ONB/PLAZA CENTER BELLEVUE, WASHINGTON

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

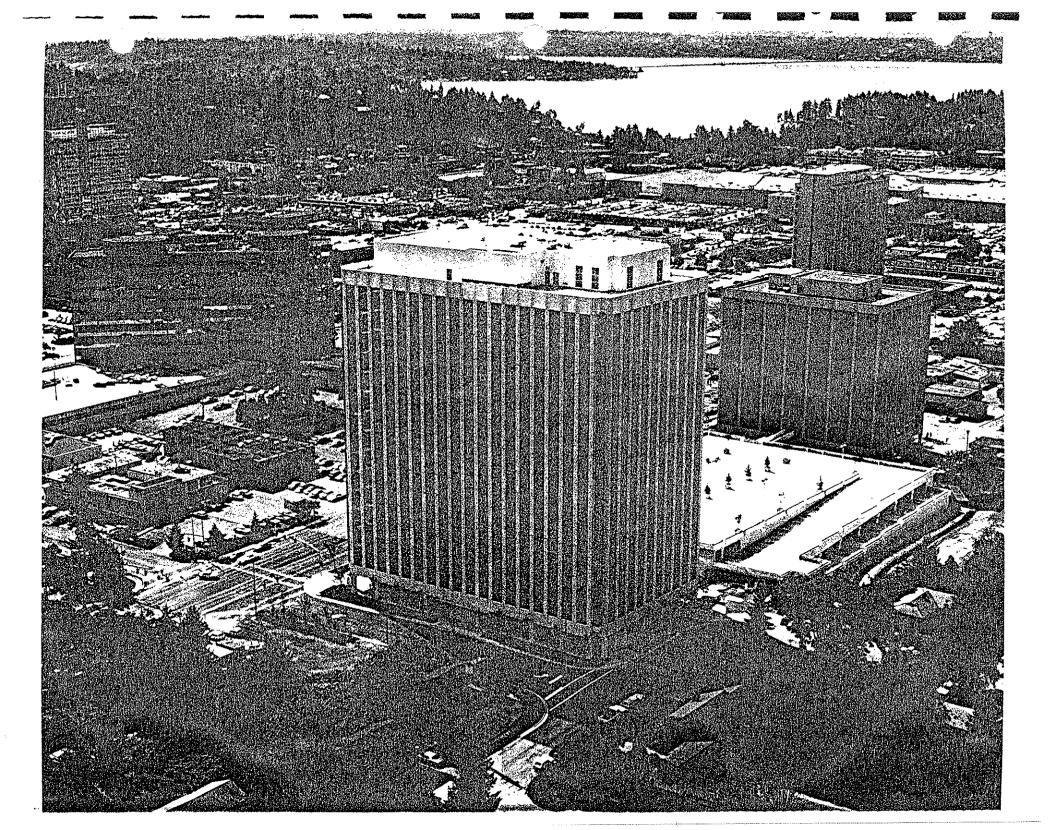


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. INTRODUCTION

PIEDMONT REALTY ADVISORS

650 CALIFORNIA STREET
THIRTIETH FLOOR
SAN FRANCISCO, CALIFORNIA 94108

415-433-4100

October 17, 1985

Mr. Ronald A. Hughes United States Fidelity and Guaranty Company 100 Light Street Baltimore, Maryland 21202

Dear Ron:

Enclosed for your review is an Investment Report on the ONB Plaza and Plaza Center Office Buildings in Bellevue, Washington. The two buildings are existing and substantially leased. ONB Plaza was completed in 1978 and contains 132,914 net rentable square feet on 10 floors. Plaza Center contains 324,376 net rentable square feet on 16 floors and was completed in 1983. The buildings are currently 88% and 75% occupied, respectively. A 1,117 space parking structure is situated between the two buildings.

Piedmont Realty Advisors presented a preliminary review of the project to the Committee on Tuesday, October 15, 1985. This report contains additional information on ONB Plaza and Plaza Center for review by the Committee. A summary of the proposed investment structure is enclosed as Exhibit I-1.

INTRODUCTION

The Seattle office market was selected by Piedmont Realty Advisors as a desirable investment area in early 1984. The Eastside office market, centered in Bellevue, is a particularly attractive market for long-term investment due to the area's rapid growth, upscale demographics and diversified tenant base. Piedmont Realty Advisors' existing data base on Seattle was significantly expanded during our study of the ONB/Plaza Center loan. We are therefore confident in our projections of rental rates, expenses and absorption periods.

October 17, 1985 Page Two

THE PROPERTY

ONB Plaza and Plaza Center are existing, substantially leased office properties. They are located near the northeast corner of the Bellevue Central Business District on N.E. 8th Street, one block west of the major freeway interchange for Bellevue. The buildings have superior freeway access and convenient ingress and egress from N.E. 8th Street to the five level parking structure. The parking structure provides a ratio of 2.5 spaces per 1000 square feet of office space. This parking ratio is a major marketing advantage for the project in light of the current maximum parking ratio of 1.5 spaces per 1000 square feet of office space required by Bellevue ordinance.

Two-thirds of the site is subject to a ground lease that chase the land for appraised value until 1994. Current monthly payments on the ground lease are as a second expires in 93 years. The lease permits the lessee to purmonthly payments on the ground lease are \$3,750, which represent only a 2% annual return on the market value of the land. This below market land rental allows ONB Plaza and Plaza Center to be very competitive with quoted rental rates.

THE MARKET

Downtown Bellevue serves as the focus for Class A office space and professional services in the Eastside Seattle The Central Business District contains 2,800,000 square feet of existing office space and surrounding suburban sub-markets contain an additional 6,000,000 square feet of office space.

After strong and balanced growth during the 1970's there was decline in Bellevue leasing activity in 1981 and 1982 which led to an oversupplied office market. Although leasing volume rebounded in 1983, the addition of substantial new space pushed office vacancies to 40% in the Central Business District. Since 1983 demand has remained strong and the Central Business District has maintained a trend of declining vacancy rates to its current vacancy rate of 20% which is equal to the vacancy rate of the entire Eastside office In the 1983 to 1985 time frame the ONB/Plaza Center properties outperformed all other downtown Bellevue office buildings relative to total square feet leased. mainly due to the buildings' affordable rents, functional layouts and an aggressive leasing program. Piedmont Realty October 17, 1985 Page Three

Advisors estimates that the remaining 91,178 square feet of vacant space will be leased within 12 to 18 months at rental rates of \$14.50 per useable square foot (equivalent to \$13.62 per rentable square foot) with a \$4.50 expense stop for ONB and \$17.25 per rentable square foot with a \$4.00 expense stop for Plaza Center.

THE BORROWER

The borrowing entity is Bellevue Associates, a Washington limited partnership. Each of the six partners is both a general and limited partner. The major partner of Bellevue Associates is John Graham, owner of John Graham and Company, the Seattle based architecture and design firm that developed the subject properties. John Graham and Company is noted for designing Northgate, the first planned regional mall, the first revolving restaurant, Seattle's Space Needle and several hundred other projects. John Graham has experienced at least a \$5 million decline in net worth since 1983 due to an aggressive development program. He has adequately accounted for his development liabilities in his financial statements, although Piedmont Realty Advisors estimates that he could experience an additional \$6 million decline in net worth due to his exposure with the 6th and Pike and Stimson Center projects in downtown Seattle. However, Mr. Graham currently maintains a certifiable net worth of \$27.8 million with good liquidity. The other partners include prominent attorneys and businessmen from Seattle. These partners have a combined net worth which exceeds \$60 million with excellent liquidity.

RISK AND RETURN

The participating mortgage proposed for the ONB/Plaza Center Office Buildings will be USF&G's first immediate funding on an existing property. The properties are currently 80% occupied thereby mitigating a majority of the market risk which is typically associated with forward commitment loans. The immediate funding characteristic also eliminates another major source of risk associated with the USF&G mortgage portfolio - interest rate risk. The major risk of this loan is the extent to which market softness in the 1987-1988 time frame affects leasing and releasing activities of the subject properties. While a majority of the buildings' tenants have leases which extend beyond this period, it is essential that the leases expiring during this period are renewed in an efficient and profitable manner.

October 17, 1985 Page Four

The projected yield of 13.7% (8.7% real rate using 5% inflation assumptions) is very attractive considering the level of risk involved in this transaction. More importantly, the immediate funding and cash flow characteristics associated with this transaction have the effect of mitigating the general risk associated with the entire USF&G participating loan portfolio. We therefore recommend that USF&G issue a permanent loan commitment for a first mortgage of \$50,850,000 for the ONB/Plaza Center Buildings in Bellevue as outlined in this report.

Sincerely,

Stephen L. Grant Vice President

Exhibit I-1

INVESTMENT SUMMARY

PIEDMONT REALTY ADVISORS

650 CALIFORNIA STREET

THIRTIETH FLOOR

SAN FRANCISCO, CALIFORNIA 94108

415-433-4100

September 17, 1985

Mr. Clark L. Olsen
J.L. Johnson & Company
11040 Main Street, Suite 220
Bellevue, Washington 98004

Re: First Mortgage Financing
Bellevue Plaza Center
Northeast Corner of 108th Avenue N.E. and
N.E. 8th Street
Bellevue, Washington

Dear Mr. Olsen:

Piedmont Realty Advisors is prepared to recommend to its client's Investment Committee that it issue a commitment for a participating first mortgage on the above captioned property subject to the terms and conditions described in the letter.

Property:

Bellevue Plaza Center - An existing two building project consisting of 457,597 net rentable square feet with a five level 1,117 space parking garage.

Location:

Northeast corner of 108th Avenue N.E. and N.E. 8th Street, Bellevue, Washington

Land Area:

Approximately 3.73 acres

Borrower:

The borrower will be Bellevue Associates, a Washington limited partnership.

Lender:

USF&G Realty Company

Loan Amount:

\$50,000,000

\$50,575,000 plus prepayment puelly on Action RHZ Learn eye to a narming \$300,000. Mr. Clark L. Olsen September 17, 1985 Page Two

Interest Rate:

The interest rates and debt service will be based on the following schedule:

Loan Years	Interest Rate
1 - 5	10.0%
6 - 15	10.5%

Term:

Fifteen Years

Amortization:

Not applicable, interest only

Call Option:

Lender has option to call loan any time after the 10th loan year. Lender will give borrower 12 months written notice of their intent to call the loan.

Prepayment:

*No prepayment through year 10. *Prepayment fee of 1% of the outstanding loan balance in year 10 and thereafter.

*No prepayment fee if lender exercises its call option.

40

Additional Interest:

A. Operations:

In the event significantly above standard tenant improvements are provided which result in above proform rests aformla will be developed to guith barner wedit

bothe additional expenditues.

Lender receives 45% of the annual gross income (excluding expense reimbursements) in excess of a base amount. The base amount shall equal the annualized gross income (excluding any base rent escalations) 24 months after initial funding. In no case shall the base 7,150,000 & amount exceed \$7,250,000. Additional interest payments are due quarterly.

The base amount and income from first generation leases will be determined on an effective rent basis. (Tenants in occupancy prior to September 11, 1985 will be exempt from this effective rent calculation.) Lender will exempt a 5% free rent discount (2 months on a 3 year lease, 3 months on a 5 year lease, etc.) from the calculation of the effective gross income.

RHZ

6

Exhibit I-1 (CONT.)

Mr. Clark L. Olsen September 17, 1985 Page Three

> However, if free rent discounts exceed 5%, then there will be an effective reduction in the base amount and the gross income from first generation tenants used in the calculation of additional interest from operations.

Sale or B: Refinancing:

Lender receives 50% of the difference between the net sales price (Borrower will be allowed a deduction of 3.3% of the gross selling price as sales expenses.) and the outstanding loan balance if the property is sold or 50% of the difference between the appraised value and the outstanding loan balance if the property is not sold before the loan is called, refinanced or matures.

Commitment Fee:

\$1,000,000; \$500,000 in cash which is earned upon acceptance of the commitment, \$500,000 unconditional letter of credit which will be refunded to borrower at closing.

