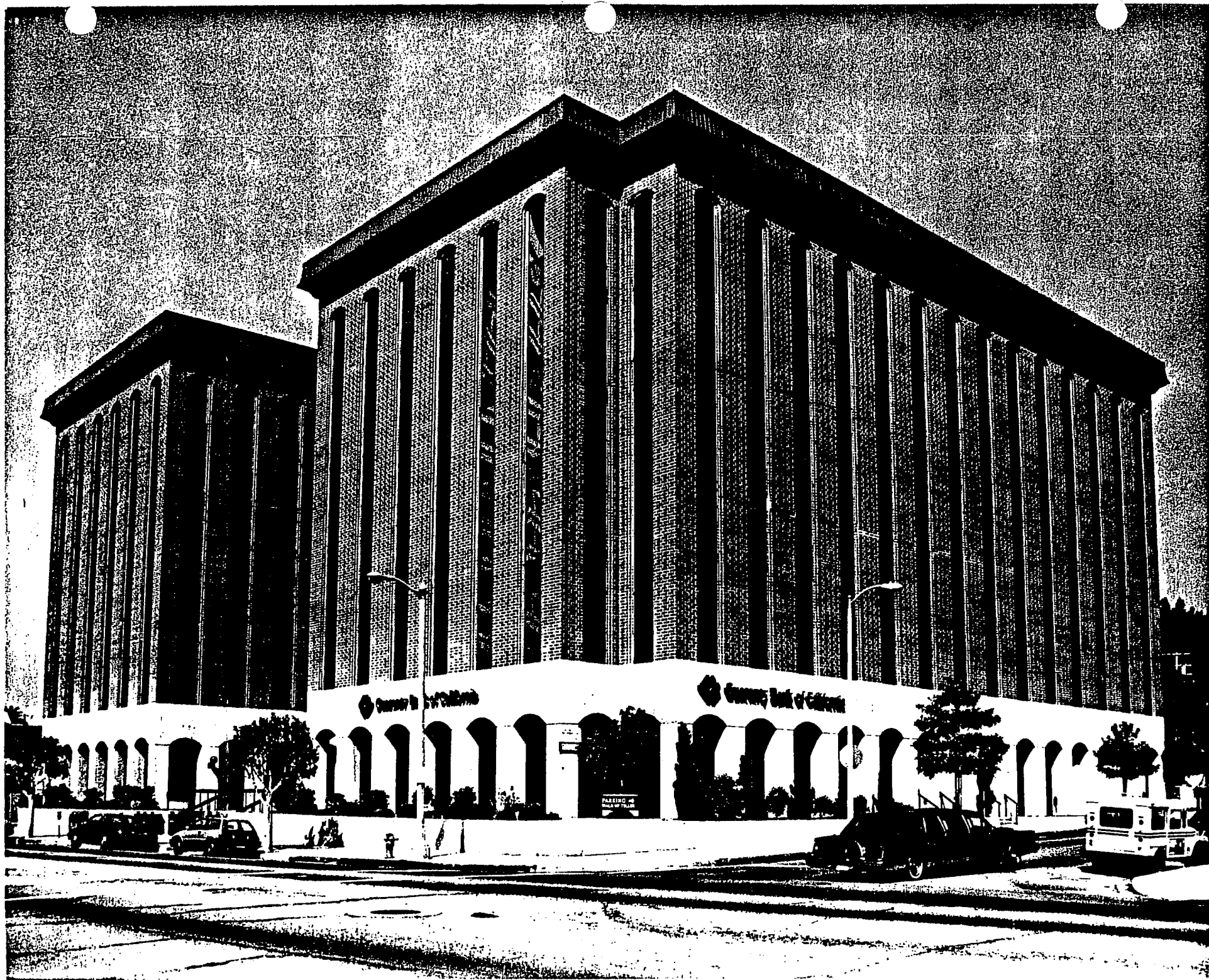


TABLE OF CONTENTS

I. INTRODUCTION	1
II. THE PROPERTY	13
A. INTRODUCTION	13
B. LOCATION	13
C. THE SITE	14
D. THE IMPROVEMENTS	14
E. PROJECT IMPROVEMENTS	15
F. CONCLUSIONS	15
III. THE MARKET OVERVIEW	29
A. INTRODUCTION	29
B. THE WESTSIDE OFFICE MARKET	29
C. COMPETITIVE OFFICE BUILDINGS	30
D. CONCLUSION	31
IV. THE JOINT VENTURE PARTNER	37
A. INTRODUCTION	37
B. THE PARTNERSHIP	37
C. THE KOLL COMPANY	37
D. CONCLUSION	38
V. RISK AND RETURN	39
A. INTRODUCTION	39
B. VALUATION	39
C. RETURN	40
D. RISK	40
E. CONCLUSIONS AND RECOMMENDATIONS	41
Appendix A	52
Appendix B	53
Appendix C	54

I. INTRODUCTION

PIEDMONT REALTY ADVISORS

650 CALIFORNIA STREET
TWENTY-SECOND FLOOR
SAN FRANCISCO, CALIFORNIA 94108

415-433-4100

November 14, 1986

Real Estate Investment Members
United States Fidelity and Guaranty Company
100 Light Street
Baltimore, Maryland 21202

Re: 12301 Wilshire Boulevard
Los Angeles, California

Dear Sirs and Madam:

Enclosed for your review is an investment report for an equity joint venture with The Koll Company on an existing six-story 102,190 square foot office building in West Los Angeles, California. Piedmont Realty Advisors intends to review this report with the Real Estate Investment Committee on November 19, 1986. A summary of the proposed investment is shown as Exhibit I-1.

The Property

12301 Wilshire Boulevard is an existing office building which is currently 89% leased and located within a development cluster of 5 speculative properties completed in the 1985 - 1986 time frame. The area surrounding the subject property has excellent access and amenity characteristics which have played an important role in the area's impressive absorption performance over the last 18 months.

12301 Wilshire Boulevard was completed in 1975 and is currently suffering from poor property management. The ultimate goal of the proposed partnership to improve selected physical aspects of the property and orient the tenant rent roll toward a more "institutional" perspective. The rehabilitation effort will include renovation of all elevator cabs, lobbies and common tenant areas; the brick exterior of the building will be resealed; and a parking structure will be constructed over an existing surface lot. All medical tenants will be vacated as their leases expire and the tenant rent roll will be oriented toward small upscale service tenants. Piedmont Realty Advisors has reviewed the joint venture partner's rehabilitation plan and concludes that successful implementation will lead to significantly higher rents during the investment holding period.

The Market

The subject property is located in the Wilshire West submarket of the Westside office market. The strength of the Wilshire West office market has improved considerably since late 1984 with tenant concessions declining from 25% of contract lease value to 10% of contract lease value. The average contract rental rate for the buildings competitive with 12301 Wilshire Boulevard is \$28.08 per square foot of rentable area with an effective rate averaging \$25.55. Piedmont Realty Advisors has underwritten the existing 11,520 square feet of vacant space in the building and, 28,991 square feet of leases which rollover in 1987 and 1988, at a contract rate of \$24.00 with a 20% concession discount or an effective rate of \$20.00. 12301 Wilshire should experience the benefits of a location in the center of a high-rise office development cluster by fulfilling a small tenant market niche. In addition, the legal restraints on development along the Wilshire Boulevard corridor should result in long-term upward pressure on rents. Piedmont Realty Advisors believes that the average rental rate of the property can be increased by more than 25% during the first three years of the investment holding period with no significant impact on occupancy.

The Joint Venture Partner

The Koll Company is one of the premier management, leasing and development firms in the Western United States. Piedmont Realty Advisors has reviewed Koll's rehabilitation and operating plans for 12301 Wilshire Boulevard and concludes that the plans are well thought out and can be fully implemented during the investment holding period. Piedmont also interviewed the Koll employees who will be assigned to the project and concludes that they are capable of implementing Koll's plan as outlined.

The Risk and Return

The proposed investment is a new joint venture structure for USF&G. USF&G will receive 95% of the ownership of 12301 Wilshire Boulevard until it receives an annual cash return in excess of 10.0% on its total invested equity. As USF&G's cash return increases above 10.0%, Koll can earn up to 20 percentage points of ownership. The proposed partnership structure compensates Koll exclusively for performance.

The closing budget of the proposed transaction is \$18,123,000. The seller, MONY, will record a \$12,000,000 first mortgage with a 9.375% interest only rate at closing. They will also credit the partnership \$345,000 for negotiated rehabilitation work. USF&G will fund \$6,000,000 net of commitment fees totaling \$123,000 at the closing of the transaction. During 1987 and 1988, USF&G will also contribute up to \$1.3 million of additional capital to fund the rehabilitation plan. In year 3, USF&G's cash return on its investment basis should be 11.7% increasing to 15.4% by year 10. The 10-year internal rate of return of 15.3% or a 10.3% real rate adjusted for inflation is high relative to the identified risks in the Westside office market and in the operational

Real Estate Investment Members

November 14, 1986

Page 3

aspects of the proposed transaction. Therefore, Piedmont Realty Advisors recommends that the Real Estate Investment Committee approve the issuance of a \$7,354,000 equity commitment for a joint venture on the 12301 Wilshire Boulevard Building in West Los Angeles, California.

Sincerely,

A handwritten signature in cursive script, reading "Stephen L. Grant". The signature is written in dark ink and is positioned above the printed name and title.

Stephen L. Grant
Vice President

RECOMMENDATION LETTER
12301 WILSHIRE

PIEDMONT REALTY ADVISORS
650 CALIFORNIA STREET
TWENTY-SECOND FLOOR
SAN FRANCISCO, CALIFORNIA 94108
415-433-4100

November 10, 1986

Mr. Frederick L. Stephens
The Koll Company
333 S. Grand Avenue, Suite 4210
Los Angeles, CA 90071

Re: 12301 Wilshire Boulevard
Los Angeles, California

Dear Rick:

Piedmont Realty Advisors is prepared to recommend to its client's Investment Committee that it issue a commitment to enter into a joint venture with The Koll Company on the above-captioned property subject to the following terms and conditions:

- Property:** 12301 Wilshire Boulevard - An existing six-story office building of 102,190 square feet of net rentable area over three levels of subterranean parking.
- Location:** Northwest corner of Wellesley Avenue and Wilshire Boulevard in West Los Angeles.
- Land Area:** Approximately 0.85 acres.
- Parties:** An affiliate of USF&G Realty (USF&G) and an affiliate of The Koll Company (Koll).
- Ownership Structure:** General Partnership, to be formed.
- Basic Responsibilities:** USF&G
- 1) Provide equity capital.
- Koll
- 1) Pre-Closing Responsibilities
 - a) Deliver an USF&G approved purchase contract to the proposed partnership.

- b) Arrange a 7 to 10-year permanent financing commitment at par for \$12,000,000 with an interest rate of 9.5% or less.
- c) Prepare and submit to USF&G a business plan for the management and renovation of the property. The plan would include (1) a budget for the renovation of the courtyard, elevator lobby and any common area of the building, (2) a budget for the renovation of the tenant space and (3) a budget for the construction of a parking ramp over the surface lot at the back of the property.

2) Operating Responsibilities

- a) Leasing;
- b) Management of the building renovation; and
 - (1) Koll Construction Company may perform the tenant improvement work subject to USF&G approval.
- c) Property management
 - (1) Property management fee will be 3% of collected gross income. Koll will also be reimbursed for on-site management costs.
 - (2) Leasing commission will be market standard.

Initial Contributions: USF&G

- 1) \$95 at closing.

Koll

- 1) \$5 at closing.

**Subsequent
Contributions:**

New First Mortgage

- 1) The \$12,000,000 first mortgage will be recorded at closing.

USF&G

- 1) \$6,123,000 at closing allocated to the costs outlined in Exhibit A attached hereto.
- 2) 95% of the operating and capital shortfalls for a period of 36 months after the initial contribution.
- 3) Thereafter, USF&G will contribute 95% less any percentage ownership earned by Koll (see Distribution of Cash Flow Koll item 2).

Koll

- 1) 5% of the operating and capital shortfalls for a period of 36 months after the initial contribution. Koll may elect to fund its obligation with disbursements from a holdback account which will be set up and funded by USF&G at closing. The escrow account will contain 100% of the total capital costs which are outlined in the Koll business plan. These holdback draws will be considered by capital contributions of USF&G.
- 2) Thereafter, Koll will contribute its proportionate share of the total capital costs, the proportion of which will equal 5% plus any percentage ownership earned by Koll.

NOTE: In the event that additional capital contributions are required after month 36, Koll may contribute the funds in cash or borrow those funds from USF&G at a rate of Security Pacific prime plus 200 basis points or 12%, whichever is greater. The loan shall be non-recourse to Koll but shall be secured by Koll's interest in the property. The note shall be fully amortizing and have a maximum term of 365 days. If Koll's required contribution is not made with cash or cannot be met through this loan

process, then the venture shall consider borrowing the entire capital requirement from a third party on a non-recourse basis.

**Distribution of
Cash Flow:**

USF&G

- 1) 95% of cash flow for the first 36 months of the investment.
- 2) Thereafter, a percentage of cash flow calculated as 95% less the percentage ownership earned by Koll (described below).

Koll

- 1) 5% participation in cash flow for the first 36 months of the investment. Note: Koll will be entitled to its management fee prior to distribution of cash flow.
- 2) Thereafter, up to a maximum of 25% of cash flow as determined by the following formula:
 - a) The cash-on-cash base amount will be 10.0%.
 - b) Two subsequent cash-on-cash ratios will be established at the end of months 34 and 82 of the partnership (Ratio Measurement Month). The difference between the subsequent ratios and 10.0% will be the basis for determining the ownership percentage of Koll for the periods between months 37 through month 84, and for month 85 and beyond. (Months 37 and 85 being hereinafter referred to as Ownership Adjustment Months).

NOTE: If the property is sold prior to the second Ownership Adjustment Date, the month preceding the closing date shall become the Ownership Adjustment Month for the purpose of allocating the net proceeds of the sale.

The numerator for the subsequent cash-on-cash ratios will be based on the following:

- (1) USF&G's annualized cash flow at the end of the Ratio Measurement Month. The cash flow for USF&G will be calculated by multiplying USF&G's proportionate ownership at the time of measurement by the annualized property cash flow which will include, among other things, the following:
 - (a) The annualized cash flow for vacant space will be \$0.00.
 - (b) The annualized cash flow for parking will be based on the average monthly cash flow for six months period prior to the Ratio Measurement Month.
 - (c) The annualized cash flow for tenants in rent abatement periods will be based on the average monthly effective rent during the primary term of the lease.
 - (d) Property operating expenses will be based on an average accrual concept.

The denominator will be based on the following:

- (1) All equity contributed at the time of closing plus all additional equity invested by USF&G which will include, among other things, the following:
 - (a) Escrow draws for Koll's 5% obligation during the first 36 months of the partnership.
 - (b) Contributions for renovation, capital improvements, tenant improvements, leasing commissions and operating and cash flow deficits.

