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

August 5, 1987

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

Re: **Lighton Plaza Phase III Land**
Overland Park, Kansas

Dear Committee Members:

The following memorandum is a summary report on 11.9 acres of land which will be the third phase of Lighton Plaza and will complete the Lighton Plaza development scheme in Overland Park, Kansas. Trammell Crow intends to construct one, fourteen-story office building containing 233,000 square feet of net rentable area on the 11.9-acre site in the Fall of 1989. USF&G funded a $13.2 million participating loan on Phase I of Lighton Plaza in February, 1987; Phase I is currently 56.5% leased. USF&G issued a forward commitment to fund Phase II of Lighton Plaza in May, 1987. Lighton Plaza II will begin construction in August, 1987. Piedmont Realty Advisors completed a full investment report for Lighton Plaza Phase I in June, 1985 and for Lighton Plaza Phase II in March, 1987. Please contact Ron Hughes for copies of these reports. The following memorandum includes an update of salient project, market and borrower facts which have occurred since March, 1987 and a complete review of the specific risk and return aspects of the participating land loan outlined in Exhibit I-1.

The Property

Lighton Plaza is located in the northwest quadrant of the Metcalf/College Boulevard intersection in Overland Park, Kansas (see Exhibit I-2). Phase I of Lighton Plaza is a six-story, granite-clad office building which was completed in December, 1986. Phase I is currently 56.5% leased to 12 tenants (see Exhibit I-3). Phase II of Lighton Plaza is a mirror image of Phase I and will begin construction in August, 1987.

Trammell Crow entered into a contract to purchase the land for the third and final phase of Lighton Plaza in June, 1987. The 11.9-acre site is currently zoned for 233,000 net rentable square feet of office space. Trammell Crow has proposed a 14-story granite-clad office tower on the 11.9-acre site. The development plan includes the addition of underground parking, additional water features and a common area plaza (see Exhibit I-4).

The Phase III design effectively unifies the Lighton Plaza development by providing (1) direct ingress/egress to College Boulevard, (2) a new common area plaza linking the three buildings and (3) a first class restaurant and service retail area which will serve the entire project (see Exhibit I-5). The land purchase is scheduled for a November, 1987 closing. Trammell Crow plans to start construction on Phase III in the Fall of 1989 with a completion date anticipated for the Spring of 1990.

The Market

Piedmont Realty Advisors updated its surveys of the College Boulevard office market and the individual office properties which directly compete with Lighton Plaza. The results are summarized in Exhibits I-6 and I-7. The most significant trend is the markets' ability to absorb new construction. The competitive properties have continued to exhibit record absorption for each quarter since March, 1985. Absorption of competitive properties' office space between March, 1987 and June, 1987 amounted to 181,340 square feet. Effective gross rental rates in competitive properties increased from $13.45 to $14.39 per net rentable square foot during the same period. The market continues to offer concessions averaging 15% to 20% of the lease value.

Lighton Plaza I and the Executive Hills' high-rise building captured 88% of the tenant demand during the second quarter of 1987. The performance of Lighton I has exceeded Piedmont's rental rate and absorption projections. Lighton Plaza I achieved the highest effective gross rental rate in the market at $14.95 with a 3.75 expense stop. Prospective tenant activity for Lighton I indicates that it will continue to outperform its competition in terms of absorption and rental rates.

There are four development sites available in the College Boulevard area. Phase 2 of PCA's Commerce Plaza which can support 128,000 additional square feet has been delayed pending the resolution of PCA's financial problems with its Country Club Plaza development. Corporate Woods has three more sites which can support 800,000 square feet. Metropolitan Insurance, the developer of Corporate Woods, is currently requesting that the City of Overland Park approve one 500,000 square foot building on a combined site. This would be Corporate Woods' last building. The City indicated that the approval process would take at least nine months. Copaken, White and Blitt has an additional development site available in the Renaissance Center project which can support 150,000 square feet of office development, but the project has been indefinitely delayed due to excessive site development costs which were incurred during construction of their Phase 2 building. The fourth site is Lighton Plaza Phase III.

Recent market evidence indicates that Lighton Plaza Phase II will be entering a College Boulevard market with a better supply/demand relationship than Piedmont expected in March, 1987. While the College Boulevard market should be relatively healthy during Phase III construction, the anticipated timing of Lighton Plaza Phase III may result in head-to-head competition with Corporate Woods' high-rise. Trammell Crow has already demonstrated that it can compete effectively with Corporate Woods and Crow should continue to be competitive during the lease-up phase of Lighton Plaza III. Based on the current market conditions and anticipated supply in the College Boulevard office market, Piedmont anticipates that the proforma gross rental rate for Lighton Plaza III should be $21.00 in 1991 with a $5.00 expense stop. Based on the current performance of Lighton Plaza Phase I in a competitive College Boulevard office market, it is reasonable to assume an absorption rate of 10,000 square feet per month or a 24-month absorption period for Phase III. Piedmont used a 12-month free rent concession in its financial analyses.

The Borrower

The leasing program for Lighton Plaza Phase I is ahead of schedule and the rent levels have exceeded Piedmont's original interpretation of the market. Piedmont Realty Advisors concludes that the strong development performance by the Kansas City office of Trammell Crow is directly responsible for the success of Lighton Plaza I. They have recently added key employees to their staff which will further decrease the borrower related risks.

Risk and Return

<u>The Transaction</u>

The structure of the proposed transaction is based on the participating land loan format used in the Centerpointe investment in Portland, Oregon with Birtcher. USF&G will receive a 9.5% interest rate on its loan balance and by structuring the transaction as debt, USF&G can recognize the accrual interest as income. The sum of the initial loan balance and the accrued interest is referred to as the "Land Release Price". In the event the unimproved property is sold to a third party, USF&G will receive the Land Release Price and the remaining proceeds will be allocated 75% to USF&G and 25% to Trammell Crow. The proposed land loan structure offers USF&G the opportunity to finance either a participating mortgage or an equity joint venture when Trammell Crow is prepared to start Phase III. USF&G's ability to choose either investment vehicle helps mitigate interest rate risk and allows USF&G to tailor a financing instrument to their investment needs at the time of Phase III development. The Borrower has the right to turn down USF&G's proposal for future financing. In this instance, USF&G will receive at least a 26% limited partnership interest in the development after the Land Release Price has been paid. The land loan is further secured by being cross-collateralized with the Lighton Plaza II project.

Valuation

Trammell Crow purchased the land by exercising its first right of refusal which it had previously negotiated as part of the Lighton Plaza development. Executive Hills submitted an unsolicited all cash offer to the Lighton Trust (the owner of the property) at a price of $5,700,000 in March, 1987. Trammell Crow felt that the offered price was $300,000 above the value of the property so it negotiated a November, 1987 closing under the premise that the delayed closing was equivalent to $350,000 in carrying costs. Recent market comparables support a value of $5,400,000 (see Lighton II Report). However, the offer by Executive Hills indicates that the lack of developable land in the College Boulevard office market has led to value premiums for key parcels. Piedmont Realty Advisors concludes that the value of the Lighton Plaza Phase III land will be $5,700,000 at closing in November, 1987.

Risk

The risks involved with this investment are outlined below:

Risks	Mitigating Factors
Loan to Value. The loan balance is equal to or slightly higher than the value at initial funding. The accrued interest will result in an under-collateralized loan position.	Cross-collateralization with Lighton II will mitigate some of this risk. However, USF&G should approach this investment with the understanding that this land is an integral part of the Lighton Plaza development scheme. The price premium should be recaptured with the development of Phase III.
Market. The College Boulevard office market contains buildings currently experiencing lease-up problems. The continued softness may result in lower effective rents.	Lighton I is clearly out-performing the market in terms of effective rents, absorption and quality of the rent roll. Lighton's effective rents have actually increased during the lease-up period. This demonstrated performance in a competitive market indicates that Lighton Plaza should receive more than its fair share of tenant demand in the College Boulevard market.

Return

The projected returns are based on the assumptions outlined in Exhibit I-8 and the cash flows in Exhibit I-9. USF&G's projected internal rates of return vary from 13.4% to 21.1% (see Exhibit I-10). The range of returns is influenced by the holding period of the land loan and the type of financing structure used in the development of the Phase III building. Piedmont Realty Advisors concurs with Trammell Crow's anticipated start date of Fall, 1989. Therefore, the most likely yield for the land loan portion of this transaction should fall between 15.1% and 21.1%.