Initial Funding:

\$46,208,548 46,496,048

Holdbacks:

A. Tenant Improvements and Leasing Commissions:

\$1,991,452, disbursed for actual leasing commissions and tenant improvement costs not to exceed \$21.00 per square foot of useable area in the ONB Building and \$22.00 per square foot of net rentable area in the Plaza Center Building. Disbursements will be made as space is leased and tenant improvements are completed.

Economic В Holdback:

2,087,500 \$1,800,000 disbursed at a rate of \$\frac{1.93}{\text{collected}} \text{ per \$1.00 of gross income collected in excess of \$5,500,000. Borrower has 24 months after initial funding to earn out the economic holdback.

Mr. Clark L. Olsen September 17, 1985 Page Four

Contingencies:

A. Plans and Specifications:

The lender reserves the right to approve the plans and specifications and obtain a satisfactory engineering report.

B. Leases:

Lender reserves the right to approve all leases subject to agreed upon leasing standards. Agreed upon leasing standards will be part of the commitment letter.

C. Secondary

Lender will not permit secondary financing on the property.

D. Market Value Appraisal:

Lender will receive a market value estimate of the property from an MAI designated appraiser which is not less than \$60,000,000.

E. Master Lease:

The general partner of the borrower shall master lease the project to loan breakeven. The master lease will be terminated at the sooner of breakeven occupancy or 24 months. As third party leases are signed, the master lease will be reduced correspondingly.

F. Lender Approval:

This application must be approved by the Lender's Investment Committee.

G. Existing:
 Leasehold
 Mortgages:

All existing leasehold mortgages must be prepaid prior to the funding of the recommended mortgage.

H. Partnership Documents:

Piedmont Realty will be provided with the Partnership Agreement and all associated documents for Bellevue Associates.

I. Books, Records and Leases: Borrower will allow Piedmont Realty Advisors to examine all books, records and leases for the subject properties prior to the Lender Investment Committee Meeting.

Mr. Clark L. Olsen September 17, 1985 Page Five

If the terms outlined in this letter are acceptable to Bellevue Associates, please sign below and return with an application fee of \$100,000 by September 23, 1985. The application fee should be wired to a custodial account. Please call me for wire instructions.

The application fee will be returned if the lender does not issue a commitment according to the terms of this letter or applied to the commitment fee if a commitment is issued.

September 30, 1985

DATED

Sincerely,

Stephen L. Grant
Vice President

SLG:gh

BELLEVUE ASSOCIATES, a Washington limited pertnership

SIGNED: John Graham

General Partner

TITLE

SIGNED:

TITLE

KHZ

II. THE PROPERTY

II. THE PROPERTY

A. INTRODUCTION

ONB Plaza and Plaza Center are located in the Central Business District of Bellevue, Washington. Bellevue is the hub City of the Eastern Seattle suburban area which is the fastest growing and most prosperous market in greater Seattle. The Bellevue office market has expanded rapidly over the last 10 years due to the area's growing and affluent population base, the relative ease of commuting and the large number of firms locating on the Eastside for "quality of life" reasons.

B. LOCATION

ONB Plaza and Plaza Center are located 9 miles east of downtown Seattle (See Exhibit II-1). Downtown Bellevue is the established center of Class "A" office space and serves as a commercial center for the growing Eastside market. The downtown area is defined by Main Street to the south, Interstate 405 to the east, N.E. 8th Street to the north and 100th Avenue to the west. The subject properties are located near the northwestern corner of this district; specifically at the corner of N.E. 8th Street and 108th Avenue (See Exhibits II-2 and II-3).

1. Accessibility

Bellevue is strategically located in relation to the three major highways serving the Eastside market. Route 520 runs east/west one mile north of the subject connecting Bellevue to Seattle via the Evergreen Point Bridge. Two and one-half miles to the south, Interstate 90 runs parallel to Route 520 from Seattle crossing the Washington Bridge and Mercer Island to Issaqua. Interstate 405 connects these two routes by running north/south through Bellevue. The major interchange for the area is located at Interstate 405 and N.E. 8th Street. A secondary, two-way interchange at Interstate 405 and Main Street is planned for completion in 1987 or 1988 (See Exhibit II-2).

ONB Plaza and Plaza Center are situated on N.E. 8th Street one block west of the Interstate 405 interchange. The full cloverleaf allows travellers from Interstate 405 to go directly west on N.E. 8th Street with no stoplights or left hand turns. Ingress to the building and parking structure is provided at four points from N.E. 8th Street, all of which are right turns. Egress is provided at the same four points, two of which have stoplights for the left turn back to Interstate 405 (See Exhibit II-4).

The subject properties, particularly Plaza Center, have excellent freeway visibility. Signage for ONB Plaza consists of the letters "ONB" (for Old National Bank) on the street level facade and Plaza Center is planned to be renamed "The Ebasco Building" for the building's major tenant.

Public transit access to the buildings is provided by the newly completed transit terminal on 6th Street between 108th and 110th Avenue N.E. (See Exhibit II-5). In order to minimize automobile traffic in the Central Business District, the City of Bellevue has recently enacted an ordinance which requires a maximum of 1.5 parking spaces per 1,000 feet of office (Note: The subject property has an existing parking ratio of 2.5 per 1,000 square feet of office space) and provides that bus service from outlying parking lots to the transit terminal will be maintained on a 24 hour basis. The transit terminal is within one block of the subject properties.

2. Adjacent Land Uses

The Central Business District of Bellevue contains a wide variety of office space, hotels, retail, restaurants and other services. Retail attractions range from small strip centers to Bellevue Square, the Country's first enclosed mall which is anchored by Nordstrom's, Bon Marche and Fredericks & Nelson. Downtown Bellevue hotels include Holiday Inn, Hilton and Red Lion. Office space ranges from two story professional office space to the 25 story, polished granite, Skyline Tower. Since Bellevue is a growing and dynamic market, the lower value land uses will probably be re-developed at some point in the future. However, the strength of the City Council and Planning Commission will insure that the growth is achieved in an orderly and organized manner.

Land uses for the sites immediately adjacent to the properties include low-rise office space and a church to the south and low-rise retail/office to the west. Although these sites have no current assemblages of parcels or re-development plans, the block immediately south of the subject is zoned CBD-Ø-l for high-rise development up to 25 stories and the block to the west is zoned CBD-Ø-2 for up to 15 stories. The vacant parcel immediately north of the subject has been approved for development of a well-elderly condominium project. The project is being developed by Pennyfarthing Development (a tenant in the subject) and will consist of a 17 story tower with 150 units and a 23 story tower with 220 units. Construction of the smaller phase 1 Tower is scheduled to begin by year end.

To the east of ONB Plaza and Plaza Center is a block comprised of several single family homes under various ownership. A few of the parcels are currently being offered for sale, although no known assemblage is in process. The block

is currently zoned CBD-Residential with no height restrictions. The highest and best use for this site is clearly commercial and a zoning change would take a minimum of 3 years from application.

Further east of the subject at the corner of N.E. 112th Avenue and N.E. 8th Street is a low-rise office building. The site is owned by Wells Development which has final approval for a 145,000 square foot, eight story office building. A construction start date has not been set.

C. THE LAND

ONB Plaza and Plaza Center are located on a 162,575 square foot (3.73 acre) site that is essentially flat and rectangular. The site is 180 feet above sea level, making it one of the highest sites in downtown Bellevue.

of the total 162,575 square feet, 109,275 square feet (67% of the site) is subject to a ground lease (See Exhibit II-6). Two of the partners in the improvements also hold a 40% undivided interest in the land partnership. While ground leases are often undesirable, the subject has 93 years until expiration and the very low rental rate of \$3,750 per month which contributes to a competitive advantage for the property because of its lower than average land basis. The ground lease is summarized in Exhibit II-7.

The land is zoned CBD-0-2 allowing for commercial development up to 16 stories with a maximum floor area ratio of 5.0. The existing improvements fully comply with existing zoning.

D. THE IMPROVEMENTS

The project's improvements include two office buildings and a parking structure (See Exhibit II-4). ONB Plaza is on the western portion of the site, Plaza Center to the east and the parking structure is situated between the buildings.

1. ONB Plaza

ONB Plaza was completed in 1978. Its 10 floors contain a total of 132,914 net rentable square feet (See Exhibit II-8). The ground level bank lobby provides 9,252 square feet of net rentable area to Old National Bank and 9 office floors have an average of 13,740 square feet of net rentable area each.

Typical bay depths are 41 feet 5 inches on the east and west sides, and 32 feet 2 inches on the north and south sides (See Exhibit II-9). Construction is of cast in place reinforced concrete. The exterior consists of exposed concrete columns spanned by a bronze anodized aluminum window wall, double glazed solar bronze glass, and Spandrelite.

ONB Plaza uses a high efficiency variable air volume HVAC system. Two chillers allow for increased efficiency during partial loads and the system can use up to 100% outside air for cooling. Heating is provided by one boiler and the air handling system incorporates special ducting that allows heat reclamation. In addition, ONB Plaza is fully sprinklered with smoke detectors throughout the building. Elevator service is provided by four geared electric elevators to all floors.

The lobby finish features floors of quarry tile pavers with carpet inserts, walls of oak paneling with mirrored accents and a ceiling of mirror finish stainless steel. The building standard finish for tenant spaces includes loop carpets, suspended acoustical tile ceilings, recessed fluorescent light fixtures, full height draperies and full height solid core oak veneer doors. The building is in excellent physical condition and shows no sign of depreciation.

2. Plaza Center

Plaza Center was completed in 1983 (See Exhibit II-10). It offers 12,125 square feet of net rentable area for retail on the ground level and 15 office floors that average 20,800 square feet of net rentable area for a building total of 16 stories and 324,376 square feet of net rentable area (See Exhibits II-11 and II-12). Typical bay depths are 43 feet on the east and west sides and 60 feet on the north and south sides. These large bay sizes allow for maximum flexibility in space planning and office layout. Plaza Center is constructed of fireproofed steel with concrete floor slabs over metal decking. The building's exterior is clad in alternating vertical bands of off white concrete panels and double glazed solarized bronze glass curtain walls.

The building utilizes a computer based energy management system for efficient operation. Dual chillers automatically supplement outside air for cooling and a glycol based cooling system is available throughout the building for special cooling requirements. Heating is provided by hot water piped through heating coils in the terminal fan units and perimeter fan units recirculate and recapture heat from the ceiling plenums for increased heating efficiency.

Six high speed electric elevators serve all floors from the ground floor lobby. A dedicated freight elevator is situated in an alcove separated from the main public lobby. Water, waste and vent pipes have tie-ins throughout the building allowing tenants to install plumbing fixtures in their individual spaces. The building is fully sprinklered and smoke alarmed and the life safety system includes a diesel generator for emergency power.

The main lobby is finished with rough cut granite pavers on the floor, oak panelling on the walls and mirror finish stainless steel elevator doors and frames. The main lobby includes a delicatessen, travel agent, Businessland Computers and an overnight delivery express stop. Adjacent to main lobby area the building owners have created a fitness center which includes a variety of exercise equipment, lockers and showers.

Parking Structure

The parking structure contains 1,117 spaces on five levels providing 2.5 spaces per 1,000 square feet of office space. This ratio is considerably higher than the 1.5 maximum ratio currently required in Bellevue and represents a major competitive advantage for the project. Access to the garage is controlled by a card access security system for tenants and a parking attendant is required for visitors. Access from the garage to both buildings is provided directly at ground level and by skybridges that connect the fifth level of the structure directly to the second floor of offices.