(c) **NOTE:** If disproportionate equity contributions occur between the Ratio Measurement Month and the Ownership Adjustment Month, there will be a reproration.

c) Koll's earnout will be based on the following formula:

(1) Subsequent Cash-on-Cash Ratio

Less: 10.0%

Difference in Cash-on-Cash Ratios

(2) Based on a closing budget of \$18,123,000 and a loan of \$12,000,000, the earnout will be as follows:

For every 20 basis points of difference in the cash-on-cash ratios, Koll will receive a 1% addition to its initial 5% ownership position.

**Allocation of Profits
and Losses:**

Profits and losses will be allocated as follows:

- 1) For months 1 through 36 -
95% USF&G
5% Koll
- 2) For months 37 through the end of the holding period - the allocation will be based on the ownership percentage.

**Distribution of Sale
Proceeds and
Refinancing:**

First Priority

To USF&G to pay off any existing partnership loans made by USF&G to Koll.

Second Priority

To USF&G and Koll in proportion to the total capital investment balance at the time of refinancing or sale, as a return of their total capital investment.

Third Priority

Any remaining net sale proceeds will be distributed based on the ownership percentage.

- Buy/Sell Agreement:** A buy/sell agreement will be included in the joint venture documents.
- Lock-in Period:** A 5-year lock-in period will apply to the buy/sell agreement.
- Joint Venture Fee:** \$123,000.

Contingencies

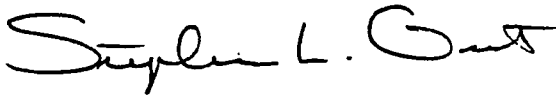
- A. Engineering:** The joint venture will appoint an engineer to perform a complete analysis of the property. The cost of the engineering study will be funded out of the closing budget.
- B. Committee Approval:** The Recommendation Letter must be approved by USF&G's Investment Committee.
- C. Leases:** USF&G reserves the right to review all existing leases and approve all leases subject to agreed upon leasing standards. Agreed upon leasing standards will be part of the Joint Venture Agreement. Any leases that conform with agreed upon leasing standards will be deemed approved. Any leases that do not conform to agreed upon leasing standards will require the written approval of Piedmont Realty Advisors.
Piedmont will have five business days to review and respond to Koll on leasing issues.
- D. Permanent Mortgage:** The Joint Venture Agreement will be contingent upon USF&G's review and approval of all documents pertaining to the new first mortgage.
- E. Economic Due Diligence:** The Joint Venture Agreement will be contingent upon Piedmont Realty Advisors' satisfactorily completing its economic due diligence.

Mr. Frederick L. Stephens
November 10, 1986
Page 8.

If the terms outlined in this letter are acceptable, please sign below and return this letter with a joint venture review fee of \$50,000 by November 4, 1986. The application fee should be wired to a custodial account. Please call me for wiring instructions. The joint venture review fee will be:

- a) Retained by USF&G if an acceptable commitment is issued and Koll does not accept the commitment. An acceptable commitment is one conforming to the terms outlined in this letter.
- b) Refunded to Koll if no commitment is issued or a non-conforming commitment is issued and rejected by Koll. A non-conforming commitment is one which differs from the terms outlined in this letter.
- c) Credited to Koll at close of escrow. At closing USF&G will be due \$73,000 (\$123,000 less \$50,000 paid as the joint venture review fee).

Sincerely,



Stephen L. Grant
Vice President



SIGNED

DATE

11-12-86

Division President
TITLE

Exhibit A
SOURCE AND USE OF FUNDS
12301 WILSHIRE BOULVDARD

Use of Funds

Acquisition Price		\$ 17,500,000
Closing Costs		623,000
Legal	\$ 40,000	
Misc. Closing	35,000	
Seller's Broker	250,000	
Koll Fee	175,000	
USF&G Fee	123,000	
TOTAL		\$ 18,123,000

Source of Funds

Seller Mortgage	\$ 12,000,000
USF&G Equity	6,123,000
TOTAL	\$ 18,123,000

CEIVED

00 MOUTOUPR 100 110

II. THE PROPERTY

II. THE PROPERTY

A. INTRODUCTION

12301 Wilshire Boulevard is an existing six-story, 102,190 square foot building on 0.85 acres of land in West Los Angeles (see Exhibit II-1). The subject property was completed in 1975 and is currently 88.7% occupied by business service and medical tenants predominately in the 2,000 to 4,000 square foot size range. The property has been owned by Mutual of New York (MONY) since completion and has been poorly managed during the investment holding period. The building's location and exterior appearance provide the proposed partnership with the basis for significant upside potential. It is the intent of the proposed partnership to rehabilitate all lobby areas and tenant corridors immediately after the closing of the transaction. Tenant space will also be rehabilitated as leases rollover and all medical tenants will be discouraged from releasing. The upgrade plan includes the construction of a parking ramp over an existing surface parking lot at the rear of the property. All of these changes should elevate the property to a Class A status in a Class A office building location.

B. LOCATION

1. Accessibility

12301 Wilshire Boulevard is located in an area known as the Westside of Los Angeles (see Exhibit II-2). The Westside includes the Cities of Santa Monica and Beverly Hills and the districts of Pacific Palisades, Brentwood, Westwood and Century City. The key to the Westside office market is its proximity to executive housing in Brentwood, Pacific Palisades and Bel Air. The I-405 and I-10 freeways provide the Westside area with direct access to a large skilled labor base located in the San Fernando Valley and the Southern Los Angeles basin. The subject property is served by the Wilshire Boulevard interchange on I-405 and the Centinela interchange on I-10 (see Exhibit II-3). Bundy Drive and 26th Street are major north-south arterials intersecting with San Vincente, Wilshire and Sunset Boulevards which are the primary access roads to executive housing.

The UCLA Campus is 3 miles east, Los Angeles International Airport is 12 miles south and downtown Los Angeles is 19 miles east of the subject property. While convenient access to the airport or downtown Los Angeles may be important locational criteria for larger tenants in the Westside market, the subject property caters to small service tenants with a local client base. Therefore, the convenient access to area's traffic arterials is the most important access characteristic for the subject property. 12301 Wilshire has excellent access to the Westside's major traffic arterials.

2. Adjacent Land Uses

The subject property is located in the center of a development cluster which extends along Wilshire Boulevard from Centinela on the west to Bundy on the east (see Exhibit II-4). 12301 Wilshire is surrounded by the following Class A office buildings:

- (1) **The Gateway Building** - A 14-story, 140,000 square foot office building completed in June 1986. The building is currently 40% leased.
- (2) **Wilshire Wellesley** - A 4-story, 44,219 square foot granite-clad office building scheduled for December 1986 completion. The building is 51% preleased.
- (3) **Wilshire Brentwood Place** - A 15-story, 233,533 square foot building which was completed in May 1985 and is currently 78% leased. This building is directly across Wilshire from the subject property.
- (4) **12100 Wilshire** - A 19-story, 343,000 square foot office building which was completed in November 1985 and is currently 56% leased.
- (5) **Wilshire Bundy Plaza** - A 14-story, 285,000 square foot office building completed in November 1984 and is currently 98% leased.

Service retail and restaurants are located in strip developments between the office buildings within the development cluster surrounding 12301 Wilshire Boulevard. The residential area immediately north of the subject property is an upper middle class, single family home neighborhood in the area of Brentwood. Immediately south of Wilshire is a neighborhood dominated by multi-family housing.

It should be noted that Los Angeles passed a growth control ordinance on November 4, 1986 which reduced the allowable floor to area ratio (F.A.R.) for office development in the area surrounding the site by 50%. This F.A.R. reduction will substantially reduce the potential supply of office space in the Westside market which should lead to a trend of increasing rental rates and therefore property values.

C. THE SITE

The site is a rectangularly shaped parcel of 0.85 acres or approximately 37,000 square feet (see Exhibit II-5). The building footprint occupies an area of approximately 23,000 square feet. There is a surface parking lot of approximately 14,000 square feet at the rear of the property on which the partnership plans to construct a two-story parking ramp in March 1987. The proposed parking ramp will maintain the surface parking lot's ingress and egress to both McClellan Drive and Wellesley Avenue. The entrance to the existing underground parking garage is off McClellan Drive.

D. THE IMPROVEMENTS

12301 Wilshire Boulevard is a 6-story, 102,190 net rentable square foot building over 3 floors of underground parking. The building's construction materials consist of poured in place concrete with steel framing and red face brick on block exterior. The pre-closing engineering study performed by Koll identified the need for brick tuck pointing and resealing of the face brick. MONY will credit \$170,000 at the closing of the purchase for the brick resealing. There are three elevators serving the building. The elevator cabs and systems will be overhauled as part of the rehabilitation effort. MONY will credit \$175,000

to the partnership at closing for the elevator work and first floor lobby renovation.

12301 Wilshire Boulevard contains six floors of office space in a U-shaped floor plate surrounding a central courtyard (see Exhibit II-6). The first floor contains 13,678 square feet of rentable area and is oriented toward service retail with Wilshire Boulevard exposure and signage rights on the building. 7,086 square feet on the first floor are leased to a banking tenant. The remaining 6,592 square feet are vacant and were previously leased to a securities broker. The proposed partnership plans to lease the vacant first floor space to an office products company, a residential brokerage operation or a financial institution. The remaining five office floors average 17,700 net rentable square feet. There is adequate evidence of mismanagement on the part of MONY in the allocations of floor area to tenant space. It is a goal of the partnership to eliminate the property's long corridors and reduce the number of tenants per floor.

The existing garage contains 169 parking stalls with an additional 46 stalls on the surface lot for a total of 215. The current parking ratio of the property is 2.1 spaces per 1,000 square feet of net rentable area. Although there are competitive Westside buildings with parking ratios below 2.1 per 1,000 square feet of office area, Piedmont believes that the building will be more competitive if its parking ratio is increased. Piedmont and Koll have assessed the feasibility of attended valet parking in the existing underground structure and the construction of a two-story parking ramp on the surface lot. Implementation of this two-part plan will add 74 spaces to the existing 215 for a total of 289. These proposed changes will increase the parking ratio of the subject property to 2.8 per 1,000 square feet of net rentable area - a ratio which will make the property more competitive with those Westside office buildings which cater to small service oriented tenants.

E. PROJECT IMPROVEMENTS

The estimated costs for the rehabilitation effort of the proposed partnership are summarized in Exhibit II-7. Most of the budget will be spent during the first year of the holding period. The remainder of the budget will be allocated to tenant spaces as the current leases in the building roll over. USF&G's total cost basis in the building after the first 36 months of the investment is estimated at approximately \$189 per square foot of rentable area.

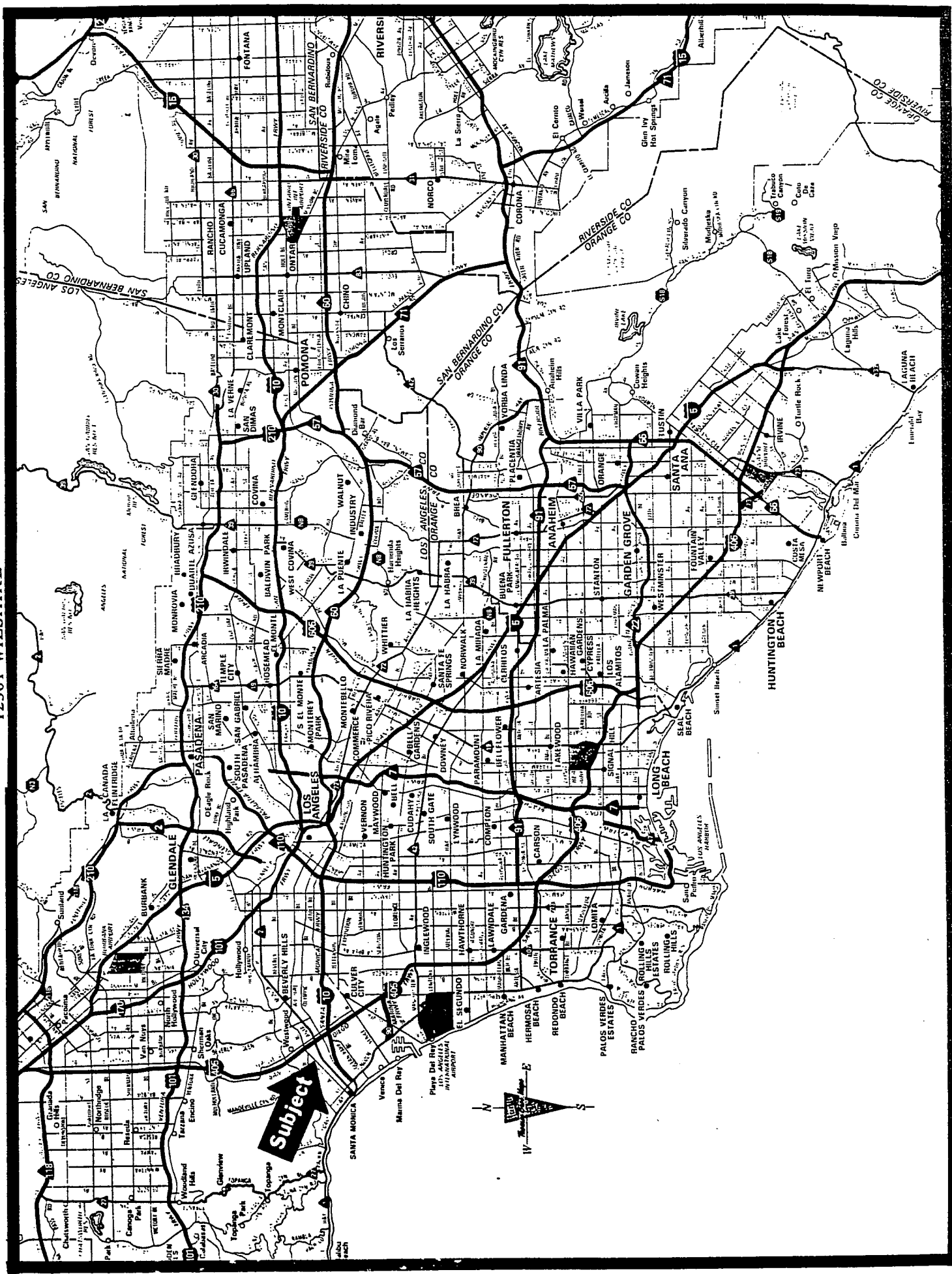
F. CONCLUSIONS

The subject property is located on Wilshire Boulevard in a development cluster which includes 5 speculative properties completed in the 1985 - 1986 time frame. The above-average absorption performance of the 5 buildings surrounding 12301 Wilshire results from the area's excellent access and amenity characteristics. The subject property's role in the office cluster surrounding it is to cater to small service oriented tenants. The physical attributes of the project combined with the area's proximity to executive housing should enable the property to retain its role in the Westside market.