Conclusions

The proposed Lighton Plaza Phase III land loan in Overland Park, Kansas represents an excellent opportunity to invest in the entire Lighton Plaza development. Phase I is now open and ahead of its projected lease-up schedule. Phase II which is a mirror image of Phase I will begin construction in August, 1987. The 14-story Phase III tower will make Lighton Plaza one of the most significant office projects in the Kansas City metropolitan area. Lighton Plaza has a superior location with excellent access in an established and growing suburban office market. The proposed participating loan for Lighton Plaza Phase III land should result in very high investment returns with an acceptable amount of risk. The downside risks are minimized because of the proven market acceptance of Phase I, the location of the subject property, and Trammell Crow's development expertise in the College Boulevard office market.

Therefore as a participating loan for land development, the proposed investment will provide adequate returns for the risks involved. Consequently, Piedmont Realty Advisors recommends that the Real Estate Investment Committee of the United States Fidelity and Guaranty Company approve the commitment of a participating land loan totaling $6,100,000 for the development of Lighton Plaza Phase II with the Trammell Crow Company.

Sincerely,

Stephen L. Grant
Vice President

Enclosures

Exhibit I-1

APPLICATION LETTER

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

July 28, 1987

Mr. C.A. "Tuck" Spaulding, III
Trammell Crow Company
7300 College Boulevard
Overland Park, Kansas 66210

Re: **Lighton Plaza Phase 3 Land**
Overland Park, Kansas

Dear Tuck:

This letter summarizes the terms on which 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 property described below.

Property:	**Lighton Plaza Phase 3 Land** - An 11.9-acre parcel of land zoned for an office building consisting of 233,000 net rentable square feet.
Location:	Between College Boulevard and 110th Street north of Metcalf Avenue, Overland Park, Kansas.
Land Area:	Approximately 11.9 acres.
Borrower:	Trammell Crow - Kansas City, #2 L.P. (Crow)
Lender:	United States Fidelity and Guaranty Company (USF&G)
Loan Amount:	$6,100,000
Interest Rate:	9.50%
Amortization:	Not applicable, interest only.

Loan Term:	24 months with two, 12-month extensions. Crow must give USF&G six months written notification of its intent to extend the loan for the 12-month additional terms.
Pay Rate:	All interest will accrue and compound annually to the Outstanding Loan Balance.
Prepayment:	Loan may be prepaid without penalty at any time provided that is consistent with methodology of Lighton Plaza III Land Release outlined below.
Initial Funding:	The lesser of (i) the actual cost of closing Phase III Land at time of Initial Funding or (ii) $5,800,000. The actual cost of closing shall include the purchase price of the property plus USF&G's $61,000 commitment fee plus up to $39,000 in closing costs.
Holdback for Real Estate Taxes:	$300,000; disbursed on semi-annual basis to cover real estate taxes incurred on Phase III Land after acquisition, but prior to the Land Release. Any unfunded holdback will be retained by USF&G and will be used to reduce the loan amount.
Secondary Financing:	No secondary financing will be allowed.
Guarantees:	The proposed loan will be non-recourse.
Lighton Plaza III Land Release:	USF&G will be paid a Release Price equal to the Outstanding Loan Balance on the Land. The Outstanding Loan Balance will be equal to the initial disbursement plus all disbursed real estate tax holdbacks plus all accrued but unpaid interest. With the payment of the Release Price to USF&G and USF&G approval the borrower may act on one of the following options:

(1) **Sell Lighton Plaza III Land to a third party**

100% of Net Sales Proceeds are applied to pay the Release Price to USF&G if the property is sold to an unrelated third party in a bona fide sale. Once the loan is paid off, USF&G receives 75% of Net Sales Proceeds. Net Sales Proceeds means the amount of the sales proceeds in excess of the Land Release Price.

(2) **Transfer the Land to a related development entity of which USF&G is member subject to the condition that Lighton Plaza II is 35% leased.**

(a) **USF&G Offer** - USF&G will propose one of the two following alternatives:

(i) **Equity Joint Venture** - Upon payment of the Land Release Price to USF&G, the land will be transferred to a development partnership of which USF&G is a member. USF&G will simultaneously issue an equity commitment for Phase III development to be funded upon building completion.

or

(ii) **Participating Mortgage** - Issue a commitment for a full-cost, non-recourse participating mortgage.

Note: Crow will receive a $61,000 credit toward the fees in either alternative (i) or (ii) if Crow elects to accept USF&G's offer.

(b) **Crow Response**

Crow has the right to turn down USF&G's participating mortgage or equity joint venture offer and pay the Land Release Price to USF&G. In the event Crow turns down USF&G's offers, USF&G shall receive the following limited partnership interest in the ownership of the development entity:

Period (Loan Months)	Limited Partnership Interest (% Ownership)
1-24	26%
25-36	32%
37-48	44%

Note: If third party joint venture financing is utilized in the development of the building, USF&G's limited partnership interest will be diluted on a prorata basis with Crow and will never be diluted below 50% of its limited partnership interest outlined above.

Commitment Fee:	$61,000 in cash which is earned upon acceptance of the Commitment.

Other Loan Terms:

A. Plans and Specifications for Future Buildings:	USF&G reserves the right to review and approve the plans and specifications for all future buildings to be build on Phase III Land. Said approval shall not be unreasonably withheld.
B. Land Sale Approval:	USF&G reserves the right to review and approve all proposed land sales. Said approval shall not be unreasonably withheld.
C. Land Parcel:	The Commitment will contain language requiring that the Lighton Plaza III Land remain a single land parcel and will not be released as or subdivided into smaller parcels.
D. Land Loan Refinancing:	USF&G reserves the right to review and approve all of the documents associated with refinancing of the Lighton Plaza III Land loan. Said approval shall not be unreasonably withheld.
E. First Offer:	If the partnership desires to sell the property, USF&G shall have the right of first offer to purchase the subject property.
F. Additional Collateral:	The Commitment will contain clauses which require that USF&G receive a security interest in the limited partnership interest of the borrower of the Lighton Plaza Phase II participating mortgage as additional collateral for the Phase III land loan. The clauses will provide that, in the event of a default on the land loan, USF&G will receive a sufficient interest in Lighton Plaza Phase II to cure any deficiency.

Contingencies

A. Market Value Appraisal:	USF&G requires a market value estimate of the property from an MAI designated appraiser approved by USF&G which is not less than $5,700,000. The cost of the appraisal shall be funded by USF&G as part of the $39,000 closing cost budget.

B. Lender Approval:	This application must be approved by USF&G's Investment Committee.
C. Engineering:	Crow will engage an engineer approved by USF&G to perform a complete analysis of the soil. The engineering report will be in a form and a substance acceptable to USF&G and shall include an environmental audit showing that no hazardous or toxic wastes exist on the property. The cost of the engineering study shall be funded by USF&G as part of the $39,000 closing cost budget.
D. Economic Due Diligence:	The issuance of the Commitment will be contingent upon Piedmont Realty Advisors' being satisfied with the result of its economic due diligence.
E. Partnership Documents:	USF&G will be provided with the Partnership Agreement and all associated documents for the proposed borrowing entity. Provisions limiting the transfer of partnership interests will be included in the Commitment Letter. The commitment is contingent upon the USF&G's review and approval of the partnership documents.
F. Title Insurance:	USF&G reserves the right to review and approve the title insurance and property survey as part of its legal due diligence.
G. Construction Budget Approval:	USF&G reserves the right to approve the Construction Budget for the improved Property. Failure to respond within 15 business days after receipt of the Construction Budget shall be considered approval. Said approval shall not be unreasonably withheld.
H. Permanent Financing:	USF&G reserves the right to approve all permanent financing entered into by the development entity. Failure to respond within 15 business days after receipt of the financing proposal shall be considered approval. Said approval shall not be unreasonably withheld.

I. Leasing:	USF&G reserves the right to approve all leases with terms and conditions outside the pre-approved leasing guidelines. Failure to respond within 15 business days in writing after receipt of the nonconforming lease shall be considered approval. The leasing guidelines will be part of the partnership agreement. Crow shall have the right to bind the Partnership to leases that fall within the leasing guidelines.
J. General Contractor:	USF&G reserves the right to approve the general contractor for Lighton Plaza Phase III development. R.W. Murray shall be considered an approved general contractor.
K. Government Approvals:	Prior to closing of the loan, Crow will submit to USF&G Overland Park's zoning and subdivision approval for the proposed development plan.
L. Other Contingencies:	All other standard contingencies found in the USF&G's participating mortgage documents.

If the terms outlined in this letter are acceptable, please sign below and return this letter with an Application Fee in the amount of $50,000 by August 3, 1987. The Application Fee should be wired to a custodial account. Please call me for wiring instructions. The Application Fee will be returned if USF&G does not issue a Commitment according to the terms outlined in this letter. The Application Fee will be earned by USF&G upon issuance of a Commitment according to the terms outlined in this letter and the Commitment Fee will be reduced by $50,000.