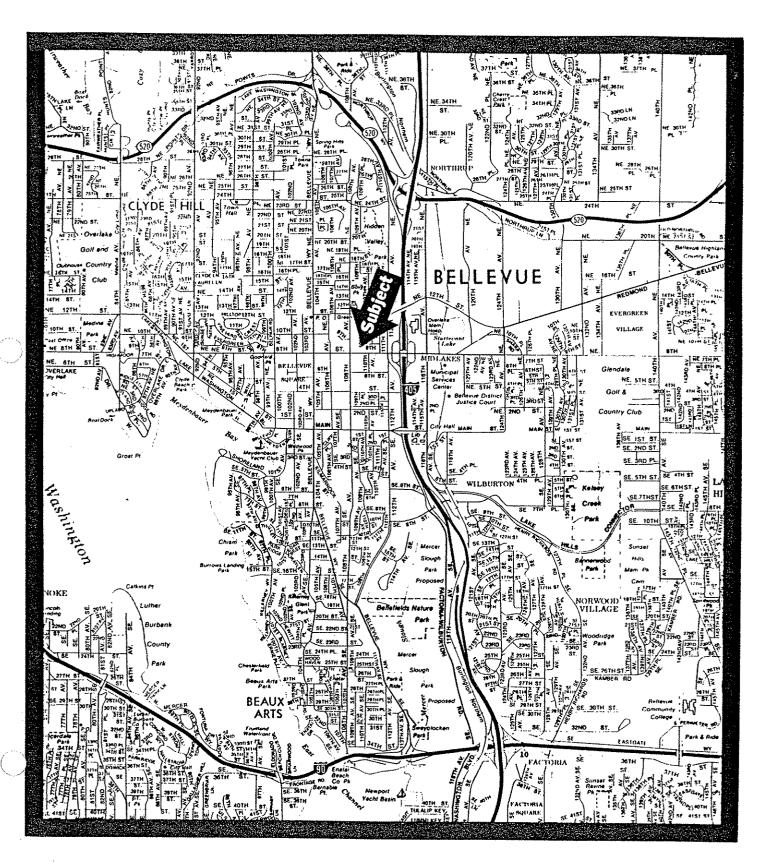
E. CONCLUSIONS

ONB Plaza and Plaza Center form one of the major office complexes in the Bellevue Central Business District. While the building's exteriors are fairly conventional in appearance, the interior tenant spaces are at or above the standards set by competitive downtown Bellevue office buildings. The floor plans and bay depths of ONB and Plaza Center allow the owners to solicit both small and large tenants due to an efficient use of space.

Future high-rise development may infringe somewhat on the properties' freeway visibility, but for the near term Plaza Center will have a significant highway presence. Freeway access and parking availability are excellent and will remain among the best in Bellevue. Commuter access is also excellent, involving a one block walk from the transit terminal to the subject.

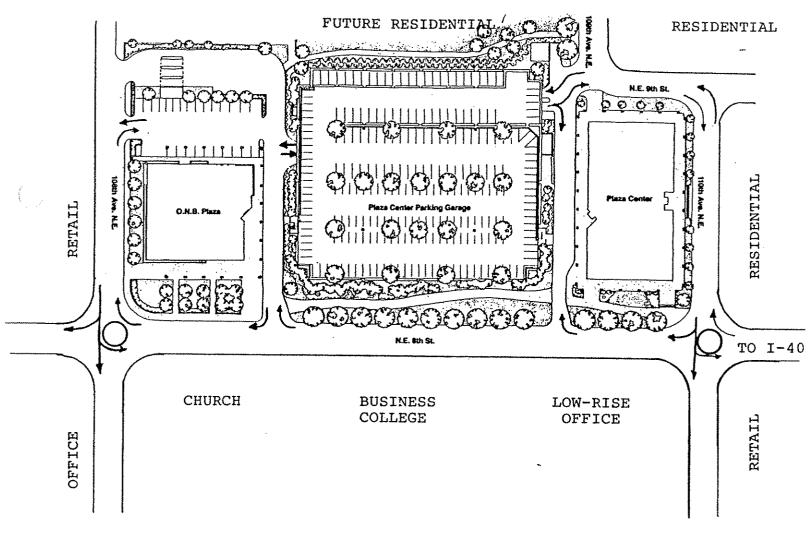
Bellevue's central location within the rapidly growing Eastside market and the subject's excellent location within Bellevue give ONB Plaza and Plaza Center the intrinsic real estate fundamentals of location, access and a growth market. The properties' low land basis and lower than average construction costs makes them a well located, affordable alternative for office space users in the Eastside market.

Exhibit II-2 SITE LOCATION MAP

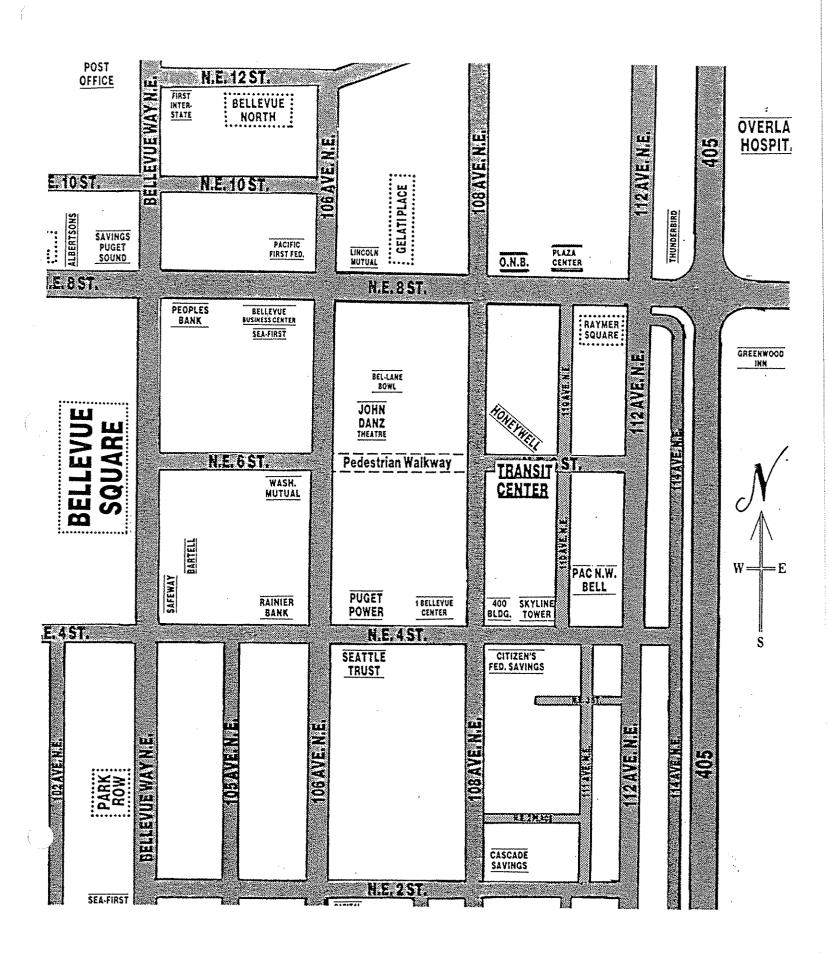


AERIAL PHOTOGRAPH Exhibit II-3

Exhibit II-4
SITE ACCESS



OINDICATES TRAFFIC LIGHT



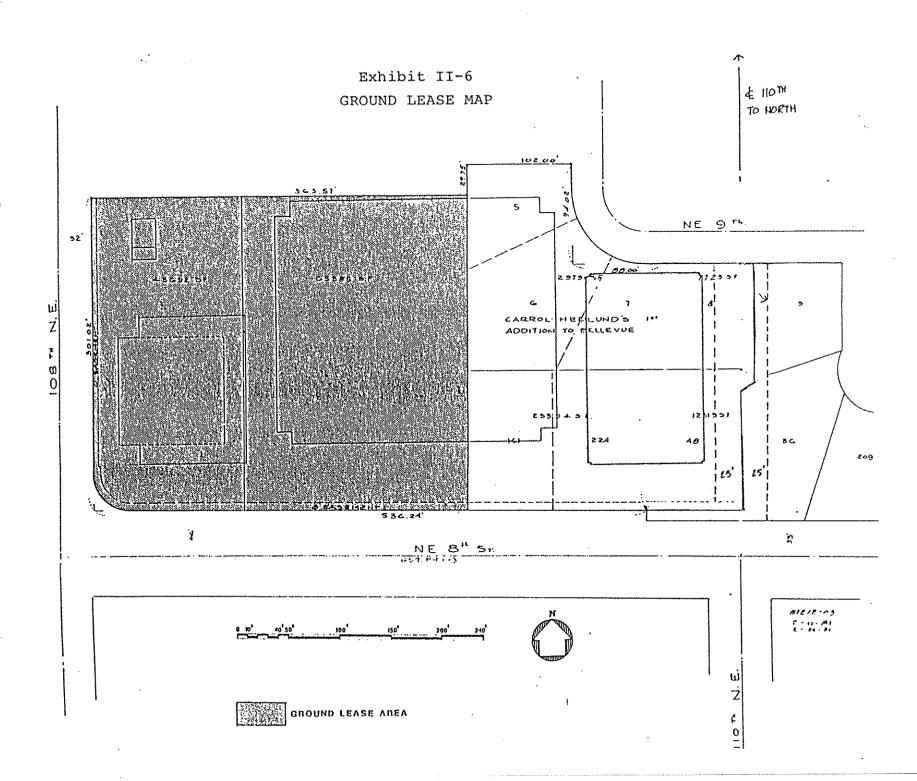


Exhibit II-7

GROUND LEASE SUMMARY

Lease Date:

July 12, 1977

Parties:

Bellevue Associates, a Washington limited partnership, Lessee, and Jeffrey Building Company, a Washington partnership, Lessor.

Two partners of Bellevue Associates hold a 40% undivided interest in the leased ground. The ground lease pertains to the 60% undivided interest owned by Jeffery Building Company.

Premises:

Approximately 109,275 square feet is leased, representing the western two-thirds of the subject site.

Term:

99 years commencing February 15, 1979.

Rent:

Initial rent of \$3,000 per month for the first 5 years. Rent is escalated at end of 5th and 10th year by 25%. At the end of the 15th year rent is adjusted to market and thereafter escalated by 25% every 5 years. Rent is currently \$3,750 per month.

Other Charges:

Lease is on a net basis with Lessee paying property taxes and any other charges.

Purchase Option:

Lessee has the right to purchase during first 15 years at appraised value not to exceed 9% of total project including land and improvements and in no event less than \$600,000.