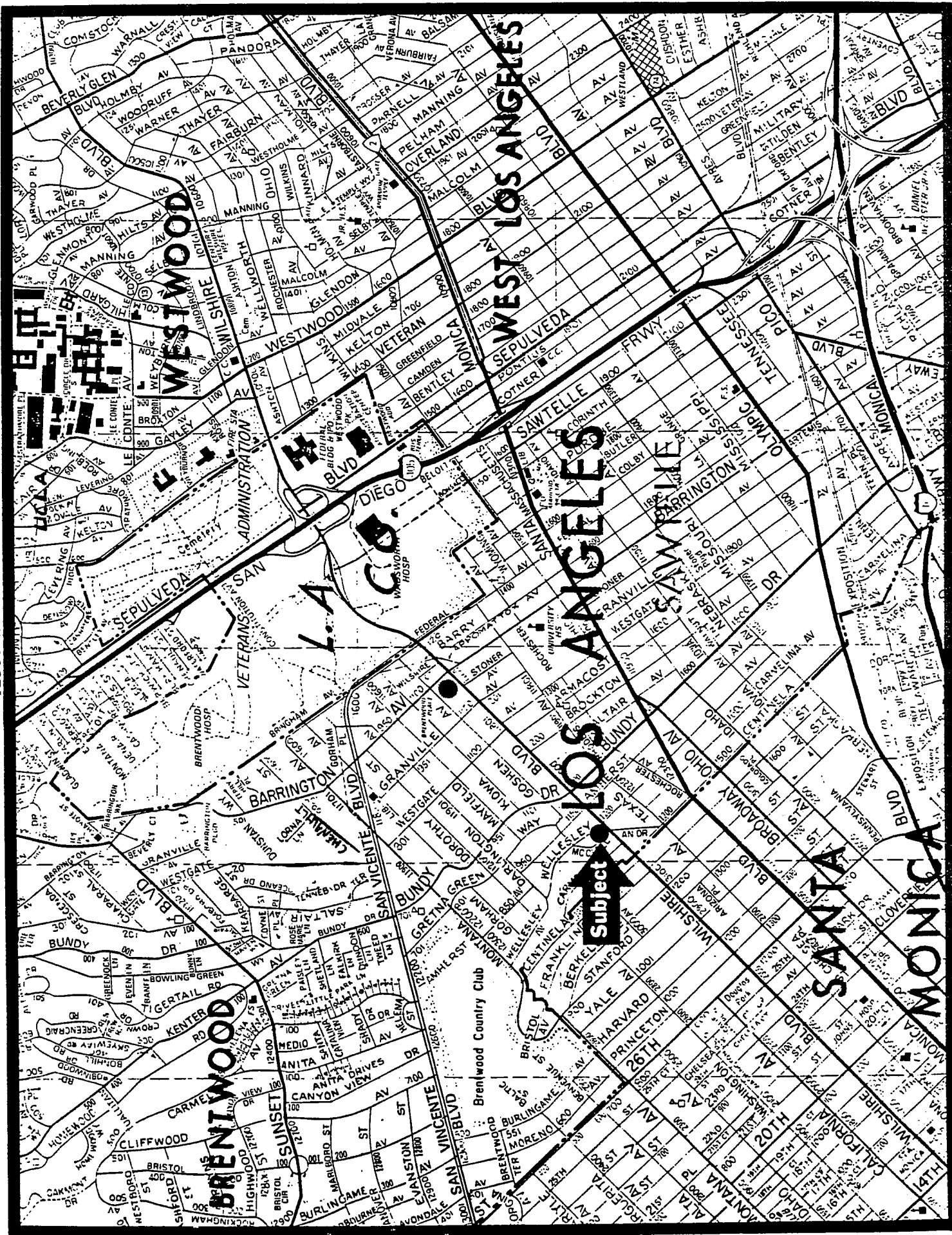
The subject property is an existing 6-story building which is 89% leased, but suffering from poor property management. The proposed partnership will implement a plan to rehabilitate the building's common area and tenant rent

roll. All elevator lobbies and common tenant areas will be renovated, the exterior brick will be treated and resealed and a parking structure will be constructed to accommodate additional parking. As these physical improvements are made to the property, all medical tenants will be vacated and the tenant rent roll will be oriented toward to small upscale service tenants with a local client base. Piedmont Realty Advisors has reviewed Koll's rehabilitation plan and, with certain modifications, concludes that its implementation should lead to significant increases in the average rental rate for the building during the investment holding period.