Sincerely,

Stephen L. Grant

Stephen L. Grant
Vice President

C.A. Spaulding III — 7-31-87

SIGNED — DATE

Partner

TITLE

cc: Steven L. Guinn
Kendrick T. Wallace
George L. Lippe

Commercial
7300 College Boulevard
Overland Park, Kansas 66210

913/661-9333

July 31, 1987

Piedmont Realty Advisors
Twenty-second Floor
650 California Street
San Francisco, California 94108

Attention: Steven L. Grant, Vice President

Re: Lighton Plaza Phase III Land
Overland Park, Kansas

Gentlemen:

We are returning herewith the letter dated July 28, 1987 which outlines the terms of a participating first mortgage on the property described therein. We have signed the letter indicating our acceptance of the loan terms subject to the following matters being incorporated in such loan terms:

Borrower: Crow-Kansas City #2 Limited Partnership

Lighton Plaza III Land Release:
(2)(a) USF&G Offer: It is understood that the USF&G offer will be made without reference to USF&G's ownership interest in the development entity.

Other Loan Terms:
F. Additional Collateral: The clauses will provide that, in the event of a default in the land loan, USF&G will receive a sufficient interest in Lighton Plaza II to cure any deficiency with respect to accrued interest up to a maximum of $2,500,000.

If the foregoing matters are acceptable as a part of the loan terms, you may submit the application on our behalf as set forth in the letter.

Very truly,

TRAMMELL CROW COMPANY

By C. A. Spaulding
C. A. Spaulding, III

Exhibit I-2
SITE LOCATION MAP
LIGHTON PLAZA III

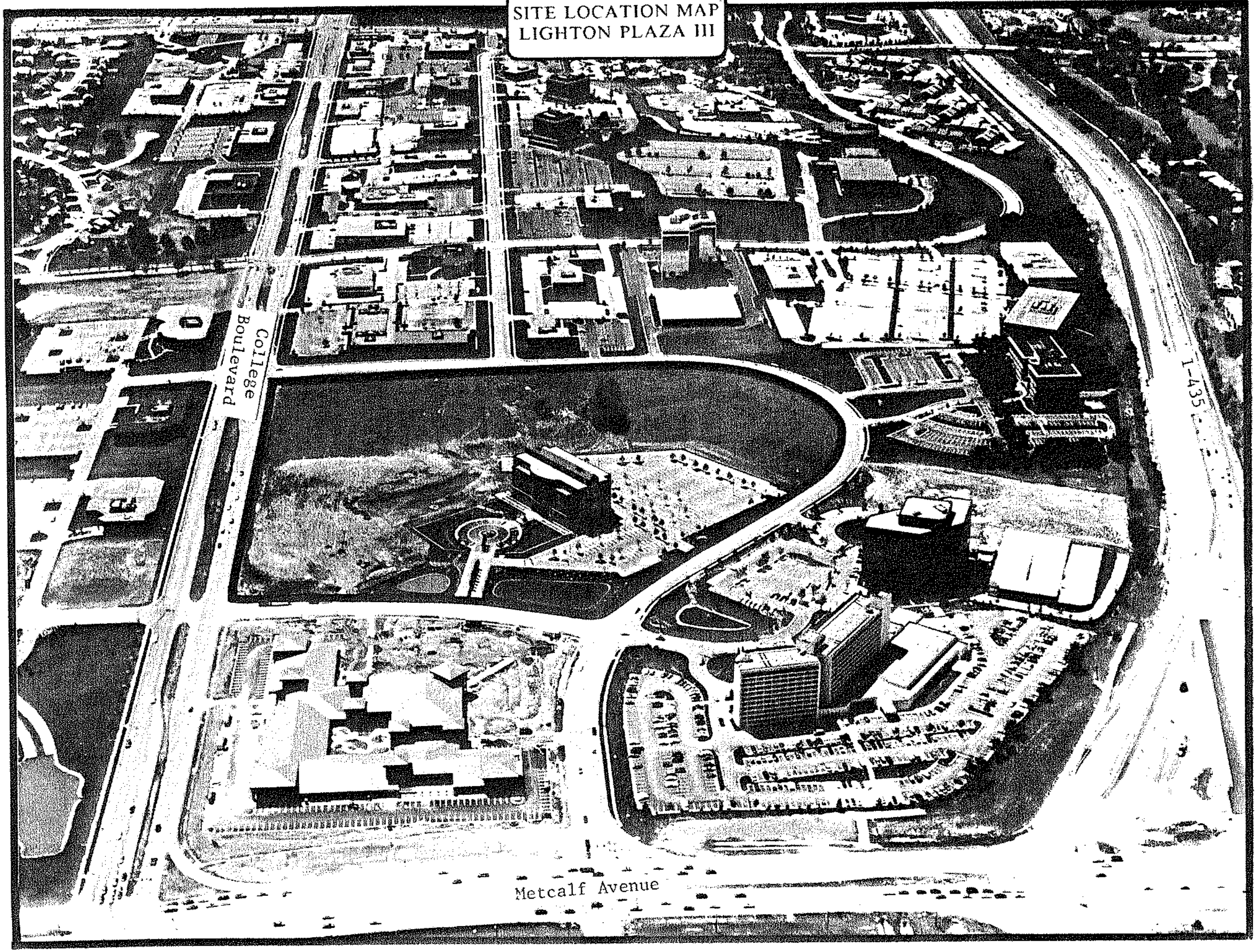


Exhibit I-3

RENT ROLL
LIGHTON PLAZA I

Square Footage	Tenant	Face Rate	Effective Rate	Lease Start	Lease End
2,649	Barnett & Ross	$18.50	$14.49	7/01/87	6/30/92
3,167	Lincoln National	18.50	15.22	12/01/86	11/30/91
1,308	R.W. Murray	18.50	17.48	3/01/87	2/28/90
3,075	Trammell Crow	18.50	16.70	2/01/87	1/31/90
21,130	U.S. Central	18.50	14.63	12/01/86	5/31/92
4,443	Great West Life	18.50	14.30	8/15/87	8/31/91
8,854	Texas Instruments	18.50	13.88	8/01/87	7/31/91
1,429	Seagrams	18.50	15.41	8/01/87	7/31/90
2,219	Great American Insurance Planners	18.50	15.44	11/01/87	5/31/91
12,770	Procter & Gamble	18.50	14.80	1/01/88	12/31/92
2,219	J. Walter Thompson	18.50	14.80	9/01/87	8/31/92
2,240	Chase Manhattan Bank	18.50	15.42	1/01/88	12/31/92
65,503	TOTAL/AVERAGE	$18.50	$14.80		