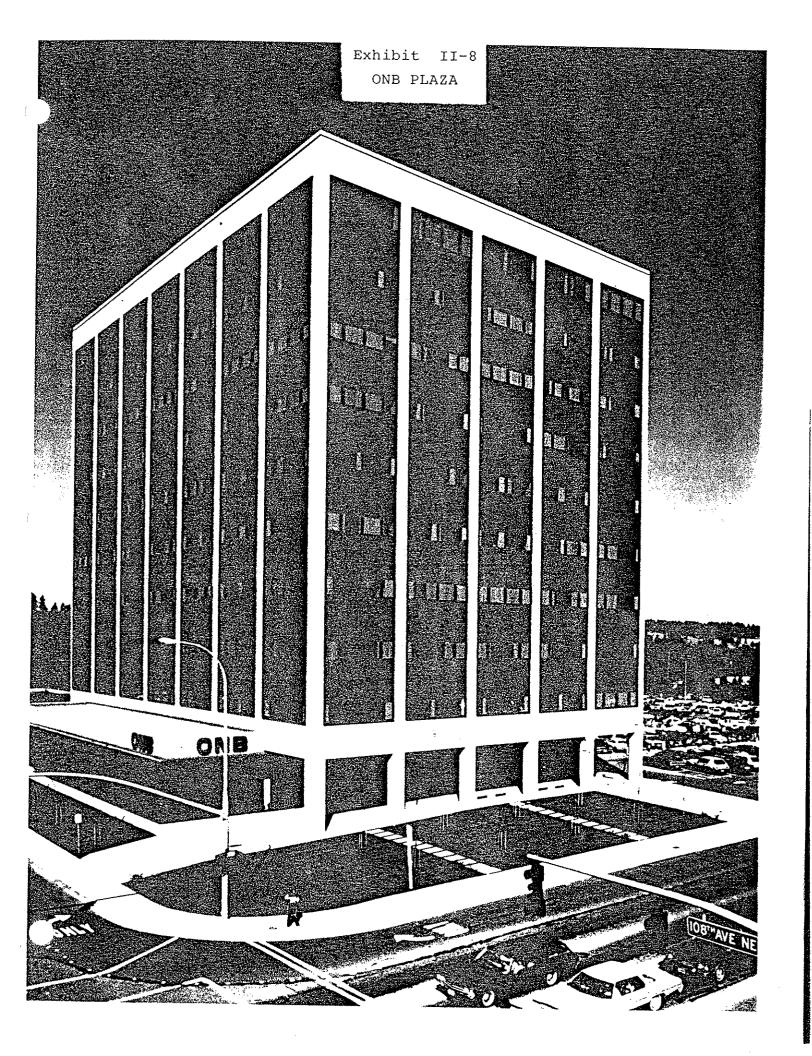
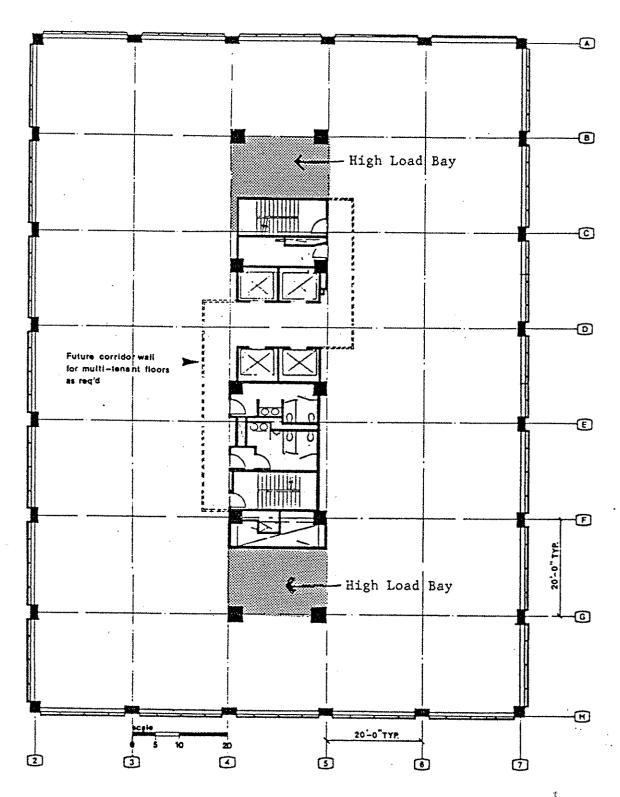
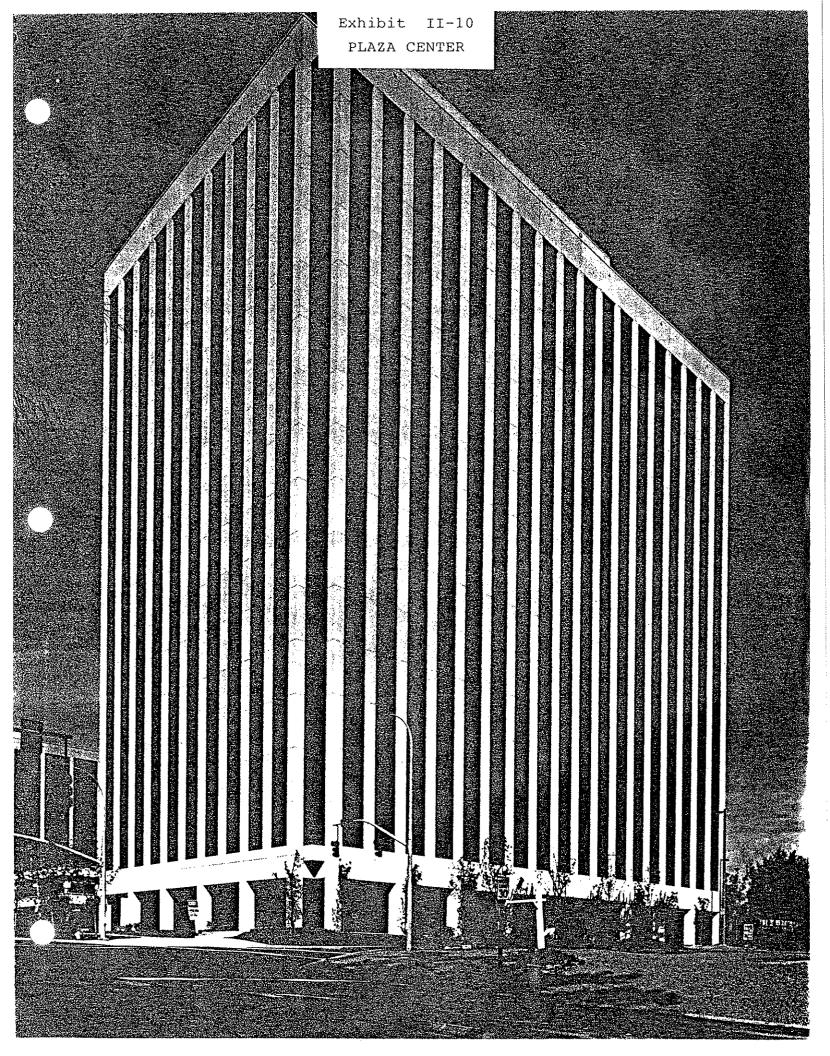


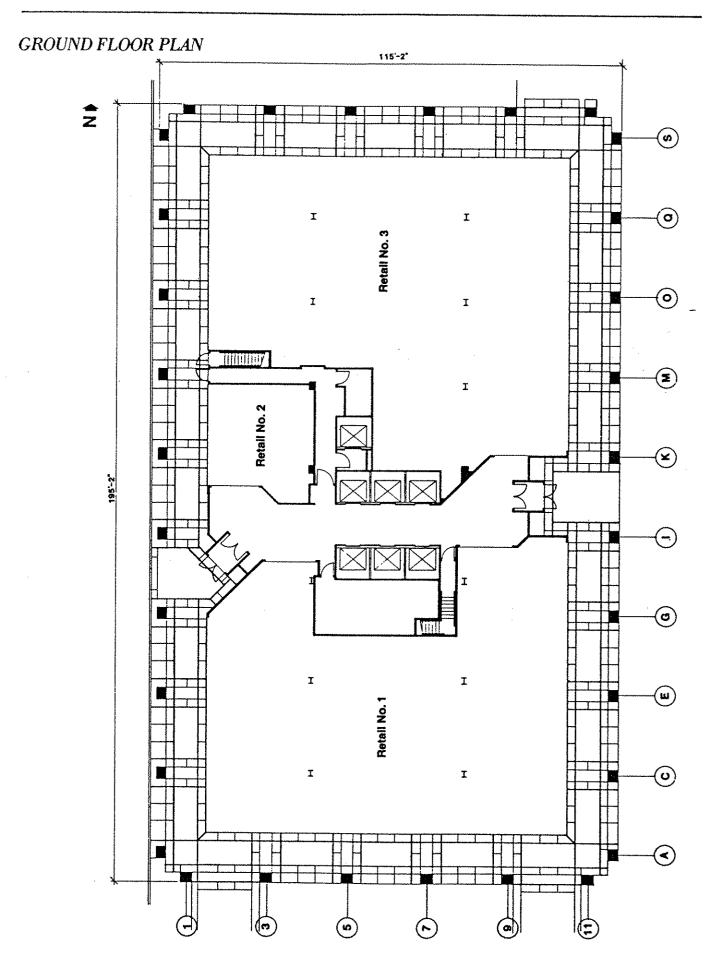
Exhibit II-9 TYPICAL ONB PLAZA FLOOR PLAN



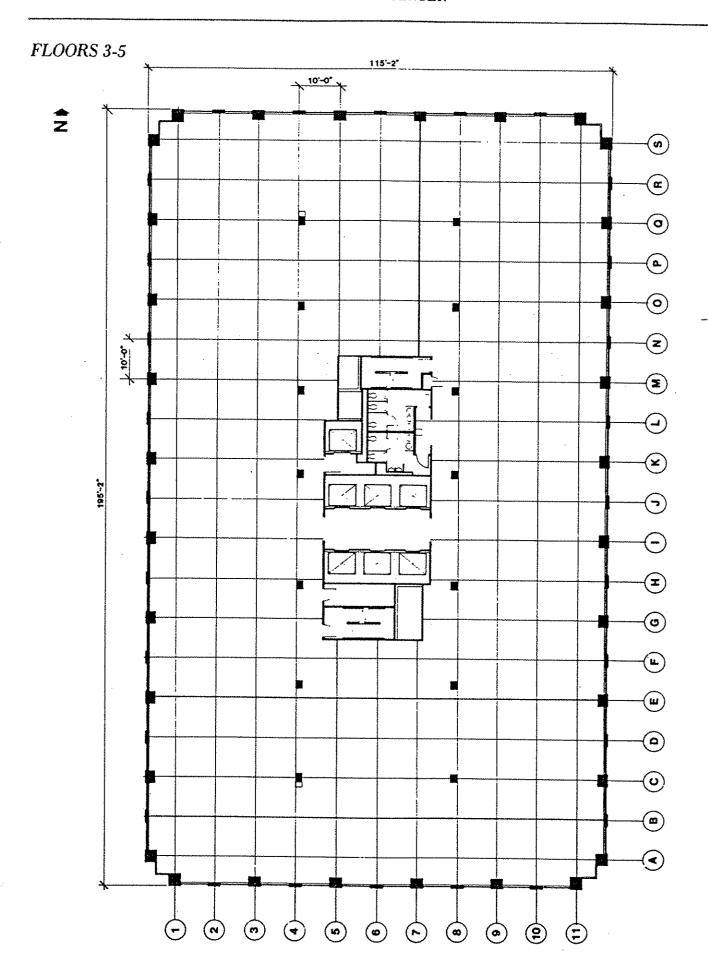
ONB PLAZA

Bellevue, Washington





TYPICAL FLOOR PLAN PLAZA CENTER



III. MARKET OVERVIEW

III. MARKET OVERVIEW

A. INTRODUCTION

The Eastside office market is the major suburban office market in metropolitan Seattle. Since the mid-1970's, office and retail development in downtown Bellevue has established the Eastside as a diversified regional center with the Bellevue Central Business District as its focal point. Office submarkets outside the Bellevue Central Business District follow the Eastside's three freeways—Interstate 90, Interstate 405 and Highway 520. Office development inside Bellevue's Central Business District is generally concentrated in a six block area which contains a good supply of developable land.

B. THE EASTSIDE OFFICE MARKET

Twenty five years ago there was virtually no office space in the Eastside area of Seattle. Office development began in 1959 and continued at a very modest rate until 1969 when the market contained approximately 200,000 square feet of office space. Office development accelerated rapidly through 1985 when approximately 8,500,000 square feet of office space were contained in four distinct submarkets in the Eastside area (See Exhibit III-1).

Tenant profiles and building types are similar in the three freeway oriented suburban office submarkets. Zoning laws restrict commercial development to areas immediately adjacent to the highway. Freeway land current available for development generally has either access or layout problems. However, most existing projects in the Eastside's suburban office submarkets are well located with efficient site plans and buildings ranging from small, 10,000 to 20,000 square foot wood frame walkups to 100,000+ square foot mid-rises. The average building size for the area is 50,000 square feet. Tenants range from small high tech and software startups to large insurance companies and established high tech Advantages to the tenant for this kind of space include ample surface parking, some building identity for smaller tenants, a natural setting and rental rates which are 10 to 20% lower than those in Bellevue's Central Business District. Disadvantages are the lack of nearby services and amenities.

Bellevue's Central Business District is a well planned urban environment which is centrally located in relation to the Eastside's suburban office markets. A major regional mall, a wide variety of restaurants and several first class hotels are in the area. Downtown Bellevue features several high-rise office buildings which attract professional financial, accounting and service firms. Major tenants include seven of

the "big eight" accounting firms, Paccar, Honeywell and Northwestern Bell. Downtown rental rates range from \$14.00 to \$25.00 per rentable square foot gross and average \$18.00 per rentable square foot with a 20% rent concession discount.