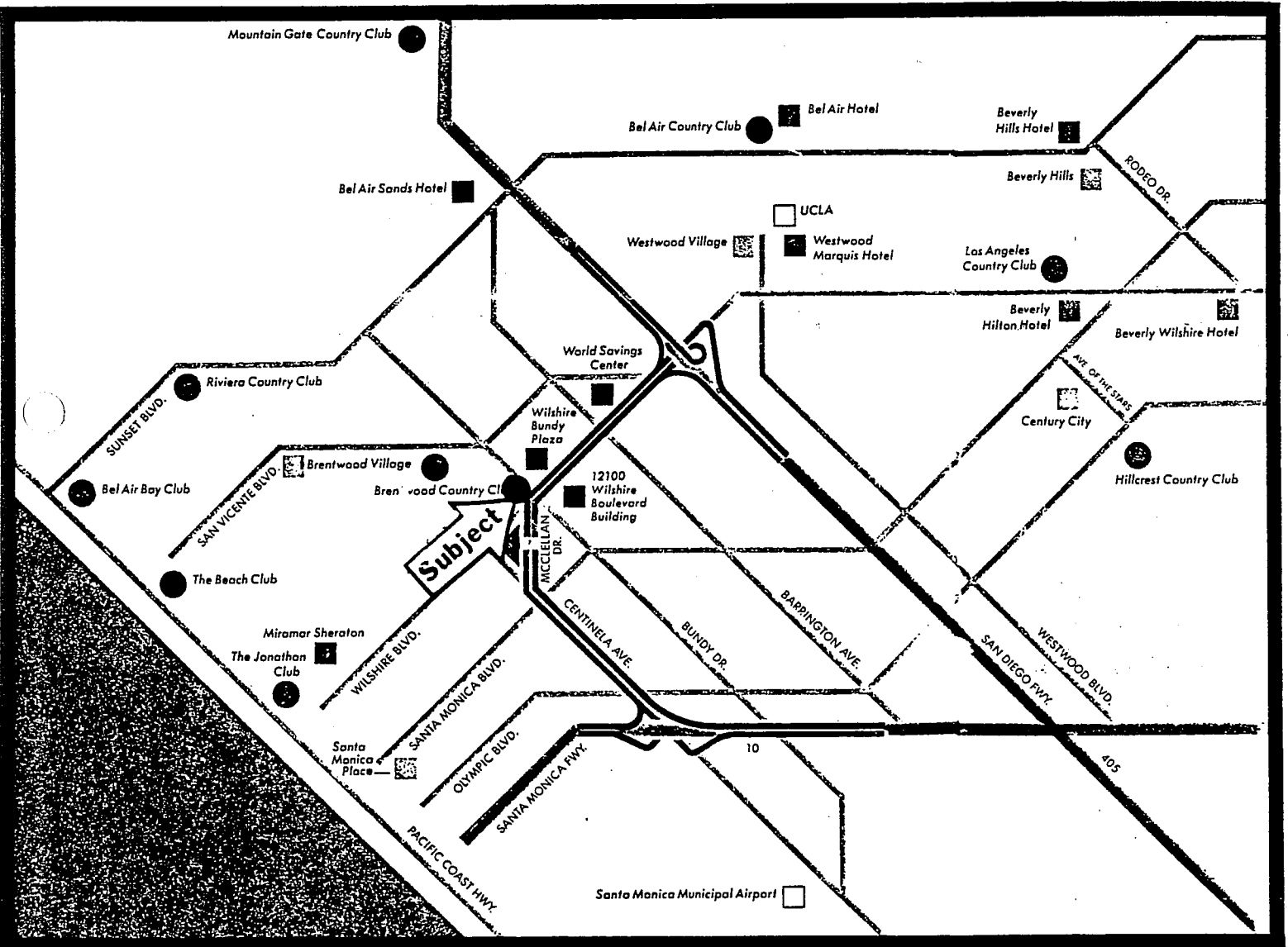
REGIONAL LOCATION MAP
12301 WILSHIRE



SITE LOCATION MAP
12301 WILSHIRE



SITE ACCESS MAP
12301 WILSHIRE



AERIAL PHOTOGRAPH
12301 WILSHIRE



SITE PLAN
12301 WILSHIRE

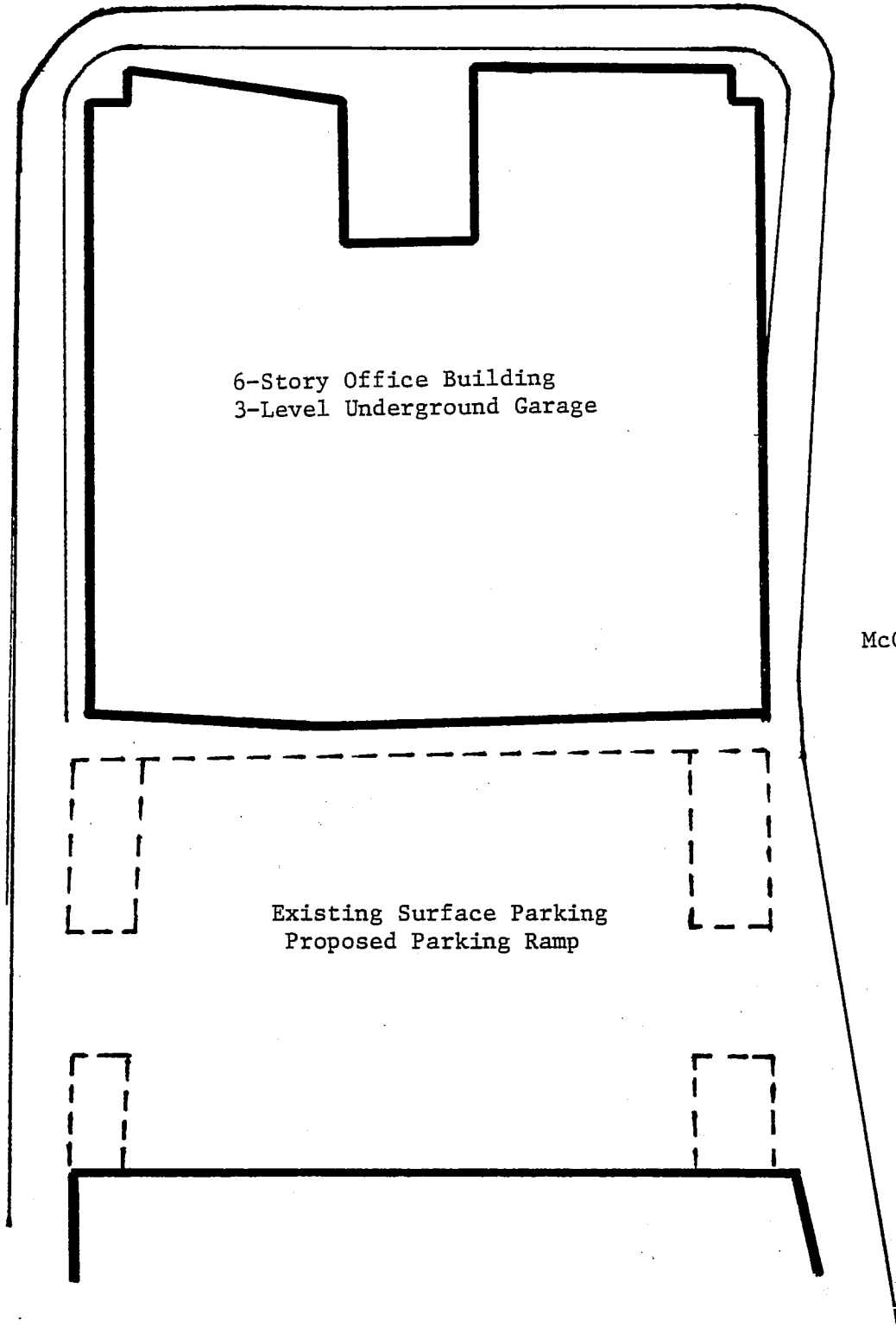
Wilshire Boulevard

6-Story Office Building
3-Level Underground Garage

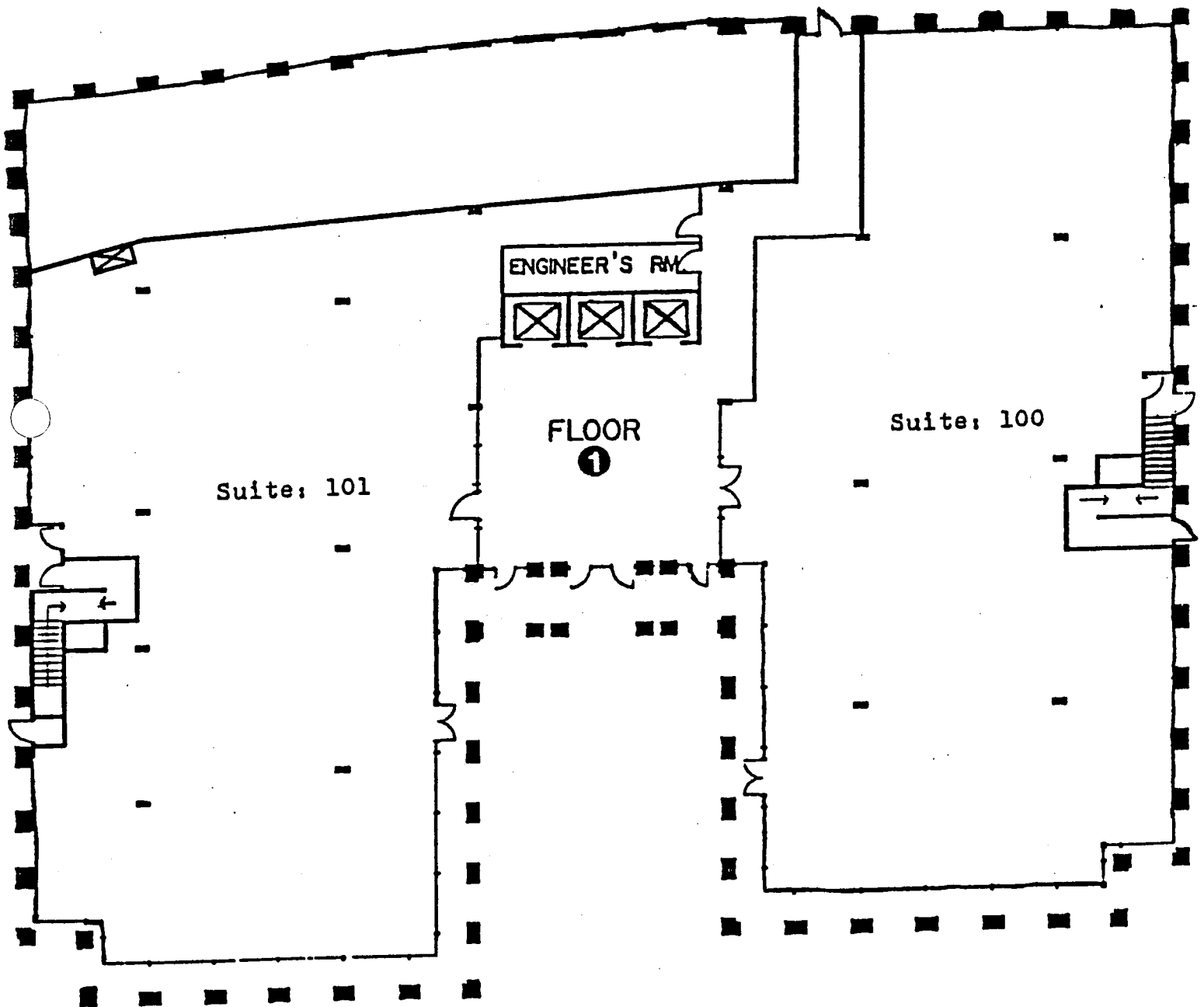
Wellesley

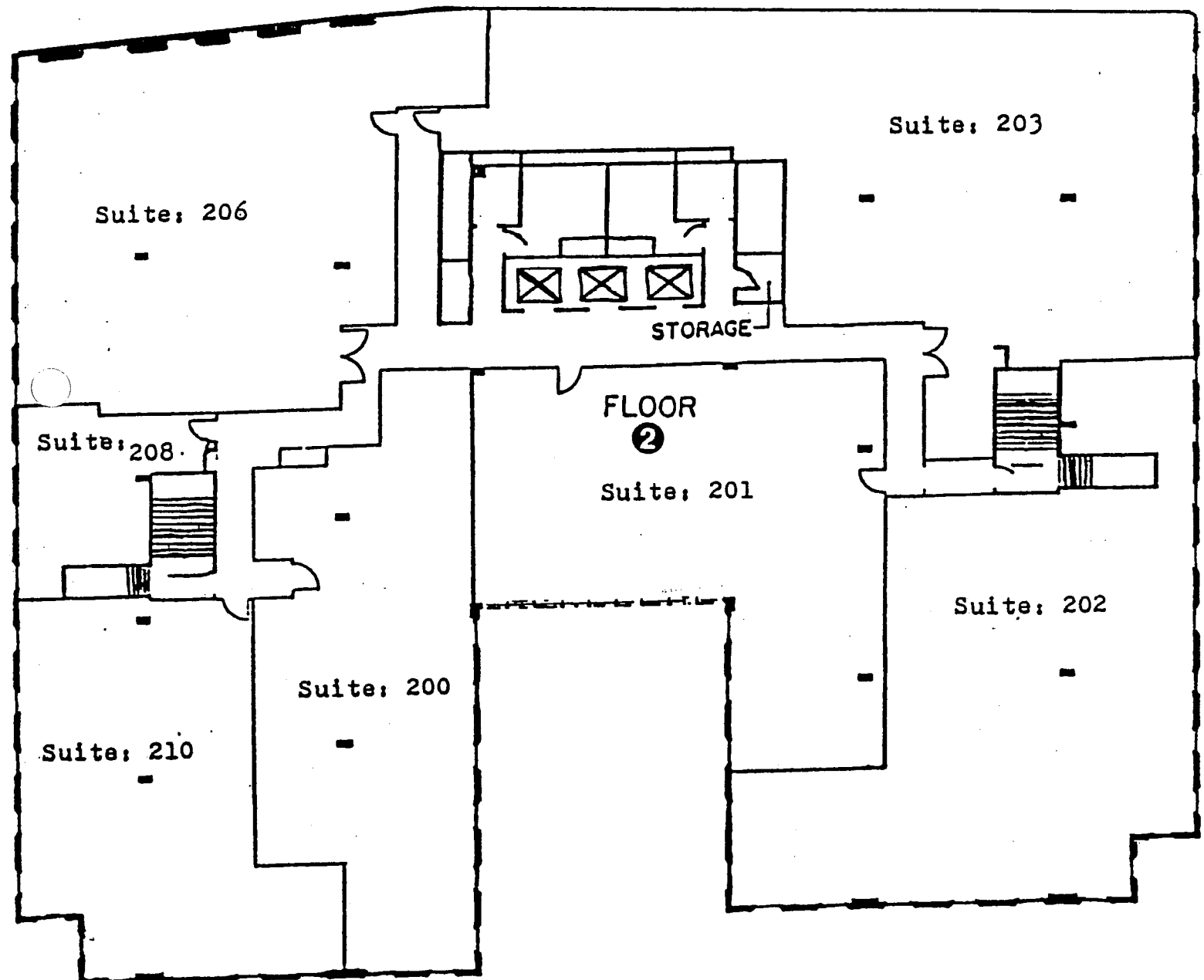
McClellan

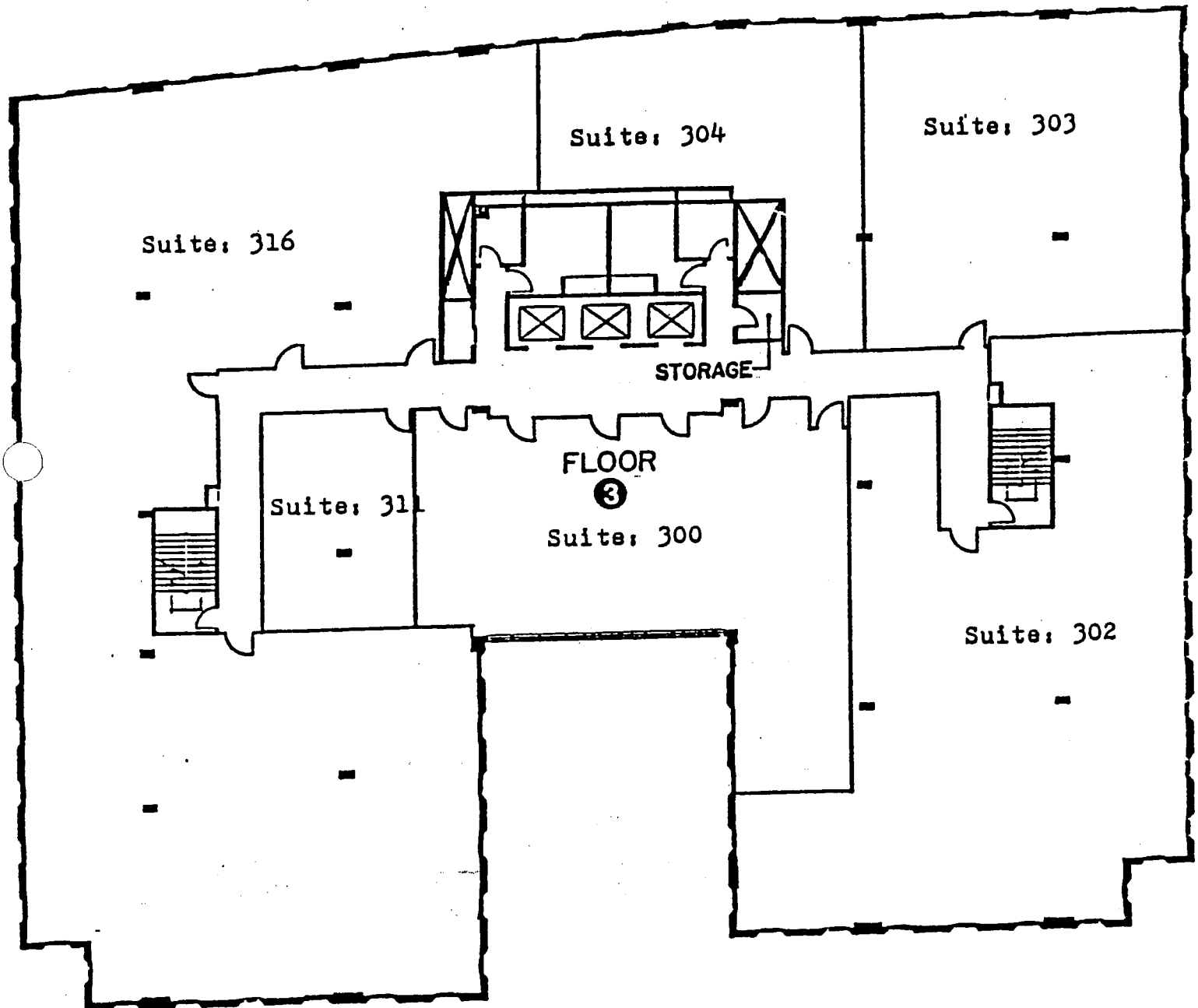
Existing Surface Parking
Proposed Parking Ramp