SOURCE: Trammell Crow

Exhibit I-4
ARCHITECTS RENDERING
LIGHTON PLAZA

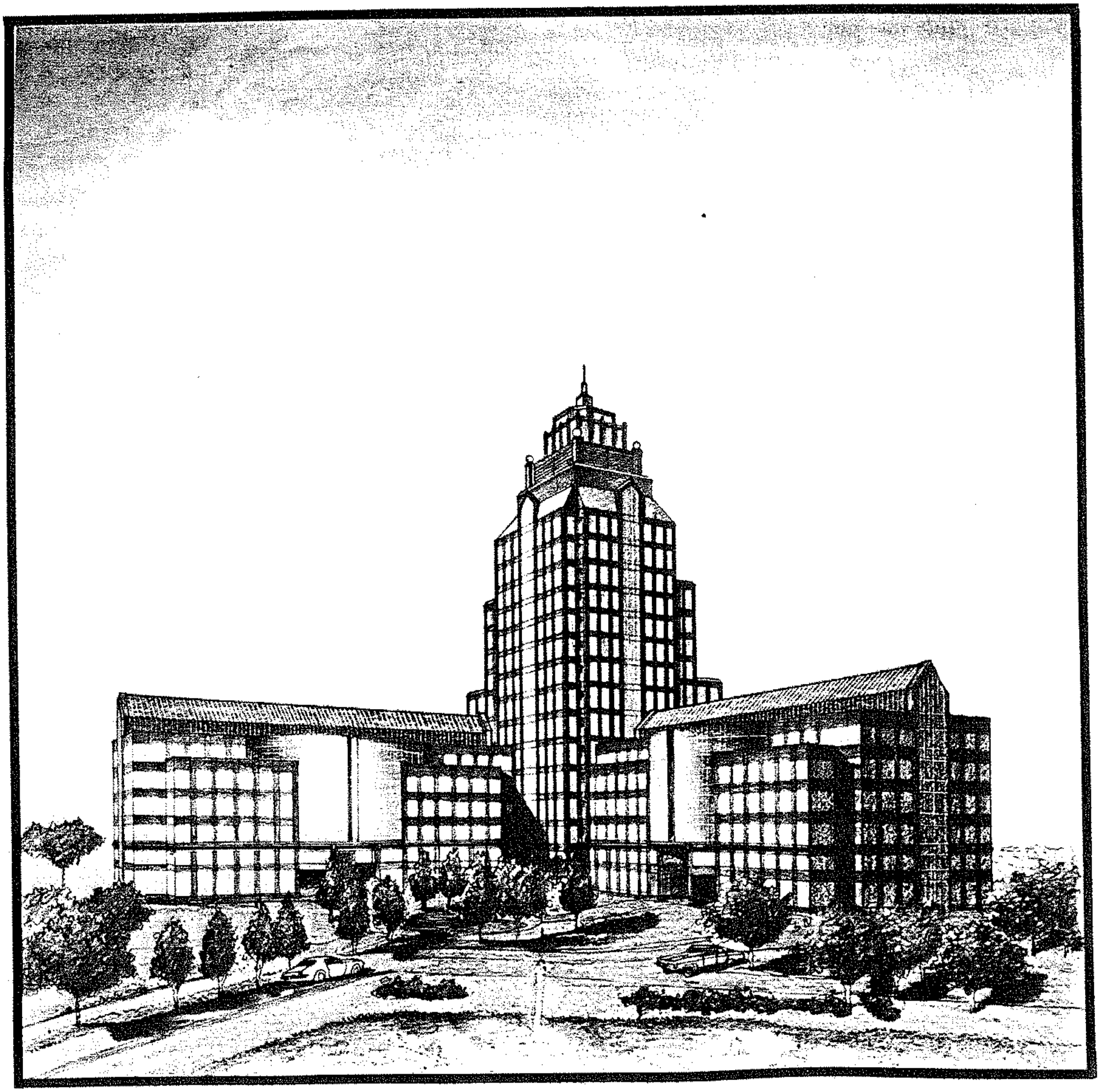
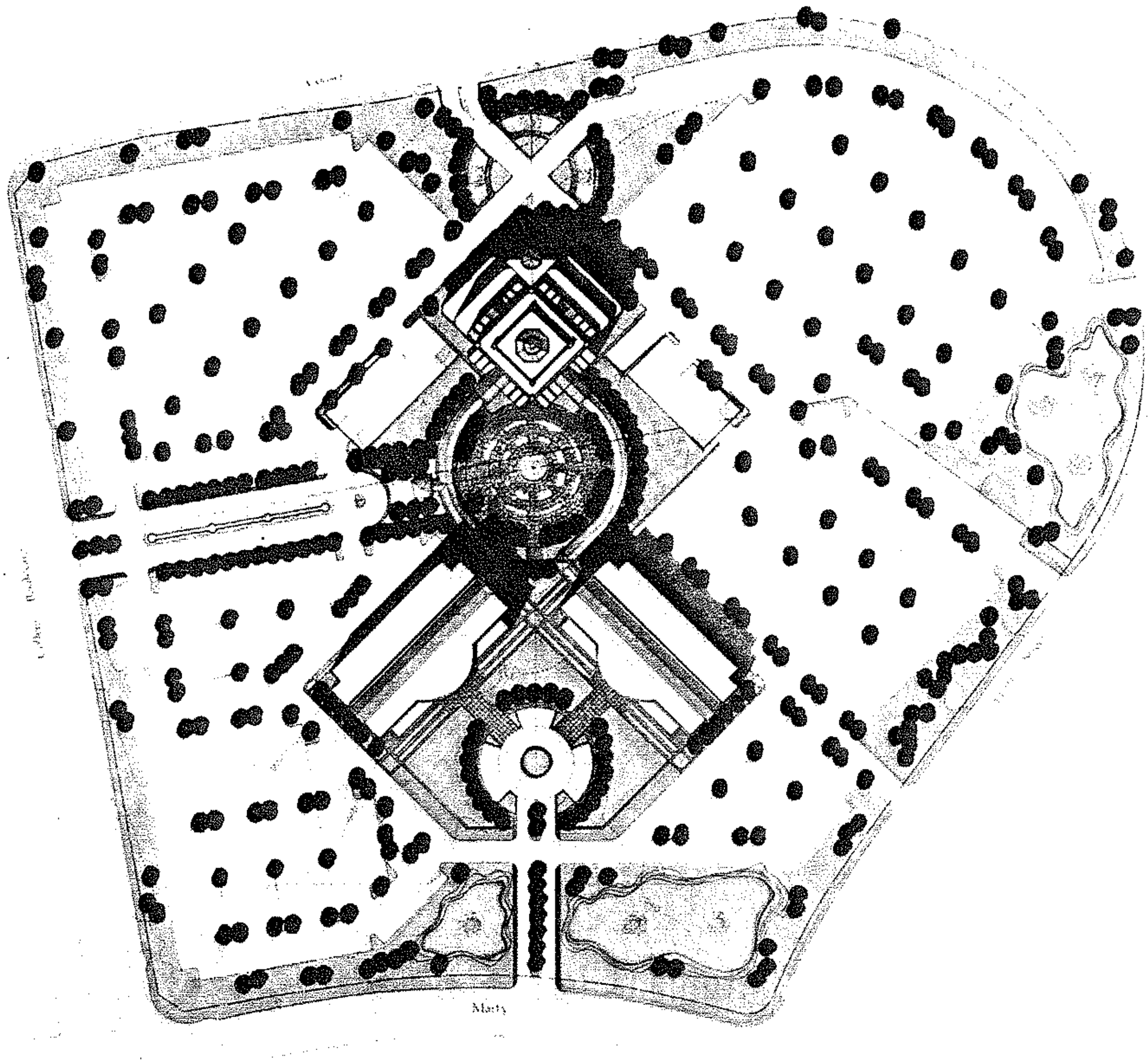


Exhibit I-5
SITE PLAN
LIGHTON PLAZA



Lighton Plaza
A Trammell Crow Company Development
Overland Park, Kansas

Exhibit I-6

MARKET SUMMARY
COLLEGE BOULEVARD OFFICE SUBMARKET (1)

	3/85	12/86	3/87
Total Square Feet	4,500,000	4,730,000	5,544,000
Vacant Square Feet	650,000	971,000	1,003,000
Vacancy Rate	14.4%	20.5%	18.1%
Square Feet Under Construction	625,000	811,000	116,000

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(1) Location of subject property.

SOURCES: Piedmont Realty Advisors;
Coldwell Banker;
Trammell Crow Company.

Exhibit I-7

COMPETITIVE PROPERTY SURVEY
LIGHTON PLAZA

	6/85	3/87	6/87
Number of Buildings	6	9	11
Total Square Feet	841,000	1,419,000	1,630,000
Vacant Square Feet	326,500	563,940	589,600
Vacancy Rate	38.8%	39.7%	36.2%
Square Feet Under Construction	578,000	211,000	116,000

Note: Includes only those properties directly competitive with Lighton Plaza.

SOURCE: Piedmont Realty Advisors

Exhibit I-8

DEAL ASSUMPTIONS
LIGHTON PLAZA III

Land

Land Purchase Price:	$ 5,700,000	
Fees and Closing Costs:	$100,000	
Real Estate Taxes:	$60,000/year	

Building

Total Cost (including land)	$32,000,000	Years 3 and 4 start
	$32,800,000	Year 5 start
	$30,000,000	Preleasing scenario with Years 3 and 4 start
	$30,800,000	Preleasing scenario with Year 5 start

Financing

Bullet 10%, 30-yr. am.	$30,000,000	All scenarios
	$30,800,000	Preleasing Year 5 start
Equity JV 10%, 50%/50%	$ 2,000,000	Years 3 and 4 start
	$ 2,800,000	Year 5 start
P.Mtg. 10%, 50%/50%	$32,000,000	Years 3 and 4 start
	$32,800,000	Year 5 start

Proforma

Building Size (N.R.A.)	233,000	
Gross Rental Rate	$21.00	
Expense Stop	$5.00	
Vacancy Rate	5%	
Lease Terms	50%	3-year leases
	50%	5-year leases
Market Rental Increase	5%	
Lease-up Period	24	months
Free Rent Period	15%	of lease term

Sale Assumptions

- o Sale at the end of 5 years after building completion
- o 9% cap on year 6 income stream
- o 2% selling expenses

SOURCE: Piedmont Realty Advisors

Exhibit I-9

BASE CASH FLOWS
LIGHTON PLAZA III

Land Loan

Loan Year	Beginning Balance	Accrued Interest	Real Estate Taxes	Ending Balance
1	$5,800,000	$551,000	$60,000	$6,411,000
2	6,411,000	609,045	60,000	7,080,045
3	7,080,045	672,604	60,000	7,812,649
4	7,812,649	742,202	60,000	8,614,851

Building Cash Flow

Stabilized

Years 3-5	233,000 sq. ft. x $21.00	$ 4,893,000
NOI	Less: 5% Vacancy	244,650
	Effective Gross	$ 4,648,350
	Less: 233,000 x $5.00	1,165,000
	Net Operating Income	$ 3,483,350
Year 6	116,500 x $21.00/5.00	$1,741,675
NOI	116,500 x $24.00/5.75	1,986,325
	Total NOI	$3,728,000

Building Sale

$3,728,000/.09	$41,422,222
Less: Expenses @ 2%	828,444
Net Proceeds	$40,593,778

SOURCE: Piedmont Realty Advisors

Exhibit I-10

YIELD SUMMARY
LIGHTON PLAZA III LAND

Land Loan Holding Period	3rd Party Equity Joint Venture[(1)]	Part. Mortgage[(2)]	Preleasing[(3)]
2	15.1%	15.2%	21.1%
3	14.2%	14.4%	18.7%
4	13.4%	13.5%	17.5%

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(1) The project can support $30,000,000 in bullet debt at 10% and 30-year amortization based on proforma. Total project cost is $32,000,000 for years 2 and 3 of the land loan holding period and $32,800,000 for year 4. For analysis purposes, the spread between the cost and the loan proceeds was structured as an equity joint venture with a third party with a 10% cumulative preferred return and 50% of the cash flow and residual going to the third party investor. In this scenario USF&G receives 50% times the appropriate percentage interest through the land joint venture.