Supply and demand in the Eastside market were essentially in balance during the rapid growth from 1974 to 1980. As shown in Exhibit III-2, supply exceeded demand in 1982 and 1983. This was due primarily to the poor national and regional economies which dampened tenant demand for new or expansionary space in 1981 and 1982. In addition to this slackened demand, three major high-rise office buildings were completed in the Central Business District in 1983. This imbalance pushed vacancy rates for the entire Eastside above 30% and to almost 40% for the Central Business District in 1983, even though demand had rebounded strongly from its 1982 low (See Exhibits III-3 and III-4). activity has remained strong for the past two years with 1,000,000 square feet absorbed in 1984 and an estimated 650,000 square feet absorbed by year-end 1985. The figure for 1985 absorption is artificially low due to the bankruptcy of ENI (an energy services firm) that put 200,000 square feet back on the market and Microsoft's move from 260,000 leased square feet in Corporate Campus to a new 400,000 square foot build-to-suit facility that is excluded from absorption surveys.

New office building construction is occurring along the Interstate 90 corridor and in the Central Business District since the Interstate 405 and Highway 520 areas are essentially built out. As of September 1985, 450,000 square feet of suburban garden office space in seven projects (an average of 64,000 square feet per project) were under construction and four Central Business District projects totalling 1,000,000 square feet (two major high-rises of over 400,000 square feet each and two mid-rises of under 100,000 square feet each were under construction. Total space planned for construction by 1988 is 2,500,000 square feet with 850,000 square feet in the Central Business District and 1,650,000 in the surrounding suburban office corridors.

C. COMPETITIVE OFFICE SPACE

Office space in the Bellevue Central Business District does not directly compete with office space in suburban office corridors due to differing locational factors such as amenities, densities and environments. Within the Central Business District there is a variety of competitive low and midrise space, but competing high-rise space is limited to two existing buildings and two buildings under construction.

Low-rise space in downtown Bellevue was typically built in the late 1960's and early 1970's. Very little additional low-rise development is expected due to new zoning ordinances and higher land values. Rental rates for older, less prestigious projects range from \$10.00 to \$13.00 per square foot gross and \$12.00 to \$16.00 per square foot gross for newer, better quality buildings. Newer mid-rise buildings such as the Honeywell Building and the One-Ten Atrium Place achieve rental rates of \$16.00 to \$17.50 per square foot gross with rent abatements of 4 to 6 months on 5 year leases (See Exhibits III-5 and III-6). This is the market segment most competitive with ONB Plaza which is quoting \$15.00 to \$17.00 per square foot gross with similar concessions.

The high-rise market segment which includes Plaza Center is currently the most competitive. The Business Center Building (13 floors completed 1970) was Bellevue's first highrise. Its outdated architecture and fully leased status do not make it a direct competitor of Plaza Center. One Bellevue Center was completed in 1983 by Wright-Runstad & Com-It has 22 floors and 340,000 square feet of net rentable area. Construction is of steel frame with a reflective glass exterior. The ground floor contains an upscale delicatessen and small shops. The basement contains a parking structure with 1.5 spaces per 1,000 square feet of office space and rents for \$55.00 per space per month. Tenant finishes are Class A with a \$16.00 to \$20.00 gross per foot allowance. Rents are quoted at \$18.50 to \$26.00 gross per net rentable foot with concessions of 9 to 12 months of free rent. Of the three high-rises that were completed in 1983, One Bellevue Center initially performed the best due to the pre-leasing of 6 floors to Puget Sound Power at \$18.50 per rentable square foot. The building was 72% leased by mid-1984, but leasing has been slow since then, reaching 77% occupancy by September 1985.

Skyline Tower is Bellevue's premier high-rise development completed by Prudential Realty in 1983. It is 24 stories and contains 390,000 net rentable square feet with steel frame construction and a polished granite exterior. Lobby and tenant finishes are of superior quality to competing buildings with allowances of \$20.00 to \$24.00 per square foot. Rental rates are quoted on a triple-net basis at \$14.00 to \$20.00 per net rentable square foot with \$4.25 per square foot in estimated expenses. On a gross basis this equates to \$18.25 to \$24.25 per rentable square foot. Prudential is currently quoting nine to twelve months free rent on a five year lease. Leasing activity at Skyline Tower has been sluggish with occupancy at 55% after two years on the market. Reasons for this slow performance are rates being quoted on a triple net basis (the only office building in

Bellevue to do so), tenants' difficulty dealing with Prudential Realty and the leasing performance of Plaza Center (the subject property). Prudential is waiting for full floor users in what is primarily a strong multi-tenant market. There have also been several management turnovers in Prudential's western region over the past two years.

Two major projects currently in the site excavation stage are Koll Center Bellevue (440,000 gross square feet) and Two Bellevue Center a 410,000 net rentable square foot twin to Wright-Runstad's One Bellevue Center. Both projects are scheduled for completion in mid-1987 and are quoting rental rates of \$22.00 to \$24.00 per rentable foot gross. Koll's building is speculative while Two Bellevue Center is 25% pre-leased to Rainier Bank and Sterling Recreational Organization.

These competitive high-rise buildings will have several features that are superior to the subject. All four of these buildings are or will be 9 or 10 stories taller than the subject and will possess more contemporary architecture and materials. They are also located in the heart of the Central Business District. However, rental rates for these buildings will be 10% to 20% higher than the subject and their parking ratio will be almost 50% less than the subject. These differences should preserve a market segment for ONB Plaza and Plaza Center. The ONB/Plaza Center target tenant market is a viable segment of Eastside demand. It is a labor intensive tenant with parking and access requirements which only ONB/Plaza Center can offer.

D. LEASING PERFORMANCE

ONB Plaza was completed in 1978 during a very strong period for leasing in the Eastside office market. The building was essentially leased-up within 12 months with most lease expirations extending beyond the 1981-1982 market downturn. A law firm and brokerage firm that occupied a total of 8,000 square feet recently vacated ONB Plaza in favor of Skyline Tower accounting for roughly 7 points of the current 12% vacancy rate. Remaining suites are in the 1,500 to 4,000 square foot range, a very attractive size for the downtown Bellevue multi-tenant market.

Plaza Center came onto the market in 1983, a period of oversupply in Bellevue. Adjusted for Bellevue Center's preleasing, Plaza Center leased faster than the competition, reaching 61% occupancy by spring of 1985. Plaza Center recently signed one of the major tenants in the Eastside market when Ebasco leased 50,000 square feet (2-1/2 floors) in the summer of 1985, bringing the occupancy rate over 75%. Only one full floor in Plaza Center remains vacant indicating that most of the remaining in-fill space will be divided for multi-tenant use which is currently the most active demand segment in the Bellevue market.

E. CONCLUSION

The Bellevue Central Business District office market will remain oversupplied for the next several years. However, it remains a very healthy and attractive market in the long term due to the area's upscale demographics, established tenant base and strong growth.

ONB Plaza and Plaza Center are clearly superior to their competition in terms of highway access and parking availability which are important attributes to service oriented or labor intensive tenants. While the subject properties are not as striking in appearance as recently completed, competing high-rises, tenant finishes and building lobbies are of high quality and rental rates are very competitive, essentially offering high-rise space at mid-rise prices. Piedmont Realty Advisors believes that the superior access, parking and economics of ONB Plaza and Plaza Center will allow the subject to perform successfully during the holding period of the loan.

Exhibit III-1
EASTSIDE OFFICE
SUBMARKETS

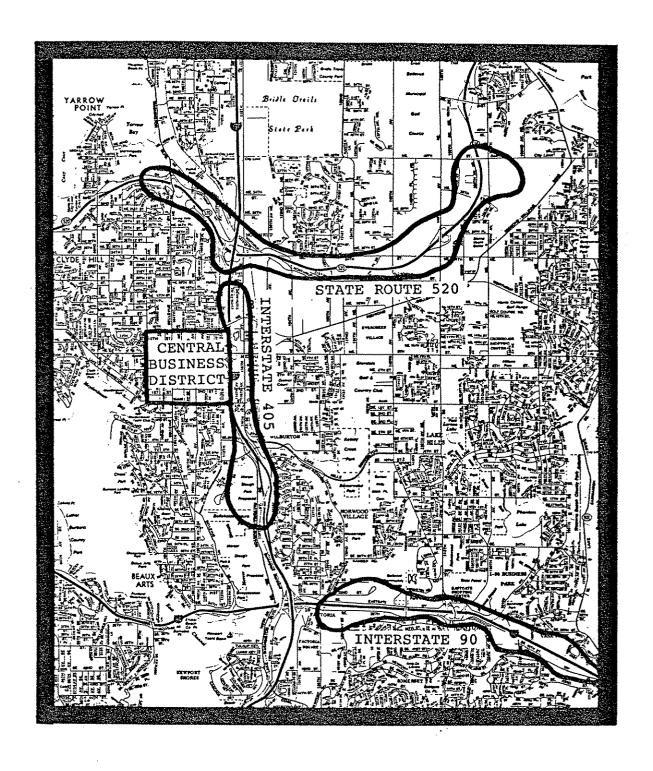
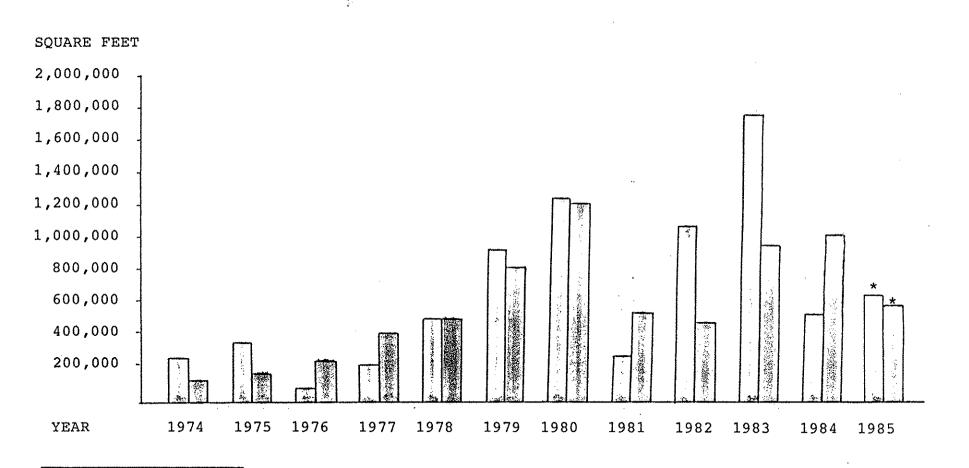


Exhibit III-2 SUPPLY AND DEMAND EASTSIDE OFFICE MARKET



^() SUPPLY (NEW SPACE ADDED)

SOURCE: COLDWELL BANKER

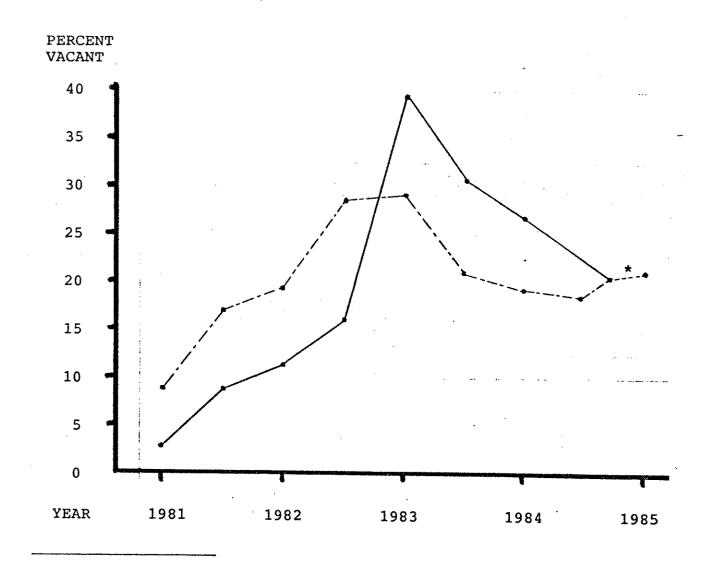
LEIBSON & COMPANY

PIEDMONT REALTY ADVISORS

⁽ DEMAND

PROJECTED

Exhibit III-3 VACANCY TRENDS EASTSIDE OFFICE MARKET



⁻⁻⁻ TOTAL EASTSIDE MARKET

* PROJECTED

SOURCE: COLDWELL BANKER
LEIBSOHN & COMPANY
CUSHMAN & WAKEFIELD

PIEDMONT REALTY ADVISORS

BELLEVUE CENTRAL BUSINESS DISTRICT

Exhibit III-4

SUMMARY TABLE EASTSIDE OFFICE MARKET (1)