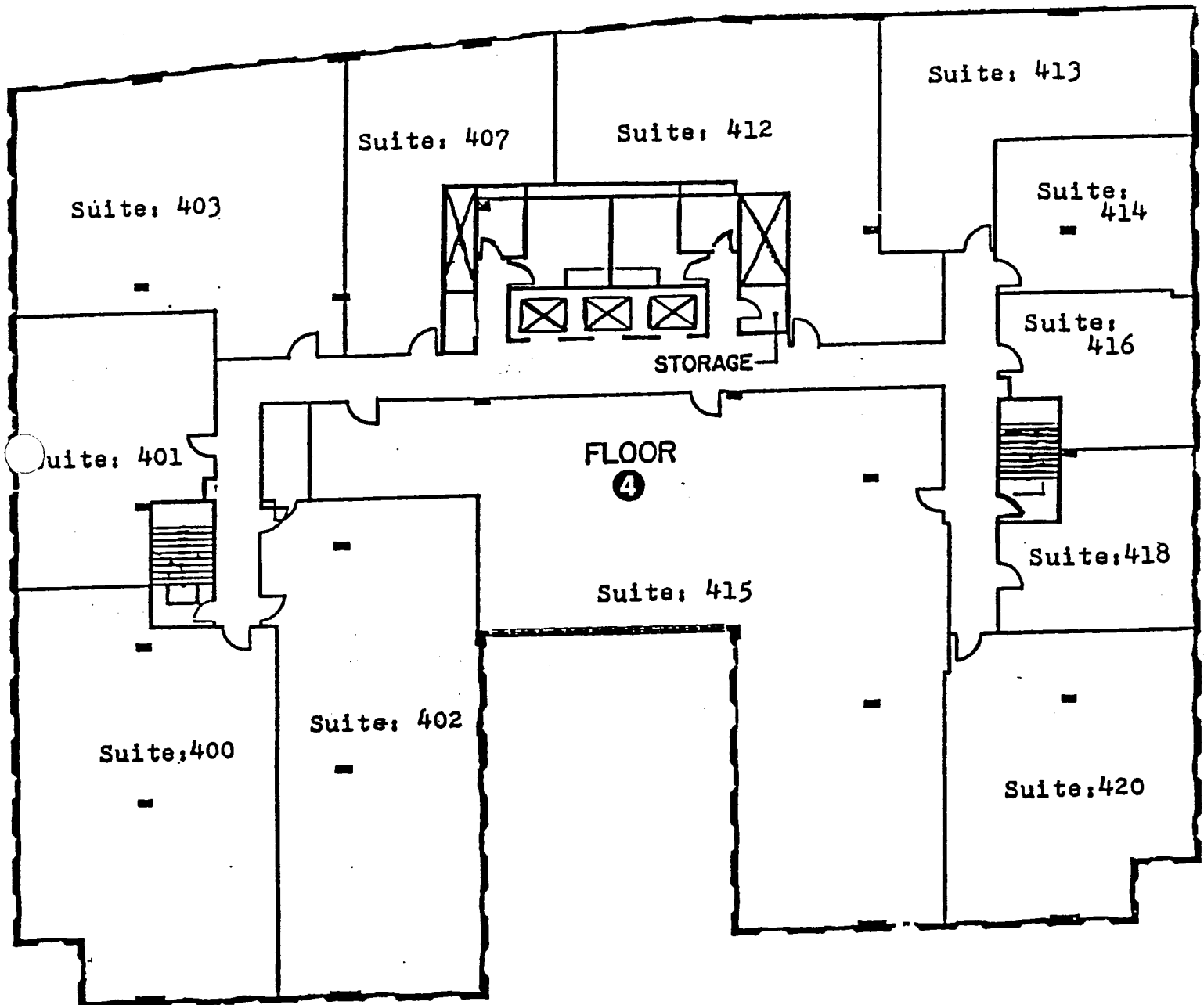


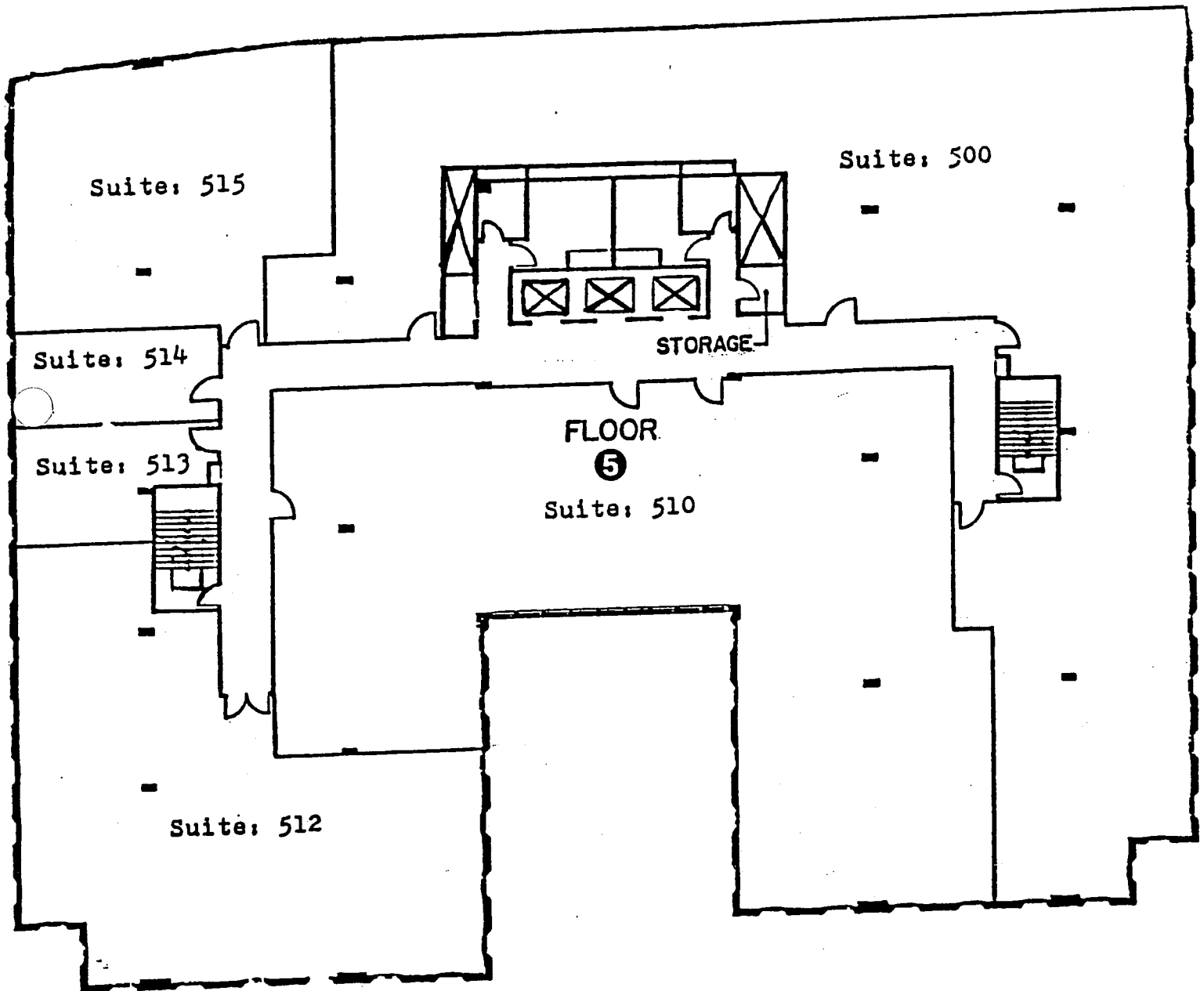
FLOOR PLANS
12301 WILSHIRE











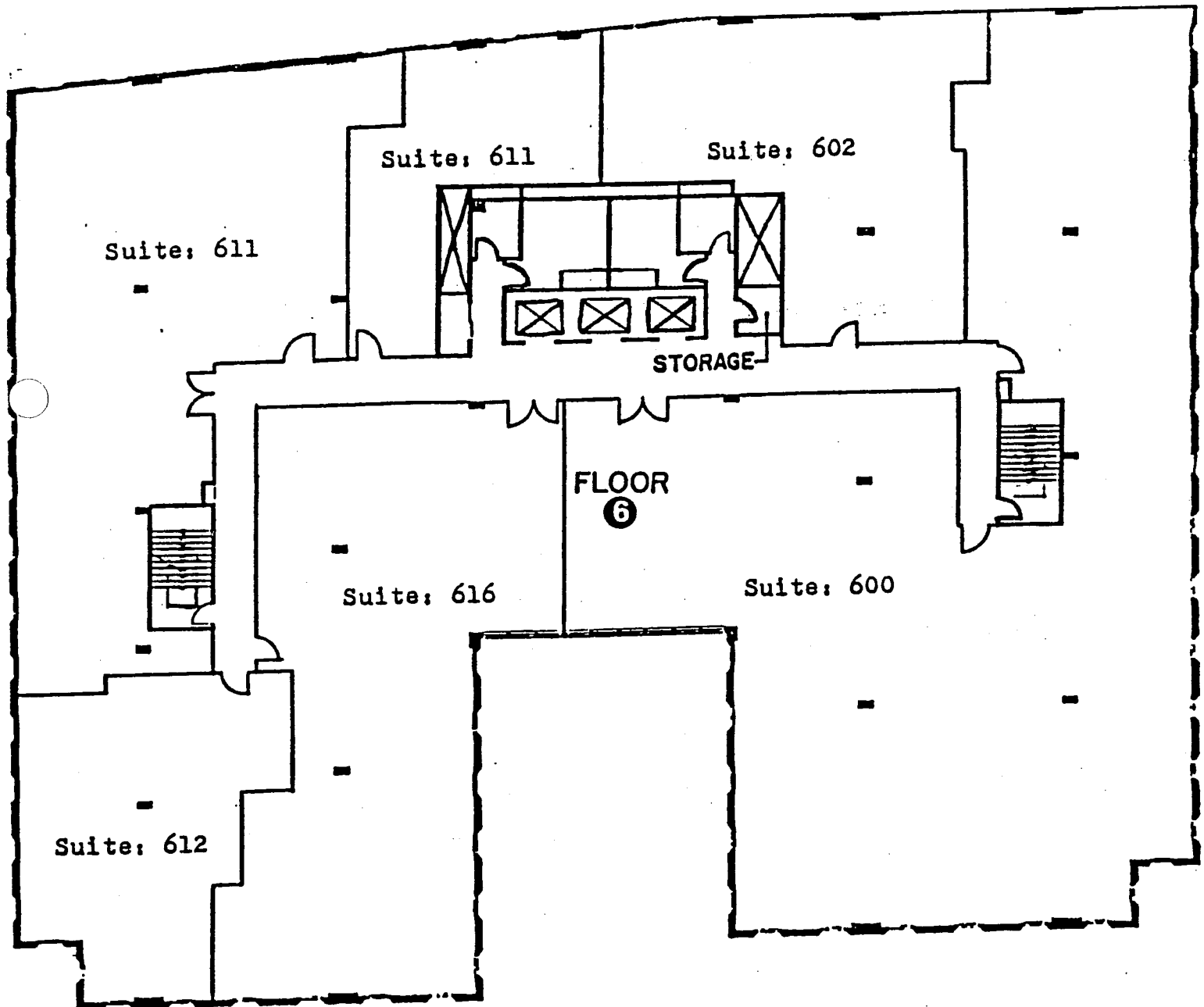


Exhibit II-7

PROJECT BUDGET
12301 WILSHIRE

Cash at Closing	\$6,123,000
Equity to Purchase	5,500,000
Legal	40,000
Misc. Closing	35,000
Seller's Broker	250,000
Koll Fee	175,000
USF&G Fee	123,000
 Year One Capital Budget	 \$1,010,913
Common Area Rehab	160,000
Tenant Improvements ⁽¹⁾	299,204
Leasing Commissions	101,709
Parking Ramp Construction ⁽²⁾	450,000
 Year Two Capital Budget	 \$ 194,083
Tenant Improvements	138,631
Leasing Commissions	55,452
 Year 3 Capital Budget	 \$ 26,015
Tenant Improvements	18,582
Leasing Commissions	<u>7,433</u>
TOTAL	\$7,354,011

(1) Tenant improvement budget is \$9.00 per square foot of rentable area for 100% of the office space. An additional \$6.00 per square foot was allocated to the 6,592 ground floor space and an additional \$11.00 per square foot was allocated to the fifth floor vacant space.

(2) See Appendix C for construction budget for the parking ramp.

SOURCES: The Koll Company;
Piedmont Realty Advisors.

III. THE MARKET OVERVIEW

III. THE MARKET OVERVIEW

A. INTRODUCTION

The Westside office market is Los Angeles' largest concentration of office space outside of the downtown area. There are seven distinct office markets in the Westside area (see Exhibit III-1). They are as follows:

- 1) Beverly Hills
- 2) Century City
- 3) Westwood
- 4) Wilshire West
- 5) Park Mile Wilshire
- 6) Marina Area
- 7) Santa Monica

B. THE WESTSIDE OFFICE MARKET

There are an estimated 28,953,500 square feet of existing office space in the Westside market with 3,768,900 square feet under construction (see Exhibit III-2). The bulk of the construction is located in three large projects - the CalFed Center in Park Mile (1,000,000), the Fox Tower in Century City (694,000) and Hughes Center in the Marina (714,500). None of these projects are competitive with the buildings in Wilshire West which is the location of the subject property.

Beverly Hills, Century City, Santa Monica and Westwood are established office markets with limited growth potential. The Westwood and Century City office markets each contain only one additional development site. Beverly Hills and Santa Monica have several office sites available, but maintain a 3-story height limit. Wilshire West can support several office developments along Olympic and Pico Boulevards, but the problem neighborhoods surrounding this area have previously deterred tenant movement into new office buildings. The Park Mile area can support significant office development, but suffers from very poor regional access. The Marina district should become a significant office concentration - although limited access to executive housing may cause the growth of the office market to extend over a longer time horizon.

The tenant profile varies significantly among submarkets. Beverly Hills, Santa Monica and the Wilshire Boulevard and San Vincente corridors of Wilshire West cater to small service tenants with a local client base. Approximately 40% of the tenant base in Century City and Westwood are oriented toward small service tenants. The remaining 60% is oriented toward large corporate tenants in the entertainment, financial services or legal areas. Tenants in the Park Mile and Marina areas are almost exclusively large tenants.

The Westside vacancy rate for market has steadily declined since late-1984 (see Exhibit III-3). Tenant concessions in the Wilshire West office market have also declined during the same period from an average discount of 25% of contract lease value to an average discount of 10% of lease value. Due to an expanding tenant base and legal constraints on future development, Piedmont Realty Advisors concludes that the office markets in Century City, Beverly Hills, Westwood and Wilshire West will be excellent long-term investment areas.

C. COMPETITIVE OFFICE BUILDINGS

Piedmont Realty Advisors surveyed 20 buildings which are competitive with the subject property (see Exhibits III-4 and III-5). In order to properly assess the tenant concession packages in the market, Piedmont Realty Advisors solicited lease proposals from all of the buildings for a 1,500 square foot lease requirement. In addition, Grubb & Ellis supplied Piedmont with a summary of lease proposals given to a 15,000 square foot law firm from six recently completed buildings in the survey.

The results of the survey indicate that contract gross rental rates range from \$24.00 to \$30.00 per square foot with an average rate of \$28.08. Rent concessions currently average 10% of the lease value resulting in an average effective rate of \$25.55. All of the buildings in the survey quoted expense stops between \$6.00 and \$6.50. Parking was often involved in the concession packages. The quoted rates average \$75 per month for unreserved parking and \$125 per month for reserved parking.

The pro forma gross rental rate for the subject property is \$24.00 per square foot of rentable area - the lowest rate in the market. The partnership plans to offer up to a 20% concession package during the first two years of the holding period resulting in an effective rate of \$20.00. Piedmont believes that both the contract rent and the effective rent are very conservative estimates of the income potential of the rehabilitated property. Both rates are approximately 20% below the market average. The expense stop for 12301 Wilshire will be approximately \$8.00. This higher than market expense stop reflects the increase in property taxes which will result from the sale of the building (the building is pre-Proposition 13 and its taxes current have been based on 1975 levels). The partnership may be able to negotiate a lower expense stop, but \$8.00 was used in the pro forma to reflect Piedmont's conservative posture in underwriting the rehabilitation portion of this transaction. Koll has estimated a tenant improvement allowance of \$9.00 per square foot for 100% of the office space. These funds will be spent as tenant leases expire.

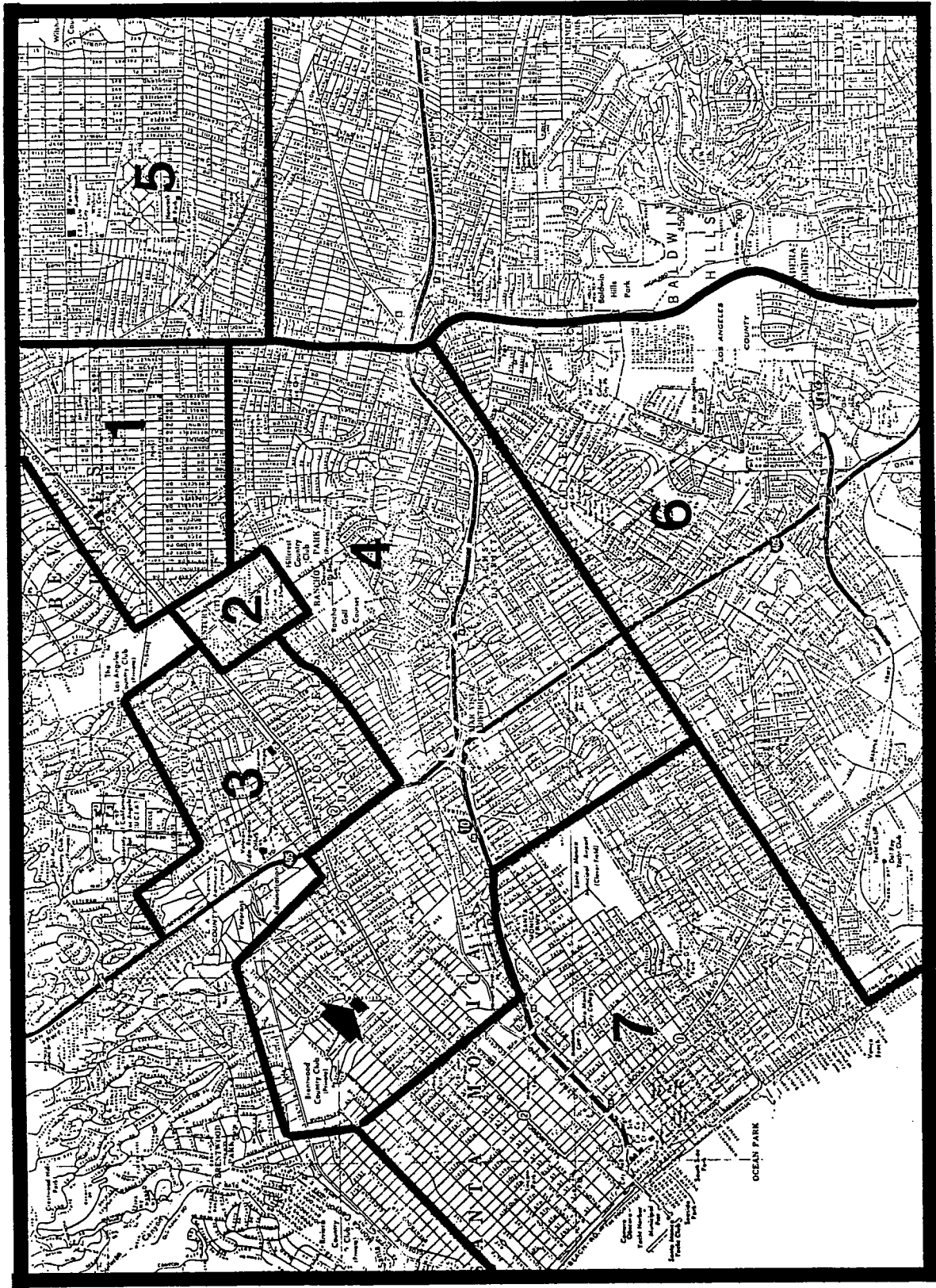
There are currently 38 tenant suites in the subject property. 4 suites are vacant and the remaining 34 suites are occupied by tenants ranging in size from 397 to 7,145 square feet. The average rental rate at 12301 Wilshire Boulevard is currently is \$20.95 per square foot with only 4 tenants (located on the upper floors) paying more than \$24.00 per square foot. Koll plans to consolidate several of the smaller tenant suites as part of the operating plan of the partnership. This consolidation effort may permit a more efficient corridor design for multi-tenant floors which will reduce the load factor for each tenant.

D. CONCLUSION

The Wilshire West office market has improved considerably since late 1984 with tenant concessions declining from 25% of contract lease value to the current level of 10% of lease value. As the office market has firmed, the average rental rate in the area surrounding the subject property has increased. Piedmont Realty Advisors concludes that the average rental rate potential of the subject property is at least 15% higher than the average rate currently exhibited by the building. The subject property should experience the short-term benefits of this rental rate differential as leases in the building rollover. 12301 Wilshire Boulevard should also experience long-term benefits from a location in the center of a high-rise office cluster. Within this high-rise cluster, the subject property should continue to fulfill a small tenant market niche. In addition, the legal constraints on development in the Wilshire West area should result in long-term pressure on rents on existing high-rise and mid-rise office projects located on Wilshire Boulevard.

Exhibit III-1

OFFICE SUBMARKET
LOCATION MAP



1-7 Correspond to Exhibit III-2

Subject Property

Exhibit III-2

SUPPLY/DEMAND CHARACTERISTICS
WESTSIDE OFFICE MARKET
September 1986

Map No.	Submarkets	Existing Sq. Ft.	Sq. Ft. U/C	Total Available ⁽¹⁾	Absorption 12 Mos. ⁽²⁾
1.	Beverly Hills	3,523,200	270,000	516,770	163,260
2.	Century City	7,290,400	694,000	1,160,040	357,250
3.	Westwood	2,632,700	178,000	342,290	268,509
4.	Wilshire West	4,514,800	359,900	915,908	343,690
5.	Park Mile	5,897,300	1,552,500	1,230,300	138,297
6.	Marina	2,304,500	714,500	394,140	292,025
7.	Santa Monica	<u>2,790,600</u>	<u>0</u>	<u>349,620</u>	<u>175,499</u>
TOTAL:		28,953,500	3,768,900	4,909,068	1,738,530

(1) Includes existing vacant space and uncommitted space in buildings under construction.