(2) A full cost participating mortgage from a third party is used to cover 100% of the project costs. The interest rate was assumed to be 10% with 50% of the cash flow and residual going to the third party lender. USF&G receives 50% times the appropriate percentage through the land joint venture.

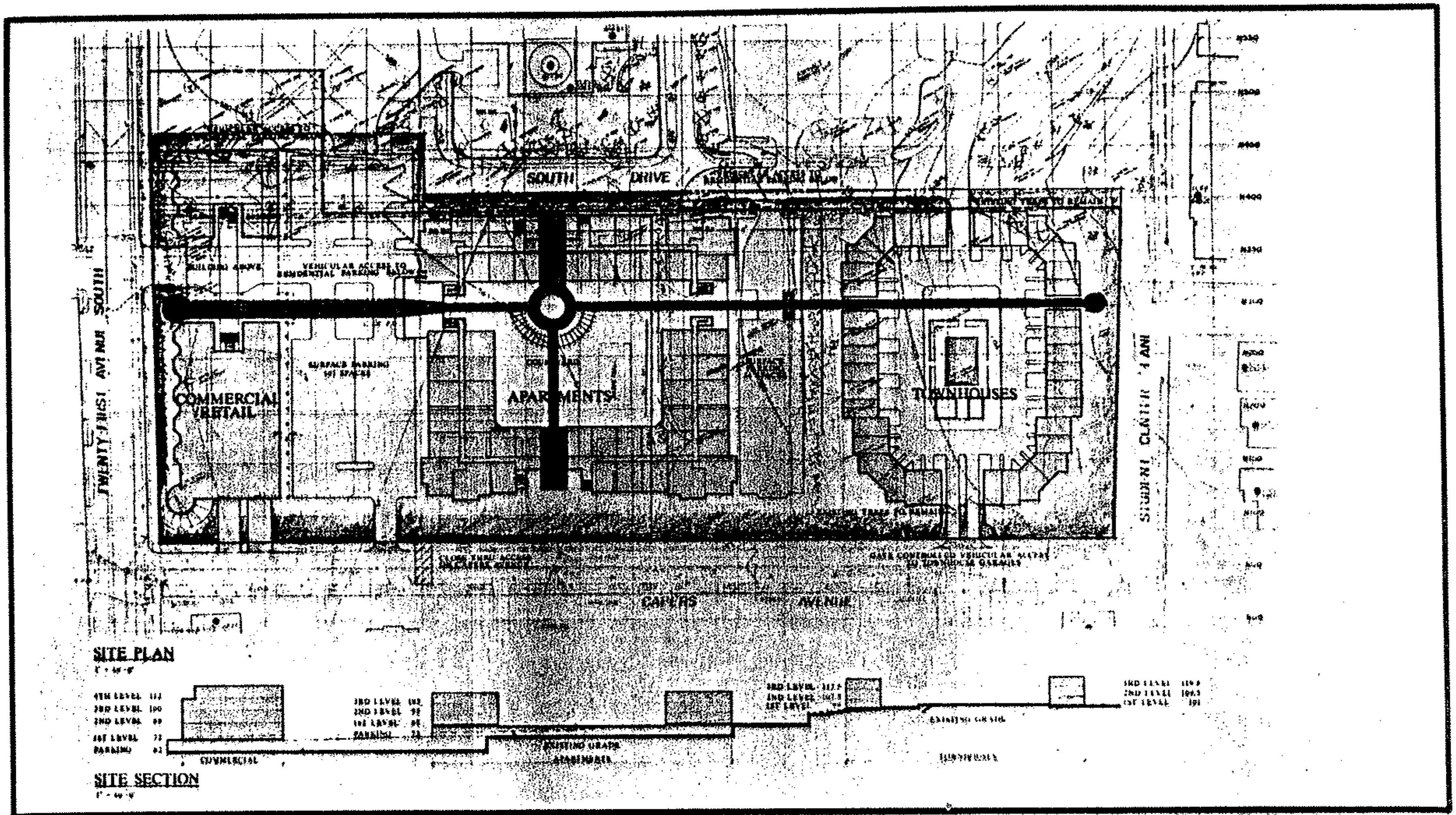
(3) Project cost equals $30,000,000 for years 2 and 3 of the land loan holding period and $30,800,000 for year 4 due to preleasing. USF&G receives full carried interest percentage through the land joint venture.

SOURCE: Piedmont Realty Advisors

VILLAGE AT VANDERBILT

NASHVILLE, TENNESSEE

Piedmont Realty Advisors
650 California Street, 22nd Floor
San Francisco, California 94108
(415) 433-4100
September 8, 1987



THE MATHEWS COMPANY

The Village at Vanderbilt

MASTERPLAN DEVELOPMENT

JUNE 25, 1987

TUCK HINTON EVERTON ARCHITECTS

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I. INTRODUCTION

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

September 8, 1987

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

Re: The Village at Vanderbilt
Nashville, Tennessee

Dear Committee Members:

Enclosed is an Investment Report on The Village at Vanderbilt, a proposed mixed use development by The Mathews Company and Vanderbilt University on 6.88 acres within the campus of Vanderbilt University in Nashville, Tennessee. Piedmont Realty Advisors reviewed the proposed financing for this project with the Real Estate Investment Committee on August 5, 1987. This Investment Report documents our presentation, provides analysis of the investment in greater detail, and sets forth our investment recommendation. Exhibit I-1 is a copy of the executed application letter which summarizes the economic terms of the proposed financing.

The Property

Village at Vanderbilt will be a mixed use development on 6.88 acres at the northeast corner of the intersection of 21st Avenue, a major traffic arterial, and Capers Avenue, a residential feeder street. The site is on the campus of Vanderbilt University and adjacent to the Peabody School of Education, formerly a private teaching college which merged with Vanderbilt University in 1978. The site is also across the street from the Vanderbilt University Medical Center. All of Vanderbilt's professional schools and undergraduate colleges are within easy walking distance of the site. Vanderbilt will lease the site to the borrower under a land lease which will be prepaid in full. The site is already zoned for the proposed improvements, and an environmental study has determined there are no hazardous wastes on the property.

The Village at Vanderbilt will include the following improvements: (1) a four-story building containing 23,500 square feet of ground floor retail space and 71,500 square feet of office space with underground parking, (2) a 148 apartment development composed of 118 one-bedroom, 24 two-bedroom, and 6 three-bedroom units, with an underground garage and (3) 39 townhouse units with associated parking. The office building will face 21st Avenue while the apartments will be in the middle third of the site, and the townhouses will be on the eastern third of the site. The location of the improvements is designed so that the most dense use faces 21st Avenue while the apartments and townhouses blend into the surrounding residential neighborhoods.

The Market:

Apartments and Townhouses

The apartment submarket adjacent to Vanderbilt University is very strong. For the past five years the vacancy rate in this submarket has been less than 5%. There currently are no apartments within walking distance of the Vanderbilt campus which are comparable in quality to what will exist at Village at Vanderbilt. However, two suburban projects of comparable quality, Brixworth and Chowning Square, rent on a per unit basis at rent levels comparable to the Village at Vanderbilt. Vanderbilt University's 8,500 employees, should sustain a strong demand for the apartments and townhouses as these units will be ideal for staff or faculty employees, as well as students in the professional schools and medical residents.

Retail

The retail component of Village at Vanderbilt represents a small but important part of the project. Both 21st Avenue and West End Avenue, boundaries of the Vanderbilt campus, are well established retail locations. Retail development around Vanderbilt is currently restricted by a lack of developable land. University and Medical Center employees and a stable, high income residential base make the retail area around Vanderbilt highly desirable from a tenant perspective. Hillsborough Village, an older, student shopping area within walking distance of the site will not be a direct competitor of the project. While the retail segment of the Village has less street frontage from its competition, it provides the area with a viable product alternative within a strong retail market.