	1977			1978				1979			1980		1981		
	Total	Occupied		Total	Total Occupied		Total Occupied		pied	Total	Occupied		Total	Occupied	
	SF	SF		SF	SF	8	SF	SF	8	SF	SF	8	SF	SF	*
Bellevue CBD	821	816	99.4	984	906	92.1	998	987	98.9	1377	1322	96.0	1453	1371	94.4
I-405	439	423	96.4	737	564	76.5	1007	882	87.6	1199	1131	94.3	1332	1283	96.3
1-90	8	8	100.0	8	8	100.0	8	8	100.0	63	35	55.6	63	35	55.6
Highway 520	174	162	93.1	209	174	83.3	293	234	79.9	421	387	91.9	500	478	95.6
Total	1442	1409	97.7	1938	1652	85.2	2306	2111	91.5	3060	2875	94.4	3348	3167	94.6

	1982				1983			1984			6/85		
	Total	0ccu	pied	Total	0ccu	pied	Total	Occuj	pied	Total	0ecu	oied	
	· SF	SF	8	SF	SF	8	SF	SF	8	SF	SF	8	
Bellevue CBD	1668	1539	92.3	2735	1701	62.2	2735	2001	73.2	2760	2183	79.1	
I-4Ø5	1587	1456	91.8	1896	1508	79.5	2036	1738	85.4	2201	1758	79.9	
I-90	189	74	39.2	313	261	83.4	675	612	90.7	865	741	85.7	
Highway 520	828	546	65.9	881	648	73.6	974	841	86.3	1145	919	80.2	
Total	4272	3615	84.6	5825	4118	70.7	6420	5192	80.9	6971	5601	80.2	

Note: All square footage figures based on thousands of net rentable area.

(1) Class A buildings only.

Source: Coldwell Banker J.L. Johnson

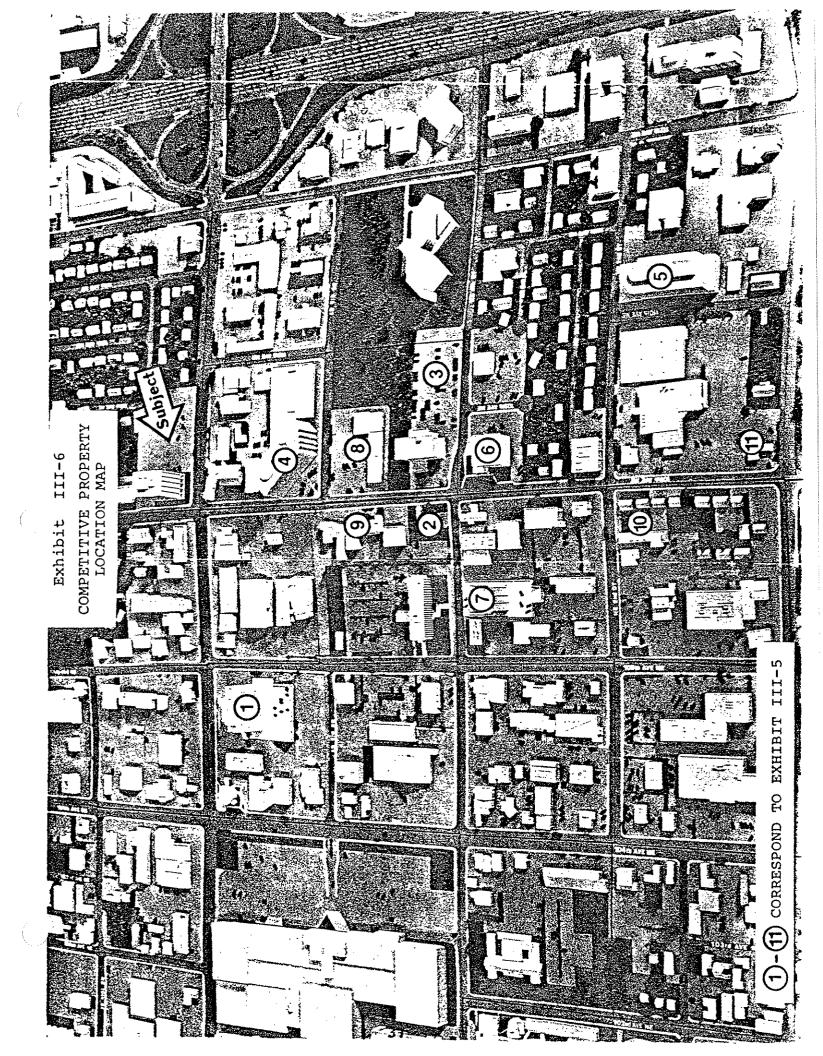
James Katzenberger, MAI Piedmont Realty Advisors

COMPETITIVE OFFICE SURVEY
BELLEVUE CENTRAL BUSINESS DISTRICT

Exhibit III-5

Map No	Building Name . Address	Floors/ Year Built	Total Net Rentable S.F.	Avail. S.F. Occu. %	Lease Rates	Expense Stops
High-R	ise	— ·······				
1	Business Center Bldg. 777 106th Avenue N.E.	13 1970	120,000	2,100 98%	\$16.00	N/A
2	One Bellevue Center N.E. 108th & N.E. 4th	22 1983	340,000	97,157 71%	\$18-26.00	Base Year (\$4.25)
3	Skyline Tower 10900 N.E. 4th	24 1983	390,000	218,000 44%	\$14-20.00	MNN (\$4.25)
Sul	oject Plaza Center	16 1983	324,376	76,714 76%	\$16-22.00	Base Year (\$4.00)
Mid-Ris	se 					
. 4	Honeywell Building 600 108th Avenue	10 1980	250,000	56,600 77%	\$14.50-16.50	\$4.50 - \$6.50
5	One-Ten Atrium Place 110 110th Avenue	7 1982	215,000	26,370 88 %	\$17-17.50	\$4.50
6	Citizen's Bellevue Center 310 108th Avenue	6 1973	60,000	17,000 72%	\$14.50-16.50	\$4.00
7	Seattle Trust Building 10655 N.E. 4th	9 1971	82,850	10,000 88%	\$15.50-18.00	\$4.25
Sub	ject ONB Plaza	1ø 1978	123,405	14,464 88%	\$13.50-17.50	\$4.25
Under C	construction					
8	Koll Center Bellevue 108th Avenue & N.E. 6th	25 1987	484,888	404,000 6 %	\$22-24.00	
9	Two Bellevue Center 108th Avenue & N.E. 8th	24 1987	410,000	300,000 27%	\$22-24.00	-
10	Pacific Place 108th & N.E. 2nd	9 1986	117,000	117,000 9%	\$19-23.00	
11	Main Street 108th & Main	5 1986	56,500	56,500 0%	\$19-23.00	

Source: Piedmont Realty Advisors



V. BORROWER/MANAGER

IV. THE BORROWER/MANAGEMENT TEAM

A. THE BORROWER

The borrowing entity will be Bellevue Associates, an existing Washington limited partnership. The partnership was formed on October 11, 1977 and created for the development of ONB Plaza and later amended for the development of Plaza Center.

B. THE PARTNERS

Bellevue Associates originally comprised seven partners. However, in January 1983 the partnership interest of Joseph Lynch was purchased by the partnership and distributed among the six remaining partners.

The partnership interests are allocated as follows:

Name	General Partnership	Limited Partnership	Total
John Graham Diamond Parking, Inc. Oscar C. Sandberg Albert A. James Thomas B. Foster,	22.07%	22.07%	44.13%
	11.77	11.77	22.53
	5.88	5.88	11.76
	5.88	5.88	11.76
Nominee	2.94	2.94	5.88
Roderick R. Kirkwood	1.47	1.47	2.94
	50.00%	50.00%	100.00%

The current partners' profiles are as follows:

John Graham: Chairman of John Graham and Company, which has been active in the design of shopping centers and other properties since 1946. In 1981 John Graham and Company began an aggressive development program in the Seattle area and Hawaii. Significant assets include Graham Company (the principal holding company), Graham Development Services, Inc., Pentagram Corporation and several limited partner-The principle holdings of these entities include a ships. 28% interest in 73 acres of land in Schaumburg, Illinois, 36% interest in the Bank of California Building in Seattle, a 13% interest in the 6th and Pike Building in Seattle, a 5% interest in the Seattle Sheraton Hotel and several other properties. Mr. Graham's net worth has declined approximately \$5 million since 1983 due to his aggressive development activities, but remains strong at \$27.8 million as of October 15, 1985 (See Exhibit IV-1).

Diamond Parking Inc.: Diamond Parking, Inc. is the principal holding company of Josef Diamond, a prominent Seattle attorney and investor. Mr. Diamond controls over 300 parking lots throughout Seattle, is a partner in the Seattle Budget Car Rental franchise and is a partner in several real estate investments in the northwest. Mr. Diamond is a director of Old National Bank and is also a tenant in ONB Plaza. Mr. Diamond's net worth is approximately \$20 million.

Oscar C. Sandberg and Albert A. James: These gentlemen cofounded the House of Values merchandising chain. After this Seattle area retailer had grown to nine stores and \$25 million in annual revenues the partners sold their interests to Payless Stores. They remained directors of Payless until 1972 when they left to pursue other interests. Current holdings include Alpine Industries, PanLam Insulated Glass Co. (sales \$22 million) and Anthony's Restaurants, a six unit chain with sales in excess of \$15 million. Mr. James is also a director of First Western Bank. Current net worth for Mr. Sandberg is \$6.9 million, and Mr. James \$7.2 million.

Thomas B. Foster, Nominee: Mr. Foster is a partner in Foster, Pepper & Riviera, a major Seattle law firm. Mr. Foster's interest in the subject property has been distributed among five partners in his firm. His net worth was \$3.8 million as of December 31, 1984.

Roderick R. Kirkwood: Mr. Kirkwood is a partner in John Graham and Company and serves as the firm's Director of Operations. As of December 31, 1984 Mr. Kirkwood's net worth was \$3.9 million.

C. THE DEVELOPER

John Graham and Company was founded as a design/architectural firm in Seattle in 1900. Major early projects include the Seattle Ford Plant, the Exchange Building and the original downtown stores of Frederick & Nelson and Bon Marche. John Graham Jr. joined the firm in 1946 after spending several years in retailing and shortly thereafter designed Northgate, the first planned regional shopping center. More recent design projects include the State Office Building in Juneau, Alaska, the Wells Fargo Building in San Francisco, and Seattle's Space Needle. John Graham and Company is a full service design firm offering architectural, engineering, energy management, interior planning, environmental planning, and public planning services to the corporate, retail and hospitality markets.

While John Graham Jr. has been personally involved in development partnerships for the past twenty years, John Graham Development Services (John Graham and Company's development entity) began development activities in 1981 with the 500 room Hana Maula Hotel in Kauai, Hawaii (sold). 1983 brought the completion of Plaza Center (subject property), a 24 unit condominium project (sold) and the downtown Seattle Sheraton Hotel. In 1984 the company completed Seattle's 6th and Pike Building and the Bank of California Building (sold). All of John Graham Development Services' developments are currently in a negative cash flow position, mainly due to free rent associated with their lease up. The long term financial impact of these current liabilities is therefore minimal.