(2) Absorption of office space between surveys performed in September 1985 and September 1986.

SOURCES: Grubb and Ellis;
Coldwell Banker;
Piedmont Realty Advisors.

Exhibit III-3

VACANCY TRENDS
WESTSIDE OFFICE MARKET
1985 - 1986

Total Square Feet/Vacancy Rate ⁽¹⁾

<u>Submarket</u>	<u>3Q 1985</u>	<u>4Q 1985</u>	<u>1Q 1986</u>	<u>2Q 1986</u>	<u>3Q 1986</u>
Beverly Hills	3,415,600/12%	3,415,600/10%	3,415,600/11%	3,523,200/11%	3,523,200/ 8%
Century City	7,049,200/ 7%	7,049,200/ 9%	7,049,200/ 7%	7,049,200/ 7%	7,290,400/10%
Westwood	2,632,700/ 6%	2,632,700/ 5%	2,632,700/ 5%	2,632,700/ 5%	2,632,700/ 7%
Wilshire West	4,170,600/24%	4,170,600/21%	4,170,600/18%	4,470,600/15%	4,514,800/13%
Park Mile	5,457,600/13%	5,457,600/13%	5,547,600/12%	5,659,900/13%	5,897,300/11%
Marina	2,304,500/11%	2,304,500/11%	2,304,500/11%	2,304,500/11%	2,304,500/ 7%
Santa Monica	2,619,900/ 5%	2,619,900/ 6%	2,619,900/ 8%	2,619,900/ 5%	2,790,600/13%
TOTAL:	27,650,100/11%	27,650,100/11%	27,650,100/10%	28,260,000/10%	28,953,500/10%

NOTE: Wilshire West is the location of the subject property.

(1) Total office square feet in submarket based on
net rentable area. Vacancy rate is total available
over total square feet.

SOURCES: Grubb and Ellis
Coldwell Banker;
Piedmont Realty Advisors.

Exhibit III-4

COMPETITIVE PROPERTY SURVEY
WESTSIDE OFFICE MARKET

November 1986

No.	Building	Year	No. Floors	Total Sq. Ft.	Vacant Sq. Ft.	<u>Annual Rental</u> (1)		T.I. (2)	Parking Ratio (3)
						Contact	Effective		
1	West Wilshire Place	1981	6	85,000	10,200	\$27.00	\$24.00	Neg	3.8
2	Auerbach Place	1981	6	99,857	0	26.75	N/A	N/A	3.4
3	Union Bank Bldg.	1961	6	78,000	800	25.00	22.50	Neg	2.0
4	Wilshire/Havard	1985	6	58,500	17,250	25.50	22.20	\$15.00	3.3
5	Wilshire Tower	1974	9	95,000	19,000	25.80	22.50	\$10.00	3.0
6	Gateway Tower	1986	13	140,540	80,108	30.00	24.00	\$17.50	3.0
7	Wilshire Brentwood Place	1985	15	233,533	58,380	30.00	25.80	\$20.00	3.1
8	Wilshire Wellesley Place	1986	4	44,219	21,700	27.00	22.50	\$20.00	3.3
9	12100 Wilshire	1985	19	343,000	146,449	30.00	25.80	\$20.00	3.0
10	Wilshire Bundy Place	1984	14	284,875	20,348	27.12	24.65	As Is	2.5
11	Wilshire/Westgate	U/C	6	45,000	45,000	28.80	26.88	\$28.00	3.5
12	Wilshire Landmark	U/C	24	314,992	274,000	30.00	28.20	\$25.00	3.3
13	11645 Wilshire	1976	11 (4)	75,000	3,000	27.00	24.00	As Is	5.0
14	World Savings	1983	24	469,115	1,500	28.20	28.20	As Is	2.5
15	West Wilshire Bldg.	1972	11	177,000	0	25.20	N/A	N/A	2.5
16	Fred Sands Bldg.	1975	11	103,500	3,345	27.00	24.00	As/Is	2.0
17	Brentwood Square	1970	10	120,000	0	30.00	N/A	N/A	2.5
18	The Lowe Bldg.	1974	6	93,178	1,616	27.60	N/A	Neg	2.2
19	1st Nationwide Bldg.	1982	6	90,000	3,500	28.20	25.80	As.Is	3.3
20	CALFED Bldg.	1985	3	53,700	3,750	28.20	25.65	Neg	3.0
SUBJECT		1975	6	102,190	9,985	24.00	20.00	\$ 9.00	2.8 (5)
TOTAL:				3,106,199	719,931	\$28.08 (6)	\$25.55 (6)		

NA = Not Available

Neg = Negotiable

T.I. = Tenant Improvement Budget.

(1) Average annual rate quoted for the buildings based on rentable square feet. All buildings surveyed quoted expense stops between \$6.00 and \$6.50 per square foot.

(2) Tenant improvement budget submitted in the lease proposals.

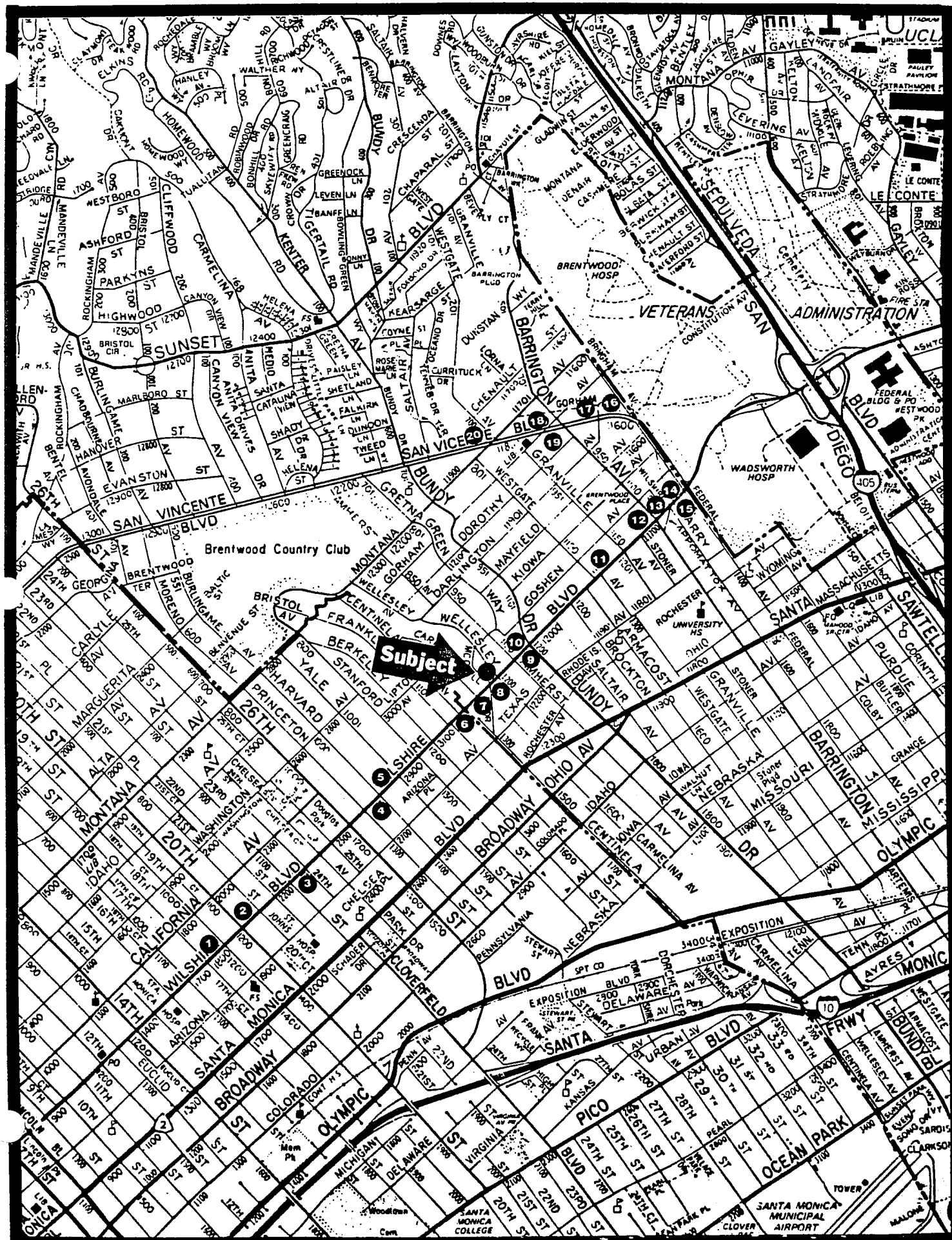
(3) Number of parking spaces per 1,000 square feet of rentable office space.

(4) First 5 floors are parking.

(5) After parking ramp construction.

(6) Average weighted by square feet.

SOURCES: Coldwell Banker; Grubb and Ellis; The Koll Company; Piedmont Realty Advisors.



IV. THE JOINT VENTURE PARTNER

IV. THE JOINT VENTURE PARTNER

A. INTRODUCTION

This section is a review of the joint venture partner's ability to rehabilitate, manage and lease the subject property.

B. THE PARTNERSHIP

The proposed joint venture will be a general partnership of which the general partners will be The Koll Company and USF&G Realty. The general partners of The Koll Company are:

Donald Koll - Chief Executive Officer
Marion Smith - President
Ed Griffin - Exec. Vice President/Acquisitions
Ray Wirts - Exec. Vice President/Asset Management
Harold Street - Exec. Vice President/Marketing
John Wells - President-Koll Construction

C. THE KOLL COMPANY

1. Introduction

The Koll Company was founded in 1962 by Donald M. Koll as a general construction contractor. Since that time the company has specialized in the development and construction of commercial and industrial projects. Headquartered in Newport Beach, California, The Koll Company operates division offices in Newport Beach, Los Angeles, San Diego, San Jose, Seattle, Portland, Phoenix and San Francisco. Each divisional office is a separate operating center headed by a division president. The Koll Company is a privately held corporation and currently employs approximately 750 people.

The Koll Company's four major services are Development, Construction, Asset Management and Acquisitions. Koll currently owns 22 million square feet of non-residential real estate and maintains an annual construction volume of approximately \$400 million. The Koll Company is one of the leading West Coast real estate developers and general contractors.

2. Development Subsidiary

During the 1970s, The Koll Company expanded both its construction and development expertise into major office and corporate headquarter developments. The first such development was Koll Center Newport, a 125-acre master planned corporate office park in Newport Beach. It currently consists of 1.4 million square feet of office space and a 440-room hotel. Koll Development is in the process of completing Koll Center Irvine, a 95-acre project which will ultimately include over 4 million square feet of office space plus four major hotels. To date over 1.6 million square feet of office space and three hotels have been completed. An additional 825,000 square feet is currently under construction at Koll Center Irvine. In San Diego, the 20-story, 400,000 square foot Wells Fargo Building was completed in 1981. In Northern California, four office towers totaling 530,000 square feet have been

completed in Koll Center, San Jose. This project will ultimately encompass one million square feet at full build-out.

3. General Contractor

Koll Construction Company serves as general contractor or construction manager for projects owned both by Koll and by outside clients. Koll Construction is bonded by Safeco Insurance Company. Koll currently manages approximately 40 ongoing construction projects including industrial buildings, research and development facilities, hotels, commercial shopping centers and office buildings. Of the construction projects currently being managed, two-thirds are for outside clients. Construction volume in 1986 will be approximately \$400 million.

4. Asset Management

The Koll Company Asset Management division is responsible for property management of all the Koll-owned properties. Koll has an organization structure of on-site property managers, senior asset managers and top level management personnel. The division's responsibilities include ongoing lease negotiations, rent collection, property management and income reporting. Koll currently manages over 25 million square feet of space with an estimated value of \$2.9 billion.

5. Acquisitions

Koll's acquisition strategy involves evaluating a market for long-term investment opportunities and then acquiring properties which complement their ongoing development and management activities. Now in its third operational year, the acquisitions division has purchased 3.2 million square feet of office, research and development, and industrial space valued at \$362 million. Koll's acquisition arm to date has established joint venture relationships with the following financial partners:

- . AETNA
- . CIGNA
- . John Hancock
- . Banker's Life
- . Northwestern Mutual Life
- . AFG Industries
- . Pacific Mutual
- . Alex Brown Realty Advisors
- . BETA West

D. CONCLUSION

The Koll Company is one of the premier management, leasing and development firms in the Western United States. Koll's successful track record is a strong indication of their ability to manage the subject property in an efficient and effective manner. Piedmont Realty Advisors has interviewed the Koll employees who will be assigned to the project and concludes that they are capable of implementing their operating plan during the anticipated investment holding period.

V. RISK AND RETURN

V. RISK AND RETURN

A. INTRODUCTION

The proposed joint venture with The Koll Company is structured as a general partnership, but is very similar to a structure in which USF&G owns the property and employs Koll as a property manager with an incentive management fee. USF&G will receive 95% of the ownership of 12301 Wilshire Boulevard until it receives an annual cash return in excess of 10% on its total equity invested. As USF&G's cash return increases above 10%, Koll can earn up to 20 percentage points of additional ownership. The result is a joint venture structure which adequately compensates USF&G for its equity position in the property, but contains sufficient motivational aspects for Koll to fully implement its operating plan.

B. VALUATION

1. Introduction

The property is under contract for a price which should reflect the market value of the property. However, after Piedmont Realty Advisors completed its due diligence, there is adequate market evidence which indicates that the partnership's investment basis at the end of the first year will be approximately 10% below the market value of the property. Koll believes that MONY's low investment basis combined with its selling price and historical income returns have led to a very acceptable investment return for the seller and, therefore, the below market price is explainable. Piedmont concurs with this reasoning because the property contains several examples of poor management, lack of capital budgeting, absence of any marketing plan and new lease forms implemented by each of the property's four managers.

2. Pro Forma Income and Expenses

Pro forma income and expenses for 12301 Wilshire Boulevard are based on the rent roll presented in Exhibit V-1. The pro forma was estimated using the following assumptions:

- 1) Incorporate the existing lease schedules of tenants currently occupying space in the building using a 1987 annual average rent.
- 2) For unleased space or space rolling over in 1987, the following assumptions were used to calculate the effective rental rate:
 - a) Contract rent is \$24.00 annually.
 - b) 12 months free rent on a 5-year lease resulting in a 20% discount.
 - c) Operating expense stop of \$8.00.
- 3) Parking income is estimated on a net income basis after the completion of the parking ramp.

The stabilized net operating income for the property in 1987 is estimated at \$1,774,049. When the scheduled debt service is deducted from the net operating income the cash flow is \$649,049.