Office

Since 1984 there has been a rapid expansion of Class A office space on West End Boulevard. In 1986 West End absorption was strong as it accounted for 36% of Class A space absorbed in Nashville while it contained only 18% of the office inventory. Six new buildings representing approximately 1,000,000 square feet of rentable area will be the primary competition for the office space. The contract rent for space in these new buildings ranges from $16.75 to $20.00 with $3.75 to $4.00 expense stops, and rent concessions in the range of 10%. These rents compare favorably with the office space in the project which has pro forma rents of $18.00 with $5.00 expense stops and 10% concessions. Although the current vacancy rate in the West End is around 20% strong absorption in the submarket and the fact that no new construction is planned indicate that the office space will perform well.

The Borrower

The Borrower will be a Tennessee limited partnership whose general partner will be RCM Interests and whose limited partner will be Vanderbilt University. RCM Interests, which operates as The Mathews Company, has been active in real estate development for more than thirty years and has participated in the development of over 3,000 acres of commercial and residential property in the Nashville area. The Mathews Company will be in charge of all development, leasing and management decisions. Vanderbilt University is one of the finest universities in the southeast and has an endowment of approximately $375 million. Vanderbilt will receive a carried interest in the project for contributing the land for approximately one half its value. It will not participate in partnership decisions. The resulting joint venture will be a financially strong, development oriented partnership.

The Risk and Return

The proposed investment is very similar to existing loans in USF&G's portfolio. The loan provides for a 10% economic holdback, subdivided into primary and secondary holdbacks which are disbursed in accordance with the economic performance of the property. The two-stage economic holdback addresses the major risk in this investment which is the possibility of an over-supplied office market and slow lease-up of the residential space as well as the additional risk that Village at Vanderbilt represents the introduction of different product types than what are presently established in the 21st Avenue corridor. The borrower has an incentive to market the property aggressively to earn out the economic holdback while the yield on the participating mortgage is maintained even if rents remain flat or deteriorate slightly.

In summary, the Village at Vanderbilt is in a strong residential market and in a commercial market which has experienced rapid growth and has absorbed space at the highest rate of any submarket in Nashville other than downtown. The Mathews Company has a reputation as the premier developer in the Nashville area and Vanderbilt University, the limited partner in the borrower, owns the land on which the development will occur. There is an excellent chance that Village at Vanderbilt will be the place to be at Vanderbilt and a very popylar residential complex. The foreclosure risk of this investment is virtually non-existent due to Vanderbilt's financial involvement in the project. The expected yield on the investment is 12.0% to 12.2% with 5% inflation. This yield is attractive in today's market and represents a market return for the risks involved.

Village at Vanderbilt represents an excellent investment opportunity. The Mathews Company has the requisite development and property management expertise and Vanderbilt University has an irrevocable commitment to the project. The investment has been structured to be flexibile, and to provide the developer with adequate incentives, while at the same time protecting and enhancing USF&G's yield. Piedmont Realty Advisors therefore recommends that the Real Estate Investment Committee of the United States Fidelity and Guaranty Company approve the issuance of a commitment for a participating loan in the amount of $23,500,000 for Village at Vanderbilt in accordance with the application letter attached as Exhibit I-1.

Sincerely,

Robert H. Zerbst

Robert H. Zerbst
President

Exhibit I-1

PIEDMONT REALTY ADVISORS
1150 CONNECTICUT AVENUE, N. W.
SUITE 705
WASHINGTON, D. C. 20036

202-822-9000

July 27, 1987

Messrs. Art Fields and Bert Mathews
The Mathews Company
One Nashville Place, Suite 1010
150 Fourth Avenue North
Nashville, Tennessee 37219

**Re: Village at Vanderbilt
A Commercial/Residential Development in
Nashville, Tennessee**

Dear Art and Bert:

Piedmont Realty Advisors is prepared to recommend to its client's Investment Committee that it issue a Commitment to fund a participating first leasehold mortgage loan to finance the above-captioned property on the following terms and conditions:

Property: **Village at Vanderbilt - a Commercial/Residential Development.**

The land parcel is a 6.88-acre tract. The Property is currently zoned for office, retail and residential development. The Borrower shall construct the following improvements on the land parcel:

* A four-story office and retail building containing 95,000 square feet of net rentable area (23,500 for retail and 71,500 for office) situated on approximately 1.94 acres. The commercial building will have 215 underground parking spaces and 42 surface parking spaces.

* 148 apartment units with 178 underground parking spaces and 44 surface parking spaces. The 148 apartments will consist of 118 one bedroom, 24 two bedroom, and six three bedroom units.

* 39 townhouse units with 39 garage parking spaces and 39 surface parking spaces. The apartments and townhouses will be situated on the remaining approximately 4.94 acres of the land parcel.

Location: The Property is at the northeast corner of 21st Avenue South and Capers Avenue, adjacent to Vanderbilt University in the West End/Bellemeade area of Nashville, Tennessee. The Property is bounded to the south by Capers Avenue with approximately 900 feet of frontage, and to the West by 21st Avenue South on which the Property has approximately 390 feet of frontage.

Borrower: A limited partnership which shall consist of The Mathews Company or a related entity as the General Partner and Vanderbilt University or a related entity as the Limited Partner.

Lender: United States Fidelity and Guaranty Company.

Loan Amount: $23,500,000.

Base Interest Rate: The base interest rate shall be 9.625% on the Outstanding Loan Balance (defined below) with the following pay and accrual rates:

Loan Year	Pay Rate	Accrual Rate	Total
1	8.75%	.875%	9.625%
2	8.75%	.875%	9.625%
3	9.00%	.625%	9.625%
4	9.25%	.375%	9.625%
5	9.50%	.125%	9.625%
6th year and thereafter	9.625%	0%	9.625%

Interest at the payrate shall be payable on the Outstanding Loan Balance monthly. If the Property generates any positive cash flow (i.e. net operating income less interest at the payrate) during any given year, then such positive cash flow shall be used to pay the interest which would otherwise accrue at the accrual rate during the same year. If interest accrues (because there is no positive cash flow to pay interest at the accrual rate), then it shall be added to the Outstanding Loan Balance monthly. The term Outstanding Loan Balance shall mean the amount disbursed and outstanding plus any accrued and unpaid interest.

Amortization: Not Applicable, Interest only.

Term: 20 Years

Call Option: Lender may call the Loan anytime after the tenth anniversary of initial funding upon 12 month's written notice.

Prepayment:

* No prepayment before the tenth anniversary of initial funding.

* No prepayment fee after the tenth anniversary of initial funding; provided however, that Borrower shall pay all Lender's expenses associated with such prepayment (e.g. legal fees, appraisal costs, and any transfer of recordation costs).

* No prepayment fee if Lender exercises its call option or the loan matures.

Recourse: With the exception of the Master Lease, the Loan will be without recourse to the Borrower or its Partners.

Ground Lease: The land is owned in fee simple by Vanderbilt University. Vanderbilt University will lease the land to the Borrower under a Ground Lease for a term of seventy-five years. The Ground Lease will provide that the Borrower shall prepay the ground rent for the term of the Ground Lease in cash or by letter of credit. The rent payment for the term of the Ground Lease will be $1,250,000. The Ground Lease shall also provide Lender with the right to cure monetary and non-monetary defaults during the term of the Loan.

Additional Interest:

A. Operations: After payment of all accrued interest Lender shall receive 50% of the Net Cash Flow (defined below) from the Property; provided however, that when Lender has received an annual return of 12% on the Outstanding Loan Balance, Lender shall thereafter receive 25% of the then remaining Net Cash Flow. Additional interest from operations will be payable quarterly and shall be reconciled by an annual audit of the Property. Exhibit A to this letter is a schematic diagram of the payments of Net Cash Flow to Lender.

Net Cash Flow shall be defined as the difference between (a) collected gross revenue and (b) the sum of (1) approved operating expenses and (2) interest on the Outstanding Loan Balance at the rate of 9.625%.

B. Sale, Refinancing or Maturity: If Borrower sells the Property in a bona fide sale, Lender shall receive 50% of the difference between (a) the net sales price for the Property (sales expenses not to exceed 3% of the sales price) and (b) the Outstanding Loan Balance (plus any accrued and unpaid interest).

If the Loan is called, refinanced, or if the maturity date occurs, Lender shall receive 50% of the difference between (a) the fair market value of the total property (i.e. the combined fair market value of the fee and leasehold interests) and (b) the Outstanding Loan Balance (plus any accrued and unpaid interest).