D. MANAGEMENT

Management of the properties is currently provided by Pentagram Services Corporation. Though separately incorporated, Pentagram is the in-house management arm of John Graham and Company. Buildings under Pentagram management include the subject properties, the Bank of California Building and the 6th and Pike Building. Pentagram receives 2.75% of gross rents as compensation and is terminable with 60 days notice.

E. CONCLUSIONS

The general partners of the borrower are financially strong, reasonably liquid and appear to be committed to the properties. Pentagram has significant weaknesses as a leasing agent but performs well as a property manager. As discussed earlier, ONB/Plaza Center employs outside leasing expertise therefore Pentagram's shortcomings should not impact the performance of the investment.

Exhibit IV-1

JOHN GRAHAM ASSET PROFILE

Graham Company (199%)	John Graham Co. (82.9% Pfd.) (46% Common)	John Graham and Company (70%)	Partnership Interests
Graham Company (100%) - 24 condominiums in Seattle - 28.7% interest in 73 acres Schaumburg, Illinois - 100% ownership of Graham Development Services * 3.0% 6th & Pike * .4% Stimson Assoc. - 100% ownership of Pentagram Properties * 35.76% Pentagram Associates		John Graham and Company (70%) - Partnership to limit liability - Real estate in Spokane	Partnership Interests - Graham 7th Avenue 4.94% ownership of Seattle Sheraton - AMPAC 1 - 10% ownership in 17 acres in Issaquah, Washington - Bellevue Associates (subject property) 44.118% controlled 28.24% owned - College Grove Center in distribution; received \$3,495,000 in 1982 - Pacific Recreation 2.5% ownership of Bellevue Athletic Club - Schaumburg Associates 51.28% ownership in 73 acres, Schaumburg, Illinois - Shil Shole Commercial Property 100% of \$1,100,000 property - 6th & Pike Associates 22% ownership of 6th & Pike Building Seattle, Washington - Stimson Center Associates 94% of 40% limited partnership interests (37.6%) Seattle, Washington
ource: John Graham		. '	- GPP Associates 20% of Pentagram and Associates (100% Bank of California)

V. RISK AND RETURN

V. RISK AND RETURN

A. INTRODUCTION

The participating mortgage on the ONB/Plaza Center office buildings represents USF&G's first immediate loan funding on a leased property. When the loan is funded, the \$50,850,000 fully collateralized first lien will realize approximately \$5,000,000 in additional value due to the sale participation features of the loan.

B. VALUATION

Proforma Income and Expenses

Proforma income and expenses for the ONB/Plaza Center buildings are based on the rent roll presented in Exhibit V-1. As shown, the two buildings have an average occupancy of 79.6%. The proforma income statement presented in Exhibit V-2 was calculated as follows:

- Incorporate the existing lease schedules of tenants currently occupying space in the buildings;
- 2) Inflate current 1985 expenses by 6% per year for 18 months; and
- 3) For unleased space the following effective rents were utilized:
 - a) ONB An average of \$14.50 per square foot of net useable area. Expense stop of \$4.50 per net useable square foot. 12 months rent abatement/absorption period.
 - b) Plaza Center \$17.25 per square foot of net rentable area. Expense stop of \$4.00 per net rentable square foot. 18 months rent abatement/absorption period.

It should be noted that the proforma rents presented by the borrower are an average of \$16.00 for ONB and \$20.00 for Plaza Center.

The stabilized net operating income for the property using a 5% vacancy allowance is \$5,764,312. When the base mortgage payment of \$5,085,000 (based on the maximum loan amount) is deducted from the net operating income, the cash flow is \$679,312. The indicated debt coverage ratio is 1.13.

Valuation Methodology

The ONB/Plaza Center loan is an immediate funding. The properties' existing lease income increases the certainty of net income projections. The estimation of value should provide the lender with a good indication of the extent of loan collateralization. The property valuation will also provide the lender with a good indication of the loan's increased value. At funding the loan will realize 50% of the spread between the loan balance and the properties' value.

Piedmont Realty Advisors evaluated the subject properties using the three methods of value accepted by the American Institute of Real Estate Appraisers. These estimates are presented in Exhibit V-3. Piedmont estimates the market value of the property at \$61,000,000. The indicated loan to value ratio is 83%. There is a good chance that the maximum funding of the loan will be up to \$300,000 less than \$50,850,000 if the borrowers are able to repay the 9-1/4% Aetna loan without a prepayment penalty. A \$50,550,000 loan funding would indicate a loan to value ratio in the 82% range.

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 existing vacant space on five year leases. Income, expenses and property value are all expected to increase at an average of 5% during the ten year loan holding period. These projections are shown in Exhibit V-4.

The proposed loan contains a clause which will result in a downward adjustment of the gross income base amount over which the lender participates if rent abatements, in excess of 5% of the lease term, are granted to tenants. Based on historical leasing patterns, Piedmont Realty Advisors anticipates that at least 9 months of rent abatement will be included in newly signed 60 month leases. Applying the discount formula to the agreed upon base amount from operations results in an adjusted base amount of \$7,060,000 (1). This base amount of \$7,060,000 was used in the cash flow and yield analyses.

^{(1) \$7,150,000 (}negotiated base amount)

-6,135,576 (existing leases)

1,014,424 (9/60 rent abatement - 3/60 allowed

-1.10 amount = 6/60 or 10% discount)

922,205

+6,135,576 (existing leases)

\$7,057,780 (adjusted base amount)

\$7,060,000 say

The cash flows which contribute to the loan yield include: base debt service, additional interest from operations and additional interest from sale. The estimated yield given a 10-year holding period is 13.7% (See Exhibit V-5).

The cash flows are summarized as follows:

- * Base debt service on the loan which provides an initial cash return of 10.0% (\$5,085,000 on a \$50,850,000 investment) for years one through five. For years six through fifteen the cash return increases to 10.5% (\$5,339,250 per year on an outstanding balance of \$50,850,000 in year six).
- * Additional interest from operations which is 40% of the increase in the annual gross income over an amount equal to the annualized gross income 24 months after initial funding or \$7,150,000, whichever is less.
- * Additional interest from the sale or refinancing of the property which is equal to 50% of the net proceeds from the sale of the property in excess of the loan balance or 50% of the difference between the appraised property value and the outstanding loan balance if the property is not sold before the loan is called, refinanced or matures.

Additional safeguards for the lender include:

- * A holdback of \$1,991,452 for tenant improvements and leasing commissions.
- * Economic holdback of \$2,087,500, disbursed at a rate of \$1.265 per \$1.00 of gross income collected in excess of \$5,500,000 (75% occupancy).
- * A master lease of the entire building to the loan breakeven point by the general partners of the borrowing entity until the sooner of breakeven occupancy or 24 months.
- * A loan-to-value ratio which will be a maximum of 83%.
- * Debt coverage ratio which will be a minimum of 1.13.
- * A commitment fee of \$1,000,000, \$500,000 of which is earned upon borrower's acceptance of the commitment and \$500,000 which is refundable at initial funding but serves as security that the borrower will pay all costs of loan origination.

D. RISK

1. Market Risk

The market risk is that the properties cannot achieve proforma rental rates on the existing unleased space. The level of market risk associated with the ONB/Plaza Center loan is considerably less than the market risk associated with a speculative forward commitment because the subject properties have an existing occupancy rate of almost 80%. The leasing performance in the Plaza Center building has been consistent, but rent concessions have increased significantly during periods of flat demand in Bellevue. The competitive supply of office space in the Bellevue market has stabilized for the near term. However, the supply of competitive office space in Downtown Bellevue will increase in 1987.

The properties' locational characteristics, as they relate to downtown Bellevue, are excellent, but the physical appearance of the properties is considered conservative. The strongest competitive trait of the properties is their affordability. The subject properties can provide prospective tenants with an excellent downtown high-rise location at rental rates at least 10% below the existing high-rise competition. These observations relative to the subject properties' role in the Bellevue office market are supported by historical leasing performance. Piedmont Realty Advisors is anticipating an 18 month absorption/rent abatement horizon for the existing vacant space in ONB/Plaza Center at Piedmont's estimated proforma rents.

Piedmont Realty Advisors has conditioned the existing loan to value ratio in several ways. If the proforma rental rates are not achieved during the lease-up period, the threshold amount for the annual participation will be based on the rents actually in place at that time. Also the loan amount will be reduced since the economic holdback is fully funded only if the property achieves its proforma rental levels within the lease-up period. Finally, if free rent concessions are utilized to achieve the economic holdback disbursements, the threshold amount for the annual participation will be discounted by that amount which exceeds 5% of the term of the lease (2 months on a 3 year lease, 3 months on a 5 year lease, etc.).

Operating Risks

Operating risks occur if the property is not effectively managed and effectively marketed. The borrowing entity is financially sound, but they have contracted the management of the building to the Pentagram Corporation. Piedmont Realty Advisors has evaluated the John Graham organization and recommends that USF&G reserve the right to substitute another manager in the future. The substitution option will

be more relevant if an equity investment is completed in John Graham's 6th and Pike project in downtown Seattle (Piedmont and USF&G are currently evaluating).

From a marketing standpoint, Coldwell Banker has done a good job leasing the Plaza Center building. They have solicited and closed more than their fair share of large credit tenant transactions in the Bellevue office market. Mary Clarke is the leasing agent for the ONB building and has outperformed most downtown Bellevue leasing agents in the small, locally based tenant market. Piedmont Realty Advisors concludes the the respective leasing agents will have both buildings fully leased within 12 to 18 months. The main leasing risk for the subject properties will occur in the 1987 to 1988 time Two major high-rise buildings will be under construction during this period and the downtown Bellevue office market should soften. While a majority of the subject properties' tenants have leases which extend beyond this period, it is essential that those tenants with leases expiring in 1987 and 1988 be renewed or their space be released in an efficient and profitable manner.

3. Default Risk

The existing lease income will support 65% of the scheduled debt service on the loan. When rent abatements on existing leases expire (1 to 26 months from funding), the income stream will support 91% of the scheduled debt service on the fully funded loan. Current leasing activity on vacant space combined with the financial security of a 24 month master lease should ensure payment of the base debt service on the mortgage. In the event of default the collateral for the loan would be a well built, well located property with a unit value of \$136.23 per square foot. USF&G's loan basis at the full disbursement level of \$50,850,000 will be \$113.56 per square foot.

4. Interest Rate-Risk

Due to the immediate funding of the loan there is no forward commitment interest rate risk.

E. CONCLUSIONS AND RECOMMENDATIONS

The immediate funding characteristic of the proposed loan eliminates one of the major sources of risk in the USF&G loan program - interest rate fluctuations. The subject properties are currently 80% leased which mitigates a majority of the market risk commonly associated with the forward commitment mortgages in the USF&G portfolio. The downtown Bellevue office market has been soft, but Plaza Center has leased well. The major risk of this transaction is the extent to which market softness in the 1987 to 1988 time horizon affects the releasing activities of the subject properties.

We therefore recommend that the Real Estate Investment Committee approve the issuance of the commitment for a first mortgage of \$50,850,000 for the ONB Building and the Plaza Center Building with the following amplification: that USF&G retain the right to approve or substitute the current property manager - Pentagram Inc. within the first year of the proposed loan.