3. Valuation Methodology

Piedmont Realty Advisors evaluated the property using the three methods of valuation accepted by the American Institute of Real Estate Appraisers to verify the purchase price of the subject property. The value estimates presented in Exhibits V-3 through V-3E indicate a value for 12301 Wilshire Boulevard of \$20,000,000. The net purchase price to the partnership is \$17,453,000 which is calculated by subtracting the closing credits of \$345,000, the seller's brokerage fee of \$250,000 and the closing costs of \$75,000 from the total partnership budget of \$18,123,000. Piedmont then added the total capital investment required to achieve the pro forma income which is the estimated capital budget for 1987 of \$1,010,913. The resulting total of \$18,463,913 is the partnership investment basis. The investment basis when compared to the estimated market value is, therefore, supported by Piedmont's analysis.

C. RETURN

The projected income and expenses for the property over a 10-year period are based on existing lease terms and 100% of the vacant space on five-year leases. Income, expense and tenant improvement costs are estimated to increase at 5% annually. The value of the property is calculated by capitalizing the 11th year's net operating income at 9% and using a 3% cost of sale. The projections are shown as Exhibit V-4. USF&G's yield which incorporates the joint venture structure and the projected cash flows is estimated to be 15.3%.

D. RISK

1. General Deal Structure

USF&G will assume the role of general partner in the joint venture which owns and operates 12301 Wilshire Boulevard. The joint venture will be leveraging the property with a non-recourse mortgage with a loan-to-value ratio of approximately 60% and a debt coverage ratio of 1.58. There is very little risk associated with the use of the proposed loan to leverage this purchase due to the property's multi-tenant rent roll.

The partnership structure allocates 95% of the ownership in the property to USF&G until its cash on cash return exceeds 10%. In the event that the property fails to achieve a 10% cash on cash return at the end of the third and seventh partnership years, then USF&G will remain a 95% owner. Based on the valuation evidence which supports the conclusion that the property is being purchased for approximately 10% below its market value, Piedmont believes that USF&G's equity basis is protected by the cost to value spread and there is minimal risk associated with the proposed structure.

2. Market Risk

12301 Wilshire Boulevard is currently 89% leased to tenants in the 2,000 to 4,000 square foot range. While there is an oversupply of office space in terms of market vacancy, much of the glut can be attributed to the recently completed high-rise buildings surrounding the subject property. 12301 Wilshire Boulevard will fill a market niche for small service oriented tenants seeking a location in the Wilshire/Brentwood area. Piedmont concludes that the rehabilitation will enable the partnership to increase the average rents in the building by 25% by 1990 with minimal impact on the occupancy rate.

3. Operational Risks

Koll has proposed an operating plan which involves significant capital expenditures during the first two years. USF&G will be relying on Koll's interpretation of the tenant market and Koll's efficient implementation of the plan. Piedmont has evaluated Koll's interpretation of the tenant market, its rehabilitation plan for the property, and its Los Angeles office personnel. Piedmont is satisfied with Koll and its plan and concludes that there is minimal operational risk associated with the property or the joint venture.

E. CONCLUSIONS AND RECOMMENDATIONS

The proposed investment is a new structure for USF&G. The structure does not compensate a "name" developer for "good will," but rewards the developer/partner exclusively for performance. The Los Angeles office of Koll is strong in the areas which are important to the 12301 Wilshire investment-construction and property management. The market risks which relate to a potential decline in the property's net operating income are minimal particularly when Koll's operating plan is fully implemented.

After the first two years of the partnership USF&G will have a \$7,328,000 investment basis with a corresponding cash flow averaging \$150,000 each year. In year 3, USF&G's cash return on its investment basis should be 11.7% increasing to 15.4% by year 10. The 10-year internal rate of return of 15.3% or a 10.3% real rate adjusted for inflation exceeds the yield benchmark of 15.0% which Piedmont set for the original pricing of the transaction. Therefore, Piedmont Realty Advisors recommends that the Real Estate Investment Committee of the United States Fidelity and Guaranty Company approve the \$7,423,000 equity investment in the 12301 Wilshire Boulevard joint venture.

Exhibit V-1

RENT ROLL
12301 WILSHIRE

<u>Tenant Name</u>	<u>Suite No.</u>	<u>Square Feet</u>	<u>Lease Term</u> ⁽¹⁾	<u>Exp. Date</u>	<u>Rental Rate</u>	<u>Expense Stop</u>	<u>Notes</u>
Building Engineer	050	216	N/A	N/A	N/A	N/A	Suite is allocated 0.21% of building expenses.
Guaranty Bank	100	7,086 ⁽²⁾	240	08/31/95	\$ 9.36	\$ 3.97	9/90 adj. to \$10.80.
Vacant	101	6,592	60	06/01/91	24.00	8.00	12 mos. free rent.
Meyer	200	2,385	40	06/30/87	22.20	5.09	3/87 adj. to \$25.20.
Lazar	201	2,346	66	03/31/91	22.20	5.97	4/89 adj. to \$25.32.
Taylor	202	3,221	66	11/30/90	22.32	5.97	12/88 adj. to \$25.20.
Weiss	203	4,241 ⁽²⁾	78	01/31/87	17.40	4.75	N/A
Meyer	206	3,026 ⁽²⁾	72	06/30/87	23.16	4.75	N/A
Building Office	208	453	N/A	N/A	N/A	N/A	Suite is allocated 0.44% of building expenses.
Podell	210	1,924	60	11/30/89	22.20	5.14	12/87 adj. to \$25.20.
Schwalb	300	2,296	120	11/30/90	24.72	4.75	N/A
Mann	302	3,971 ⁽²⁾	124	06/30/91	19.32	5.43	2/87 adj. to \$23.04.
Spaulding	303	2,165 ⁽²⁾	120	10/31/90	23.40	4.75	N/A
Vacant	304	1,353	60	06/01/91	24.00	8.00	12 mos. free rent.
Cutting Board	311	690	60	10/31/90	22.20	5.97	11/87 adj. to \$25.20.
Argus Pub.	316	6,959	36	11/31/88	22.20	5.97	N/A
FG&E	400	2,027	69	09/30/91	22.20	6.65	1/89 adj. to \$25.20; 1/91 adj. to \$30.00.
Kuehne	401	1,006	64	01/14/87	22.44	5.43	N/A
FG&E	402	2,165	69	09/30/91	22.20	6.65	12/88 adj. to \$25.20; 12/90 adj. to \$30.00.
Drexler	403	1,759 ⁽²⁾	120	01/31/91	19.68	5.43	2/87 adj. to \$23.40.
Vacant	407	2,585	60	06/01/91	24.00	8.00	12 mos. free rent.
Elkin	413	1,136	60	07/31/89	22.32	5.09	8/87 adj. to \$25.20.
Gordon	414	658	60	03/31/89	22.20	5.09	4/87 adj. to \$25.20.
FG&E	415	3,945 ⁽²⁾	120	09/30/91	18.48	5.43	10/87 adj. to \$21.96.
Blaich	416	541	48	12/31/89	22.80	5.14	1/88 adj. to \$25.80.
Schumacher	418	646	72	03/31/87	20.16	5.43	N/A
FG&E	420	1,350 ⁽²⁾	120	09/30/91	19.92	5.43	10/87 adj. to \$23.64.

<u>Tenant Name</u>	<u>Suite No.</u>	<u>Square Feet</u>	<u>Lease Term</u> ⁽¹⁾	<u>Exp. Date</u>	<u>Rental Rate</u>	<u>Expense Stop</u>	<u>Notes</u>
Elson	500	2,027	65	08/31/91	22.20	6.65	9/89 adj. to \$25.20.
Seider	550	3,802	120	08/31/96	22.20	6.65	9/92 adj. to \$30.00.
Bobbert	510	5,538	60	04/30/88	25.20	5.43	N/A
Shaffer	512	2,811	144	11/30/92	13.68	6.65	1/90 adj. to \$27.00.
Ross/Ivan	513	397	M-to-M	N/A	24.00	6.65	N/A
Fonda	514	417	42	04/30/88	22.20	5.14	10/87 adj. to \$25.20.
Barrus	515	1,742	120	06/14/91	22.44	5.43	7/87 adj. to \$26.40.
Vacant	560	990	60	06/01/91	24.00	8.00	12 mos. free rent.
Ross/De	600	7,145 ⁽²⁾	120	02/28/91	20.52	5.43	3/88 adj. to \$21.96.
Ross/De	602	1,690 ⁽²⁾	62	01/31/87	25.92	5.43	N/A
Sachs	611	5,806	72	02/28/92	22.20	6.65	1/90 adj. to \$25.20.
Ross/Ivan	616	<u>3,083</u>	60	02/28/87	<u>25.20</u>	<u>5.09</u>	N/A
TOTAL:		102,190 ⁽²⁾			\$20.95 ⁽³⁾	\$5.53	
OCCUPIED:		90,670 (88.7%)					
VACANT:		11,520 (11.3%)					

M-to-M = Month to Month Tenancy.

N/A = Not Applicable.

(1) A 5-year lease term was applied to all vacant space in the building.

(2) See Appendix A for an explanation of square footage discrepancies.

(3) Averages weighted by occupied square feet. Calculation excludes office of the building and building engineer's office.

SOURCES: Mutual of New York;

The Koll Company;

Piedmont Realty Advisors.

Exhibit V-2

PRO FORMA INCOME AND EXPENSES
12301 WILSHIRE

Gross Income	
Leased Space	\$1,943,206
Vacant Space ⁽¹⁾	<u>230,000</u>
TOTAL:	\$2,173,606
Parking Income ⁽²⁾	339,600
Misc. Income/Storage Rent	28,900
Expense Reimbursement ⁽³⁾	<u>185,383</u>
Gross Potential Income	\$2,727,089
Less: Vacancy @ 5%	<u>136,354</u>
Effective Gross Income	\$2,590,735
Less: Expenses	<u>816,686</u>
Net Operating Income	\$1,774,049
Less: Mortgage Payment ⁽⁴⁾	<u>1,125,000</u>
Cash Flow	\$ 649,049

- (1) An effective rental rate of \$20.00 per square foot was applied to the 11,520 vacant square feet.
- (2) Net parking income after completion of the new ramp.
- (3) Based on existing tenants' expense stop. Tenants with 1986 expense stops were assigned a \$6.65 base.
- (4) Based on a \$12,000,000 mortgage with 9.375% interest only rate.

SOURCES: The Koll Company;
Piedmont Realty Advisors.

Exhibit V-3

VALUATION ANALYSIS
12301 WILSHIRE

Cost Approach

See Exhibit V-3A \$18,800,000

Direct Sales Approach

See Exhibit V-3D \$23,500,000

Capitalized Income Approach

\$1,774,049 (see Exhibit V-2)
Divided by .09 \$19,711,656
say \$19,700,000

Correlation of Value Estimates

The three approaches to value indicate a range of values from \$18.8 million to \$23.5 million. The market value estimate for the property should be weighted toward the capitalized income approach due to the property's existing rent roll and the partnership rehabilitation plans. Therefore, the value of the subject property after the first-year's rehabilitation is:

\$20,000,000

Exhibit V-3A

**COST TO PRODUCE
12301 WILSHIRE**

Land Value ⁽¹⁾	\$3,065,700	(\$30 x 102,190 square feet)
Building Cost ⁽²⁾	7,830,260	(\$54 x 102,190 square feet) (289 spaces x \$8,000/space)
Tenant Improvements	2,043,800	(\$20 x 102,190 square feet)
Leasing Commissions	<u>408,760</u>	(\$ 4 x 102,190 square feet)
SUBTOTAL:	13,348,520	
 Soft Costs ⁽³⁾	 <u>2,669,704</u>	 (20% Subtotal)
TOTAL COMPLETE:	16,018,224	
 Lease-Up Carry	 <u>3,015,874</u>	 (18 months @ 10% interest and \$4.00 per square foot per year for 1.5 years)
 TOTAL:	 \$19,034,098	
Less: Depreciation ⁽⁴⁾	<u>200,000</u>	
Estimated Value	\$18,834,098	
	say \$18,800,000	

(1) See Exhibit VI-2B

(2) Estimate from Koll Construction for building and parking. Parking estimate includes the construction of the parking ramp.

(3) Includes architect's fee, engineering fee, permits, legal, closing costs, tax and insurance during construction, marketing, loan points, construction interest, developer fee and contingency.

(4) Depreciation for tenant improvements was assessed against the building due to the \$200,000 which is allocated to the rehab program implemented during the second and third years of the investment.

SOURCES: The Koll Company;
Piedmont Realty Advisors.

Exhibit V-3B

COMPARABLE LAND SALES
12301 WILSHIRE

<u>No.</u>	<u>Building</u>	<u>Land Area (Sq.Ft.)</u>	<u>FAR</u>	<u>Sale Date</u>	<u>Price/ FAR SF</u>	<u>Adj.Price/ Adjustments</u>	<u>FAR SF</u>
1	Wilshire Landmark	52,500	6.0	4/84	\$34.92	+ 8.7% CPI - 20.0% FAR	\$31.63
2	Wilshire Brentwood	37,379	6.0	1/82	32.64	+ 18.8% CPI - 20.0% FAR	32.31
3	12100 Wilshire	50,436	6.0	6/81	29.07	+ 23.8% CPI - 20.0% FAR	29.99
4	Wilshire Bundy	66,647	4.0	3/81	26.04	+ 26.7% CPI - 10.0% FAR	29.99
	SUBJECT	37,026	2.8	11/86			\$30.00

FAR = Floor Area Ratio.

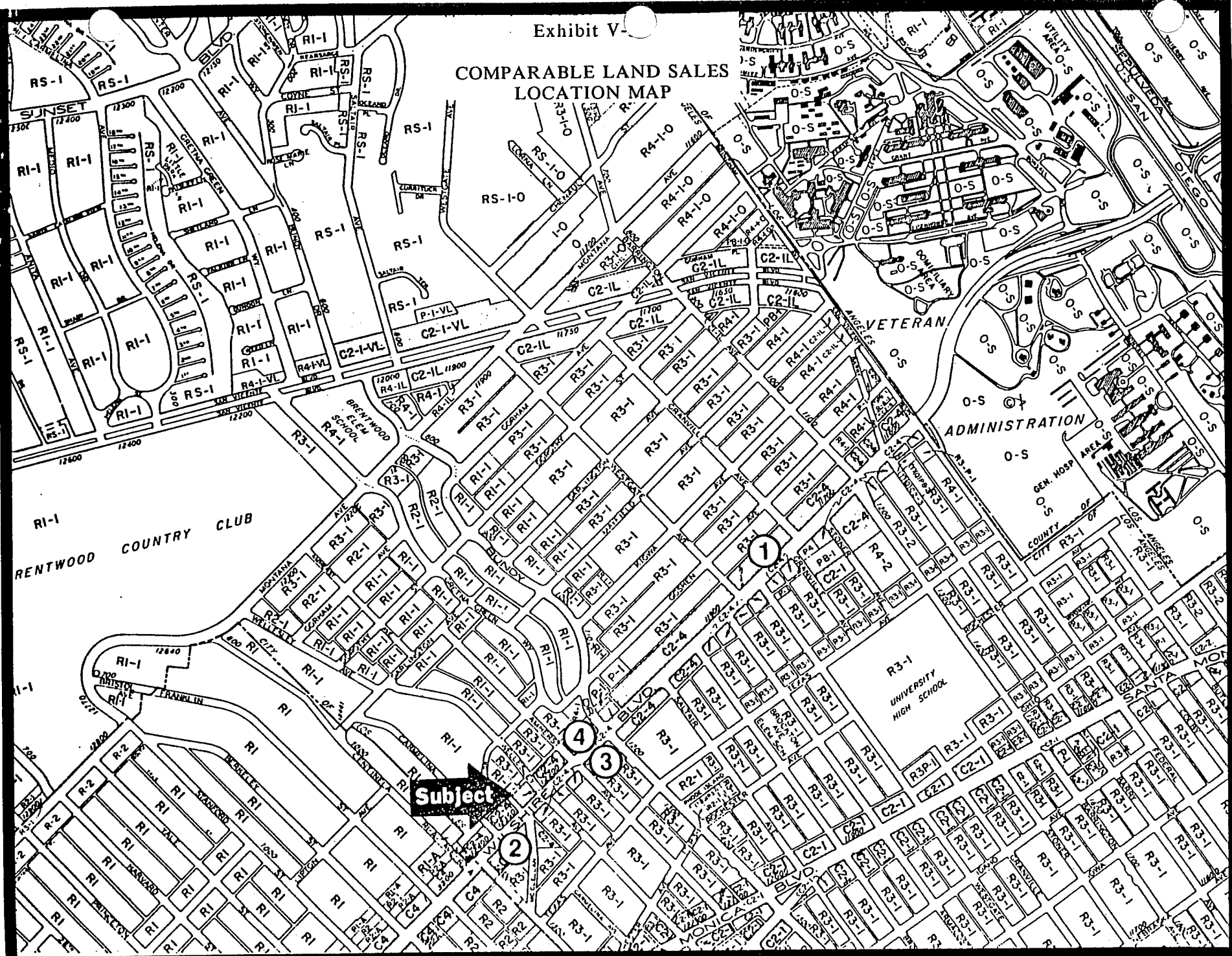
CPI = Actual change in CPI between date of sale and 11/86.

3.4% change in CPI was used between 11/85 and 11/86.

SOURCES: Cushman/Wakefield;

Piedmont Realty Advisors.

COMPARABLE LAND SALES LOCATION MAP



①, ④ Correspond to Exhibit V-3B

Exhibit V-3D

COMPARABLE BUILDING SALES
12301 WILSHIRE

<u>No.</u>	<u>Property Name</u>	<u>Sale Date</u>	<u>Purchase Price</u>	<u>Price/SF</u>	<u>Adjustments</u>	<u>Adj. Price/SF</u>	<u>Cap Rate</u>
1	Pepperdine Plaza	02/84	\$36,200,000	\$215.23	+ 9.5% CPI	\$235.68	9.8%
2	AVCO Building	07/83	30,500,000	227.48	+12.2% CPI -10.0% ⁽¹⁾	232.03	7.6
3	Lowe Building	Asking	22,000,000	236.11	None	236.11	8.0
4	Wilshire Bundy	11/85	63,000,000	221.27	+ 3.4% CPI ⁽²⁾	228.79	9.0
5	Penn Mutual	Contract	20,500,000	230.24	None	230.24	N/A
6	Auerbach Plaza	Asking	26,000,000	260.37	-10.0% ⁽¹⁾	236.70	8.0
	SUBJECT	11/86	\$23,500,000			\$230.00	9.0%

N/A = Not Available

CPI = Actual change in CPI between date of sale and 11/86.

3.4% change in CPI was used between 11/85 and 11/86.

(1) Superior rent roll characteristics.

(2) Property was purchased when 49% leased and seller issued a 3-year master lease. No adjustment was assessed.

SOURCES: Lowe Company;

Brentwood Investments;

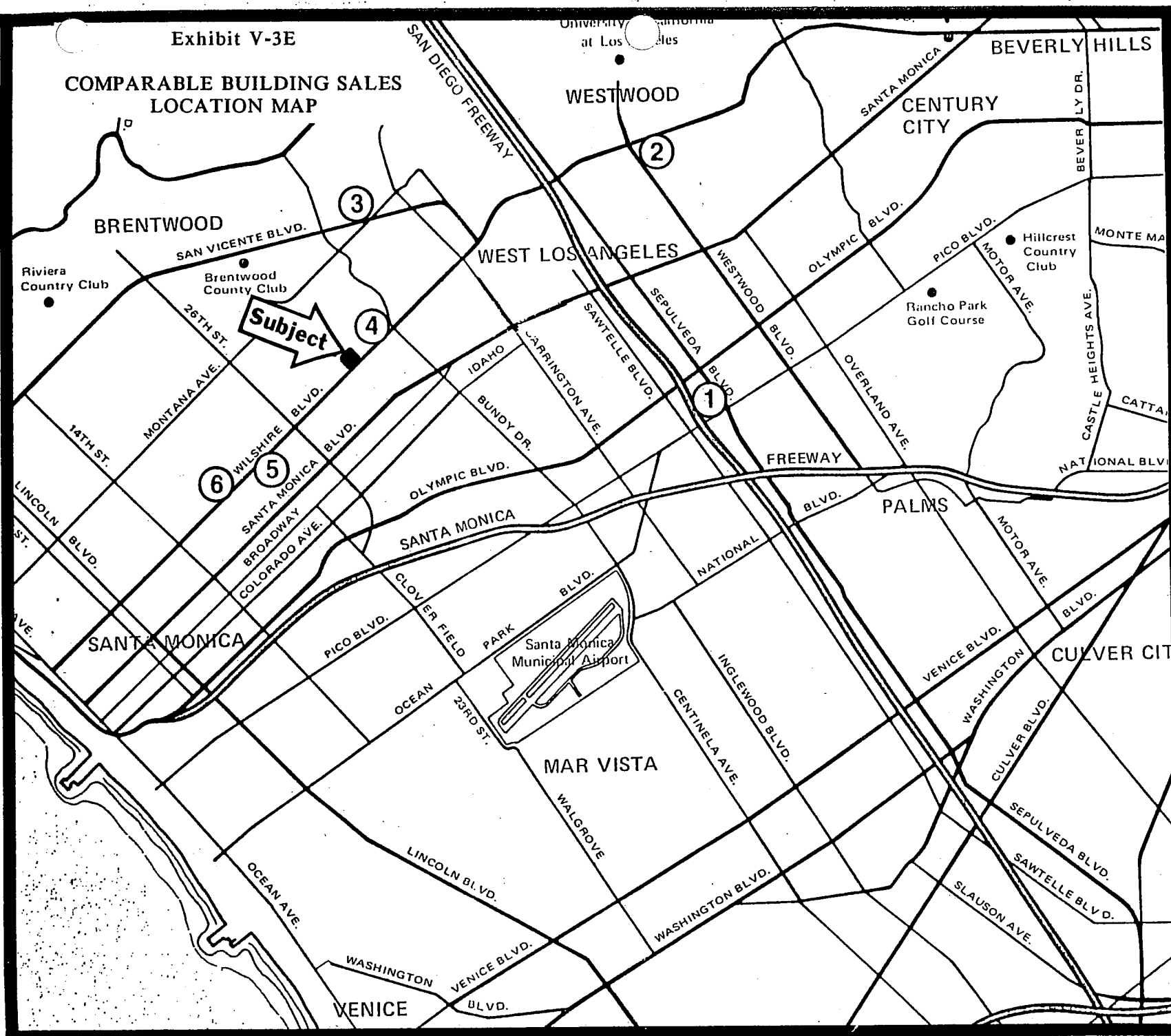
Cushman/Wakefield;

The Koll Company;

Piedmont Realty Advisors.

Exhibit V-3E

COMPARABLE BUILDING SALES
LOCATION MAP



①-⑥ Correspond to Exhibit V-3D

Exhibit V-4

INVESTORS YIELD ANALYSIS 12301 WILSHIRE

ASSUMPTIONS:

DEVELOPER STARTING %:	5.00%	FINAL USF&G EQUITY:	\$9,068,473
BEGINNING EQUITY:	\$6,123,000	FINAL DEVP EQUITY:	\$352,475
BASIS POINT EARNOUT:	20.00%		
SALE PRICE:	\$33,240,258		
RESID DEBT:	\$12,000,000		
INTEREST RATE:	9.38%		
RESIDUAL SALE (AFTER EQT RETURNED):	\$10,822,102		
IRR :	15.26%		

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
SEMED INC	\$2,021,041	\$2,384,758	\$2,425,192	\$2,575,861	\$2,830,067	\$3,015,835	\$3,196,445	\$3,337,015	\$3,529,038	\$3,854,667	\$4,060,482
OTHER INCOME	\$293,500	\$308,175	\$323,564	\$339,767	\$356,751	\$374,568	\$393,317	\$412,954	\$433,633	\$455,514	\$478,080
E.S.I. :	\$2,314,541	\$2,692,933	\$2,748,776	\$2,915,629	\$3,186,838	\$3,390,423	\$3,589,762	\$3,749,969	\$3,962,671	\$4,310,201	\$4,538,562
OPER EXPENSE	(\$816,666)	(\$851,854)	(\$868,665)	(\$927,205)	(\$967,556)	(\$1,009,502)	(\$1,054,639)	(\$1,100,360)	(\$1,148,255)	(\$1,199,274)	(\$1,252,569)
EXP REIMB	\$197,378	\$182,402	\$202,767	\$226,068	\$190,376	\$146,766	\$122,148	\$132,479	\$160,577	\$150,810	\$120,118
N.O.I. :	\$1,695,233	\$2,023,481	\$2,062,875	\$2,214,468	\$2,409,658	\$2,527,387	\$2,657,671	\$2,782,119	\$2,974,379	\$3,261,337	\$3,405,791
DEBT SERVICE	(\$1,125,000)	(\$1,125,000)	(\$1,125,000)	(\$1,125,000)	(\$1,125,000)	(\$1,125,000)	(\$1,125,000)	(\$1,125,000)	(\$1,125,000)	(\$1,125,000)	(\$1,125,000)
ACQUISITION LOSS	(\$146,969)	(\$71,311)	(\$12,568)	(\$26,099)	(\$197,110)	(\$175,393)	(\$181,156)	(\$20,811)	(\$72,613)	(\$207,815)	(\$206,253)
FREE RENT	(\$255,911)	(\$680,805)	(\$15,573)	(\$21,844)	(\$131,540)	(\$159,004)	(\$212,171)	(\$81,292)	(\$23,967)	(\$111,406)	\$0
TOTAL CASH FLOW:	\$167,353	\$146,365	\$909,314	\$1,041,545	\$955,608	\$1,067,990	\$1,139,544	\$1,555,015	\$1,752,799	\$1,617,116	\$2,080,538
TOTAL CASH FLOW											
ROLL	\$8,368	\$7,318	\$45,466	\$152,086	\$139,537	\$155,947	\$166,396	\$341,702	\$385,163	\$399,296	
USF&G	\$158,985	\$139,047	\$863,648	\$889,459	\$816,071	\$912,043	\$973,148	\$1,213,313	\$1,367,636	\$1,417,820	
TOTAL CAPITAL CONTRIBUTED											
TOTAL CAPITAL	\$1,010,913	\$194,083	\$26,015	\$36,586	\$403,065	\$465,275	\$474,813	\$106,976	\$81,635	\$498,267	\$621,209
ROLL CONTRIB	\$0	\$0	\$0	\$5,342	\$58,855	\$67,539	\$69,332	\$23,507	\$18,005	\$109,495	\$0
USF&G CONTRIB	\$1,010,913	\$194,083	\$26,015	\$31,244	\$344,210	\$397,336	\$405,481	\$83,469	\$63,630	\$388,792	\$621,209
CUM EQUITY:	\$7,133,913	\$7,327,996	\$7,354,011	\$7,385,255	\$7,729,464	\$8,126,800	\$8,532,281	\$8,615,750	\$8,679,681	\$9,068,473	\$9,688,473
ANNUALIZED CASH FLOW											
USF&G	(\$6,123,000)	(\$851,928)	(\$55,036)	\$837,833	\$856,215	\$471,661	\$514,707	\$567,667	\$1,129,844	\$1,303,705	\$18,541,533
OWNERSHIP PERCENTAGES											
ROLL	5.00%	5.00%	5.00%	14.60%	14.60%	14.60%	14.60%	21.97%	21.97%	21.97%	
USF&G	95.00%	95.00%	95.00%	85.40%	85.40%	85.40%	85.40%	78.03%	78.03%	78.03%	

APPENDICES

Appendix A
SQUARE FOOTAGE DISCREPANCIES
12301 WILSHIRE

<u>Suite #</u>	<u>Koll Abstract</u> ⁽¹⁾	<u>Actual</u> ⁽²⁾	
100	7,086 sq.ft.	6,000 sq.ft.	
203	4,241	3,665	
206	3,026	2,925	
300	2,296	2,360	
302	3,971	3,801	
303	2,165	2,055	
403	1,759	1,715	
415	3,945	3,608	
420	1,350	1,331	
512	2,811	2,573	
600	7,145	7,251	
602	<u>1,690</u>	<u>1,780</u>	
Total:	41,485	39,064	
Remaining Leases	60,705	60,705	
			Total <u>Discrepancy</u>
TOTAL:	<u>102,190</u> sq.ft.	<u>99,769</u> sq.ft.	<u>+2,421</u> sq.ft.

(1) The building was measured by MONY July 23, 1985 and the result was 102,459 net rentable square feet. Koll measured the building September, 1986 and came up with 102,190. Piedmont reviewed the leases and estimated 99,769 square feet of leased area. Most of the discrepancies result from older leases based on a usable area definition. For the purpose of the 10-year cash flow, Piedmont used the tenants' existing rental payments until lease rollover at which point the tenant square footage would be adjusted to Koll's estimate.

(2) Based on Piedmont's review of the leases.

SOURCES: The Koll Company;
Piedmont Realty Advisors.

Appendix B

MEDICAL LEASES - AS OF 10/30/86
12301 WILSHIRE

<u>Suite</u>	<u>Square Footage</u>	<u>Expiration Date</u>
201	2,346	03/31/91
210	1,924	11/30/89
300	2,296	11/30/90
400	2,027	09/30/91
402	2,165	09/30/91
415	3,945	09/30/91
416	541	12/31/89
420	1,350	09/30/91
500	2,027	08/31/91
515	<u>1,742</u>	06/14/91

TOTAL: 20,363 (19.9%)

SOURCES: The Koll Company;
Piedmont Realty Advisors.

Appendix C

PARKING RAMP BUDGET
12301 WILSHIRE

Excavation and Backfill	\$ 35,000
Foundation	70,000
Block Walls and Concrete	170,000
Fire Protection (sprinklers)	18,000
Lighting	25,600
Striping	5,000
Waterproofing	4,000
Drainage	25,000
Stairs	6,000
General Contingency	25,000
Parking Gates	30,000
General Contractor Overhead ⁽¹⁾	<u>35,800</u>
TOTAL:	\$449,400

(1) 10% of hard costs - \$358,600

SOURCES: The Koll Company;
Spancrete;
Piedmont Realty Advisors.