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Exhibit V-1

RENT ROLL ONB/PLAZA CENTER

Tenant Name		Fl.	Square Feet	Lease Term (Months)	Exp. Date	Rental Eff.(2)	Rate (1) Contract	Exp. Stop.	Notes
ONB Build	ling							· · ·	
ONB	*	1	9252	3ØØ	1/1/04	\$9.60	\$9.60	\$2.70	100% CPI In 1989 Not To Exceed 5.0%
ONB	×	2	13481	60	11/1/88	13.12	13.12	4.45	\$14.43 In 11/85
Michalak		3	1679	36	7/15/88	12.92	15.00	4.55	5 Mos. Free
Peick		3	2270	6Ø	7/1/89	16.52	16.52	4.55	None
Metlife	*	3	33Ø9	36	1/23/87	14.93	14.93	4.45	2 Year Option FMR
Trujillo		3	1666	36	2/15/87	15.43	17.00	4.45	3 Yr. Option; \$1.56 Excess T.I.'s
Vacant		3	3189	60	1/1/91	13.81	16.00	4.50	None
Harris	*	4	8836	6Ø	11/1/88	13.68	13.68	4.45	None
Vacant		4	3884	6Ø	1/1/91	14.05	16.50	4.50	None
Mobil	*	5	3463	32	5/1/87	13.96	17.18	4.55	3, 3 Year Options 90% FMR
					-,,		27420	1,00	Free Rent Sept., Oct. Each Year
Nylic	*	5	7684	36	1/1/87	12.89	12.89	4.45	None
Rees		5	1795	6Ø	7/15/90	14.44	15.75	4.55	C.P.I. In 7/85
Criton	*	6	12694	6Ø	1/14/89	10.48	12.24	2.69	5 Year Option FMR
D/B		7	2982	36	1/1/89	18.00	18.00	4.55	3 Year Option FMR
Pool		7	8Ø84	36	3/1/88	13.09	16.25	4.55	7 Mos. Free, 3 Year Option
Vacant		7	147Ø	36	1/1/89	14.73	17.25	4.50	None
Moss		8	6357	6Ø	5/1/90	9.82	14.03	4.55	18 Mos. Free; 5 Year Option At 90% FMR
Cottle		8	1997	45	10/1/86	15.03	16.50	4.40	4 Mos. Free; 3 Year Option FMR
Vacant		8	4021	60	1/1/91	14.95	17.50	4.50	None
Inslee	*	9	10894	60	11/1/88	13.63	13.63	4.50	5 Year Option At 95% FMR
Vacant		9	1900	36	1/1/89	15.18	17.75	4.50	None
Diamond		10	3247	36	9/1/87	18.02	18.02	4.55	2 Year Option FMR, 15% CAP
Franklin		10	1676	60	1/1/89	16.93	16.93	4.45	None
Matsen		10	4114	36	1/1/86	17.33	17.33	4.50	3, 3 Year Option FMR
Taft		10	2020	36	1/1/88	12.67	14.00	4.55	10.00 to 3/1/86, 3 Yr. Option 98% FMR
TRE		10	1441	36	12/1/85	15.68	15.68	4.45	None
TOTAL ONB OCCUPIED VACANT				(88.3%) (11.7%)		\$13.24 (3) \$14.41 ((3)	

Exhibit V-1 (Cont.)

RENT ROLL ONB/PLAZA CENTER

Tenant Name		Fl.	Square Feet	Lease Term (Months)	Exp. Date	Rental Eff.(2)	Rate (1) Contract	Exp. Stop.	Notes
Plaza Cent	er								
Health		1	1100	NA	NA	(4)	(4)	\$3.27	(4)
Bus. Land	*	1	5517	120	3/1/94	19.04	19.04	NET	None
Hair		ī	1500	6Ø	7/1/89	7.50	7.50	NET	6% of Sales
Plaza Ex.		ī	496	60	2/1/89	9.00	9.00	NET	None
Deli		ī	1503	6Ø	4/1/89	9.24	9.24	NET	6% of Sales
Things Etc		ī	530	6Ø	4/1/89	9.24	9.24	NET	6% of Sales
Travel	•	ī	1000	57	5/1/89	20.00	20.00	NET	None
B.Franklin	*	2	5141	60	3/1/90	15.21	18.25	4.00	10 Mos. Free, 5 Year Option 90% FMR
Bus.Land	×	2	880	120	3/1/94	19.04	19.04	NET	None
Mut.Bene.	*	2	6440	36	3/1/87	17.01	17.01	3.75	3 Year Option FMR, 5 Mos. Free
Snow		2	714	36	12/1/87	17.01	17.01	3.80	3 Year Option FMR
US West	*	2	1412	36	1/1/89	16.50	16.50	3.75	16 Mos. Free, 5 Year Option FMR
Vacant		2	6481	6Ø	1/1/91	16.50	18.00	4.00	None
US West	*	3	20991	60	1/1/89	16.50	16.50	3.80	None
EBASCO	*	4	20991	120	7/1/95	15.64	19.92	4.00	24 Mos. Free
EBASCO	*	5	20991	120	7/1/95	15.64	19.92	4.00	16.60 TO 7/90
EBASCO	*	6	8Ø82	120	7/1/95	15.64	19.92	4.00	19.92 to 7/95, 5 Year Option 90% FMR
FCA		6	5655	36	4/1/87	17.96	17.96	3.80	(5)
MGIC	*	6	353Ø	6Ø	1/1/90	18.50	18.50	3.80	5 Year Option FMR
Sunds		6	3552	36	5/1/87	17.5Ø	17.50	3.80	3 Year Option FMR
Seafirst	*	7	20991	6Ø	10/1/89	11.73	16.76	3.75	5, 3 Year Options, 18 Mos. Free
AMS		8	4148	6Ø	4/1/90	15.35	18.50	4.00	10 Mos. Free
BDA		8	845	60	8/1/88	13.00	13.00	3.80	None
Daewoo		8	1850	60	8/1/90	16.66	18.51	3.80	6 Mos. Free
Equit.	*	8	1606	36	12/15/86	19. <i>7</i> 5	19.75	3.80	None
Parker		8	960	48	6/1/88	18.51	18.51	3.80	None
Sec.Pac.	*	8	4525	60	7/1/89	16.50	16.50	3.80	None
Vacant		8	6885	6ø	1/1/91	16.38	19.00	4.00	None
BSC		9	20819	120	1/1/95	19.56	24.42	4.00	18 Mos. Free
BSC		10	10376	120	1/1/95	19.56	24.42	4.00	18.60 To 1/88
Vacant		10	10443	120	1/1/95	19.56	24.42	4.00	19.86 To 1/90
									24.42 To 1/95

Exhibit V-1 (Cont.)

RENT ROLL ONB/PLAZA CENTER

Tenant Name		Fl.	Square Feet	Lease Term (Months)	Exp. Date	Rental Eff.(2)	Rate (1) Contract	Exp. Stop.	Notes
Building		11	1770	120	1/1/95	Ø.ØØ	Ø.ØØ	0.00	(6)
Fac.Mut.	*	11	6316	60 ·	11/1/89	14.41	18.01	3.80	12 Mos. Free, 5 Year Option 90% FMR
Morrow		11	4523	60	12/1/88	20.00	20.00	3.75	None
Vacant		11	8128	60 .	1/1/91	17.35	20.00	4.00	None
Met.Life	*	12	10000	6Ø	1/1/93	18.68	23.00	3.75	2, 5 Year Options 8% Annual Cap
NEC	*	12	3321	36	12/15/87	19.25	19.25	4.00	None
Vacant		12	7416	60	1/1/91	18.03	20.50	4.00	None
Met.Life	*	13	20737	120	11/1/93	18.68	21.00	3.80	None
Augie		14	1480	60	9/1/90	16.31	21.00	4.10	15.00 To 9/86
			2100		3, 2, 30	20.02	22.00	3 6 3.10	17.00 To 9/87 19.00 To 9/88 21.00 To 9/89
DMS		14	3462	60	7/1/88	14.68	17.32	3.80	13.01 To 6/85 14.31 To 6/86 15.74 To 6/87 17.32 To 6/88
Prubach	*	14	7148	120	11/1/93	19.50	19.50	4.00	None
Vacant		14	8647	60	1/1/91	18.52	21.00	4.00	None
PMM	*	15	453Ø	6ø	9/1/89	16.84	21.50	4.00	13 Mos. Free, 5 Year Option \$26.17
EFH	*	15	6554	60	10/3/88	23.90	23.90	3.75	2, 5 Year Options FMR, 2 Mos. Free
PD		15	1676	36	9/1/88	21.51	21.51	4.10	None
Vacant		15	7977	6Ø	1/1/91	19.47	21.50	4.00	None
Vacant		16	20737	6Ø	1/1/91	20.89	22.50	4.00	None
•				~~	_, _,	M2 0 0 5		1,000	
TOTAL PLA	ZA		324376	•		\$17.48 (7) \$20.19 (7)	
OCCUPIED			247662	(76.4%)					
VACANT			76714	(23.7%)					
ONB/PLAZA TOTAL OCCUPIED VACANT				(79.6%) (20.4%)				,	

Exhibit V-1 (Cont.)

RENT ROLL ONB/PLAZA CENTER

Lease Rental Rate (1) Tenant Square Term EXD. Exp. Name Fl. Feet (Months) Date Eff. (2) Contract Stop. Notes

* Indicates Credit Tenant

NOTE: The ONB Building is currently being rented on a useable square foot basis. To compare ONB rental rates to Plaza Center, divide rates by 1.081. Example: the average effective rental rate for ONB is \$12.25 per net rentable square foot (\$13.24 divided by 1.081).

- (1) Annual Rental Rate. ONB rents are based on useable square feet.
 Plaza Center rents are based on rental square feet.
- (2) Effective rental rate calculation is made by applying free rent and amortization of excess tenant improvements as discounts to the contract rental rate.
- (3) Average rental rates calculated on a weighted basis. (weighted by square footage)
- (4) The building owner has created a small Athletic Club with locker rooms and weight equipment. The Club is considered a building amenity and memberships are \$25/quarter/person for tenants only.
- (5) The FCA lease was negotiated on a useable square foot basis with 5,055 square feet at \$20.09. The rental rate and square footage totals have been adjusted to rentable area. In addition, FCA vacated the premises on January 31, 1985, but they continue to pay rent.
- (6) Office of the Building consists of 820 square feet for the current leasing office and a 950 square foot conference room facility which is a building amenity.
- (7) Average rental rates calculated on a weighted basis (weighted by square footage). Retail space and Office of the Building figures are excluded from this average rent calculation.

Sources: Piedmont Realty Advisors;

J.L. Johnson;

John Graham Development Services.

Exhibit V-2

PROFORMA INCOME AND EXPENSES ONB/PLAZA CENTER

Gross Income ONB	
Leased	\$1,511,110
Vacant	209,252
Total	1,720,362
Plaza	
Leased	4,624,466
Vacant	1,280,120
Total	5,904,586
Parking	237,500
Expense Reimbursement	352,617
Gross Potential	\$8,215,065
Less: Vacancy @ 5%	410,753
Effective Gross Income	7,804,312
Less: Expenses	2,040,000
Net Operating Income	5,764,312
Less: Mortgage Payment	5,085,000
Cash Flow	\$ 679,312

Indicated Debt Coverage Ratio 1.13

Source: Piedmont Realty Advisors

Exhibit V-3A

COST TO REPRODUCE ONB/PLAZA CENTER

Land Building Site Work Hard Costs	\$ 940,000 31,210,000		Ground lease \$2.10 per square foot \$48.00 per net rentable square foot of building \$8,700 per parking space.
Tenant Improvements	7,612,000		\$17.00 per net rentable square foot of building
Leasing Commissions	2,239,000		\$5.00 per net rentable square foot of building
State Sales Tax	3,325,000		8.1% of \$41,061,000
Financing Fees	675,000		1.5% of \$45,000,000
Soft Costs	3,121,000		10% of hard costs
Construction Interest	3,109,000		59% of \$41,061,000 14 months @ 11%
Lease Up Carry	7,425,000		\$45,000,000 @ 11% for 18 months
TOTAL	\$59,656,000 1,560,500(2 \$61,216,500	2)	Without developer's profit 5% profit on hard cost
Indicated Value	\$61,000,000	(3)	

Note: No depreciation has been assessed against the indicated value due to the age of the subject property.

Source: Conger, Rees & Clarke, Inc Piedmont Realty Advisors

⁽¹⁾ The current ground lease probably adds some value to the building due to its "below market" payment terms. Piedmont did not attempt to quantify this value.

⁽²⁾ Due to the greater than average lease up carry budget associated with this building, a 10% profit margin on hard costs is not appropriate.

⁽³⁾ The indicated value accounts for the greater than average lease up carry budget and its impact on the appropriate developer profit margin.