Initial Funding: The lesser of (a) $18,271,783 or (b) 100% of the actual project costs, as set forth in Exhibit B. Funding of the initial disbursement shall occur within 30 days following receipt of a certificate of occupancy for the entire Property, but in any event not later than 15 months following Borrower's acceptance of the Commitment. If the initial funding is less than $18,271,783, the difference between $18,271,783 and the initial funding will be added to the holdback for interest, real estate taxes, insurance, and approved operating expenses.

Holdbacks:

A. Tenant Improvements: $1,425,000 for office and retail space; disbursed for actual costs not to exceed an average of $15.00 per square foot of net rentable area as space is leased and tenant improvements are completed. Full disbursement will occur at 95% occupancy.

B. Leasing Commissions: $334,850 for office and retail space; disbursed as commissions are paid but not to exceed $3.70 per square foot of office rentable area and $3.00 per square foot of retail rentable area. Full disbursement will occur at 95% occupancy.

C. Interest, Real Estate Taxes, Insurance and Approved Operating Expenses: $1,118,367; These funds are to be disbursed for interest payments on the Outstanding Principal Balance, real estate taxes, property insurance, and approved operating expenses in excess of revenues collected from the Property. Any funds in excess of $879,000 remaining in this holdback as of 24 months after the initial funding will be used to reduce the loan amount. Any funds less than or equal to $879,000 which remain in this holdback as of 24 months after the initial funding will be disbursed to Borrower.

D. Primary Economic Holdback: $1,350,000; the primary economic holdback shall be disbursed at a rate of $3.00 per $1.00 of annualized effective gross income collected in excess of $2,600,000.

E. Secondary Economic Holdback: $1,000,000; the secondary economic holdback shall be disbursed at a rate of $6.67 per $1.00 of annualized effective gross income collected in excess of $3,050,000.

quarterly or in $50,000 increments which ever occurs first

The primary and secondary economic holdbacks will be disbursed ~~on~~ the basis of effective rents. Lender will exempt a 10% discount (e.g. 3.6 months on a three-year lease, or six months on a five-year lease) from the calculation of office and retail effective rents. If Borrower grants concessions in excess of 10%, Lender shall make an effective reduction in the annualized effective gross income used in the computation of the economic holdback. Discounts which occur before the initial funding will be exempt from the 10% allowance. Exhibit C to this letter contains examples of effective rent calculations and calculation of annualized effective gross income.

PCM
DBK

Borrower shall have 24 months after initial funding to earn out the primary and secondary economic holdbacks. Disbursement of the economic holdback may occur after the 24-month earnout period if the leases were executed during the 24 months following initial disbursement.

Commitment Fee: $470,000; $235,000 to be paid upon acceptance of the Commitment, and $235,000 to be furnished in the form an unconditional and irrevocable letter of credit which shall be acceptable to the Lender and which shall be refunded to Borrower at initial disbursement provided that Borrower is not in default under the Commitment. Borrower shall have the option to extend the Commitment for 3 months provided that Borrower notifies Lender of its intention to extend at least 60 days prior to the end of the 15-month Commitment period and pays an extension fee of $47,000 at the time of notification.

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

Economic Due Diligence: The issuance of a Commitment for the Lender to enter into this transaction is contingent upon Piedmont Realty Advisors being satisfied with the results of its economic due diligence.

Additional Loan Requirements:

A. Leases: Lender shall have the right to review and approve all leases of the Property which differ from leasing standards to be agreed upon between Borrower and Lender.

B. Gap Financing: Lender will permit Borrower to use gap financing during the 24-month lease-up period; provided that the gap financing is subordinate in all respects to the Loan (including Lender's additional interest) and that the gap financing loan is fully repaid within 24 months after initial funding. Gap financing shall be subject to Lender's reasonable consent and shall provide Lender with the right to cure defaults under the gap financing. The amount of the gap financing plus the amount outstanding under the Loan shall not exceed $23,500,000.

C. Secondary Financing: Secondary financing will not be permitted except with Lender's prior written consent.

Messrs. Fields and Mathews
July 27, 1987
Page Seven

except that RCM DBK

D. Right of First Offer: If the Borrower desires to sell the Property, the Lender shall have the right of first offer to purchase the Property. Lender shall permit Vanderbilt University to buy the leasehold interest in the Property at Fair Market Value (less sales expenses not to exceed 3%) anytime after the 10th anniversary of the Loan.

E. Budget Approval: During the term of the Loan, Borrower shall submit to Lender annual operating and capital budgets for the Property for Lender's review and approval.

F. Guarantee: RCM Interests shall execute a guarantee of cash flow deficits from the Property. The term "cash flow deficits" shall mean the excess of (a) base interest at the payrate on the Outstanding Loan Balance and approved operating expenses, over (b) revenues actually collected from the Property. The guarantee shall terminate upon the earlier to occur of three consecutive months of breakeven occupancy or 24 months following the initial funding.

Contingencies: The Commitment shall have the following contingencies:

A. Plans and Specifications: Review and approval by Lender of the plans and specifications for all the proposed improvements and any changes, modifications, or corrections to the plans and specifications during construction.

B. Tri-Party Agreement: Execution of an acceptable tri-party agreement among Lender, Borrower, and the Interim Lender providing the construction financing within ninety (90) days after Borrower's acceptance of the Commitment.

C. General Contractor: Approval of the general contractor.

D. Approval of Ground Lease: Approval of the form and substance of Ground Lease.

E. Appraisal: Receipt of a market value appraisal of the property (i.e. the fee and leasehold interest collectively) from an MAI appraiser approved by Lender which shall be for an amount not less than $27,000,000.

F. Environmental Report: Receipt of an environmental study of the Property by a reputable engineering or environmental firm acceptable to Lender which demonstrates to the Lender's reasonable satisfaction that there are no environmental or hazardous wastes existing upon or affecting the Property.

G. Other Contingencies: Such other contingencies as Lender may require and which are consistent with prudent lending practices of institutional investors making participating loans.

If the terms outlined in this application letter are acceptable, please sign below and return this application letter together with an an application fee in the amount of $50,000 by July 29, 1987. The application fee should be wired to a custodial account. Please call me for wiring instructions. The application fee shall be refundable only if USF&G does not issue a Commitment to enter into a Loan according to the terms set forth in this application letter. If USF&G issues a Commitment in accordance with the terms of this application letter then the application fee shall be applied to the cash portion of the Commitment Fee upon your acceptance of the Commitment. This application letter shall expire if you do not accept and return it within seven calendar days of the date hereof.

Sincerely,

Daniel B. Kohlhepp

Daniel B. Kohlhepp
Vice President

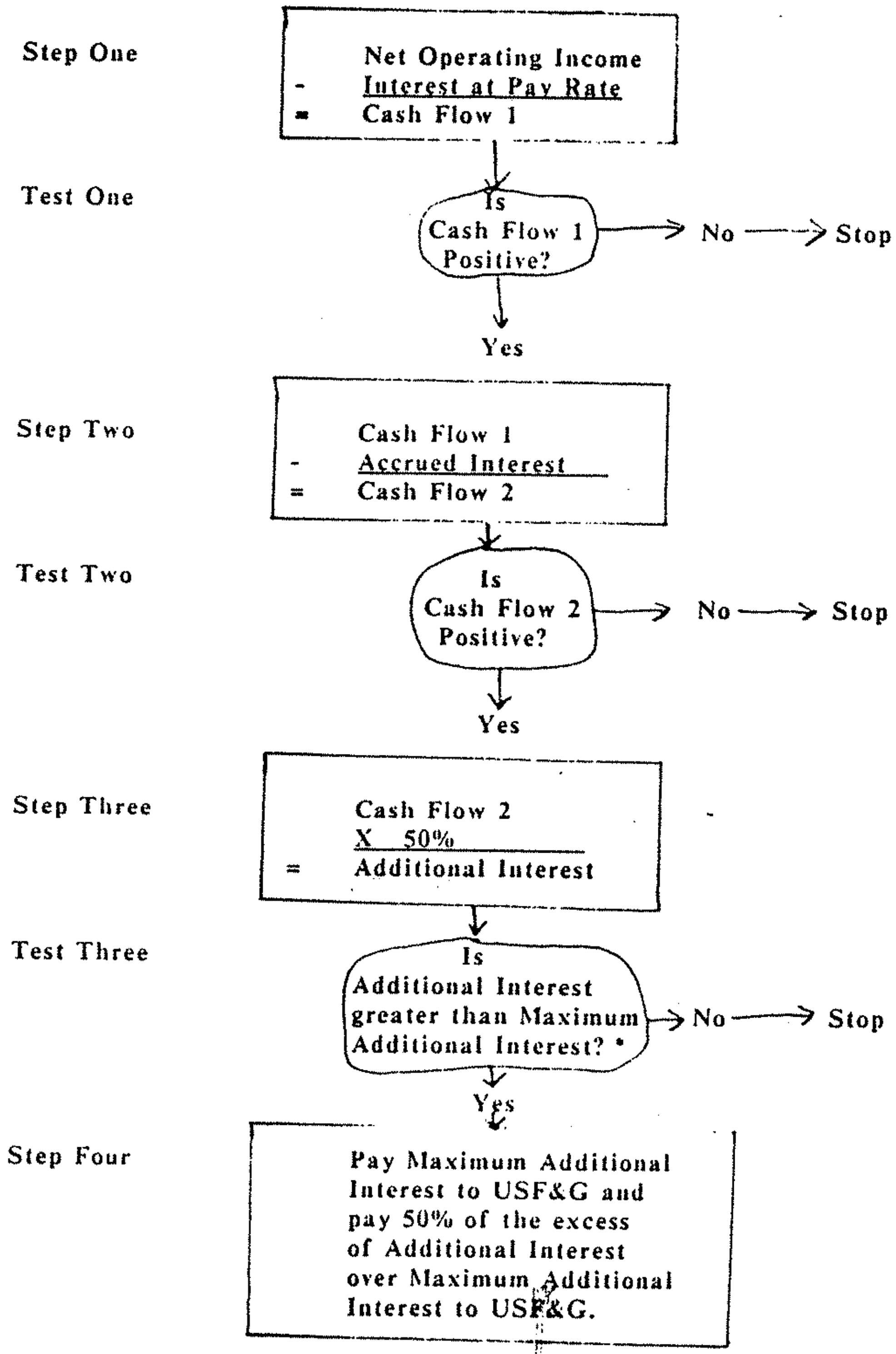
Accepted:

R.C. Mathews III
Signed

7-29-87
Date

Exhibit A

SCHEMATIC DIAGRAM OF CASH FLOW DISTRIBUTION



Note * Maximum Additional Interest equals 2.375% of the Outstanding Loan Balance.

Exhibit B
PROJECT COSTS

Land Payment to Vanderbilt	$ 1,250,000
Site Work	850,000
Commercial Building Shell	3,750,000
Townhouse Construction	2,215,590
Apartment Construction	3,735,000
Parking	2,092,902
Mortgage Fee - Construction Loan (Comm. Bldg.)	80,525
Mortgage Fee - Permanent Loan (Comm. Bldg.)	80,525
Construction Contingency	564,795
Advertisisng	48,000
Taxes and Insurance	159,142
Architect - Shell Space	205,802
Architect - Tenant Space	47,500
Civil Engineer	100,000
Testing, Inspections	95,000
Landscaping	130,000
Architect & Engineer	282,349
Construction Management	100,000
Closing Fees	190,000
Models and Merchandising	140,250
Marketing and Contingency	575,515
Construction Loan Fee - Apartments and Townhouses	110,000
Mortgage Broker Fee - Apartments and Townhouses	110,000
Permanent Lender Fee - Apartments and Townhouses	110,000
Accounting	18,000
Attorney's Fees	60,000
Contingency	39,189
Construction Interest for Year 1	
Commercial	336,000
Townhouse	97,476
Apartment	267,223
Development Overhead and Administration	431,000
TOTAL TO SHELL COMPLETION	$18,271,783

Exhibit C
EFFECTIVE RENT EXAMPLES

The allowable rent concession is 10% of the total lease payments without the rent concession. Effective rent is calculated for various types of leases as follows:

EXAMPLE ONE -- FLAT LEASE

Assumptions:

Contract Rent:	$12.00 PSF/Year
Lease Term:	3 Years
Rent Concession:	.5 Year of Free Rent

Calculations:

	Rent Concession (.5 Yr. X $12 PSF/Yr	$ 6.00
divided by:	Total Rental Payments w/o Concession (3 Yrs. X $12 PSF/Yr)	36.00
equals:	Rent Concession Given	16.67%
less:	Allowable Concession	10.00%
equals:	Reduction in Contract Rent	6.67%

so that,

	Contract Rent	$12.00/PSF/YR
less:	Reduction in Contract Rent (6.67% X $12.00)	.80
equals:	Effective Rental Rate	$11.20/PSF/YR

EXAMPLE TWO -- STEP UP LEASE

Assumptions:

Contract Rental Rate	Year One	$11.00 PSF
	Year Two	$12.00 PSF
	Year Three	$13.00 PSF
	Total Payments	$36.00 PSF
Lease Term:	3 Years	
Rent Concession:	.5 Year of Free Rent	

Calculations:

	Rent Concession (.5 X $11 PSF)	$ 5.50
divided by:	Total Rental Payments w/o Concession	36.00
equals:	Rental Concession Given	15.28%
less:	Allowable Concession	10.00%
equals:	Reduction in Contract Rent	5.28%

so that,

	Average Contract Rent *(36/3 Yrs.)	$12.00 PSF
less:	Reduction in Contract Rents ($12 X 5.28%)	.63
equals:	Effective Rental Rate	$11.37 PSF

* Average Contract Rent is based on fixed rent increases over a maximum period of five years.

Exhibit C (Continued)

EXAMPLE THREE -- APARTMENT LEASES AND OTHER TYPES OF CONCESSIONS

Assumptions:	Contract Rent	$500/Month
	Lease Term	6 Months
	Rent Concession	1/2 Month
	Gifts or Cash Bonuses	None

Line		Item	Example
1		Contract Rent for Lease Period ($500 X 6 Mos.)	$3,000
2	Plus:	Application Fee	+ 25
3	Plus:	Non-Refundable Fees or Deposits	+ 50
4	Less:	Free Rent or Other Concessions from Contract Rent (1/2 Month X $500/month)	- 250
5	Less:	Actual Cost of Gifts, Premiums or Services	- 0
6	Less:	Cash Bonuses	- 0
7	Equals:	Actual Rent for Lease Term	$2,825
8	Divided By:	Lease Term in Months	6
9	Equals:	Effective Monthly Rent	$ 471

Apartment Standard Lease Forms will include the following:

- Initial lease term not less than six months nor greater than 12 months;
- Security deposits not less than one month's rent;
- Stipulate any rent concessions, gifts or inducements given;
- Stipulate first month's rent payments net of all fees and deposits.

Apartment Standard Lease Forms will prohibit:

- Automatic refund of security deposit;
- Options for renewal of any kind;
- Occupancy of a unit without a lease in force (early occupancy).

CALCULATION OF ANNUALIZED EFFECTIVE GROSS COLLECTED INCOME

When calculating effective gross collected income for purposes of computing disbursements of the economic earnout, income will be based on effective rents. Effective rent for individual leases will be calculated as set forth in the preceding three examples and the annualized effective gross income shall be calculated as set forth below:

	Total Effective Monthly Rent from Leases in Effect During Preceding Quarter
Plus:	Other Income Approved by Lender
Less:	Bad Debts
Equals:	Effective Quarterly Gross Collected Income
Times:	4
Equals:	Annualized Effective Gross Collected Income

II. THE PROPERTY

II. THE PROPERTY

A. INTRODUCTION

The Village of Vanderbilt will be in Nashville, the capital of Tennessee. The site is on the Vanderbilt University campus adjacent to the Peabody School of Education and across the street from the Vanderbilt University Medical Center. The site fronts on 21st Avenue which is a primary thoroughfare connecting Nashville's upscale residential communities with the downtown business district.

Village of Vanderbilt will include four product types. On the western third of the site will be a four-story building with underground parking and retail space on the ground floor, and office space on the upper three floors. In the middle third will be 148 apartment units with an underground parking garage. On the eastern third of the site will be 39 townhouses, each with a garage and surface parking.

B. VANDERBILT UNIVERSITY

Vanderbilt University is a nationally prominent university and one of the finest educational institutions in the southeast. Vanderbilt is the largest private employer in the greater Nashville area with approximately 8,500 employees, and it enrolls approximately 9,000 students who tend to come from affluent families. The Vanderbilt campus covers 305 acres, has 155 buildings, and is 1.5 miles from downtown Nashville. The campus is triangular in shape with two sides of the triangle being 21st Avenue and West End Avenue and the third side being a series of smaller residential feeder streets. The site is on the southeast part of the campus and has historically been used for athletic fields and parking. The project will be an integral part of the Vanderbilt campus and will benefit from the natural demand created by being a part of the dominant land use in the West End neighborhood.

C. LOCATION

1. Accessibility

Nashville has excellent accessibility because it lies at the intersection of three interstate highways and has a newly renovated and expanded airport. Interstate 40 runs from Knoxville to Memphis and ultimately to Los Angeles; Interstate 24 runs from St. Louis to Chattanooga and ultimately to Atlanta, and Interstate 65 runs from Birmingham to Louisville and ultimately to Chicago. The new airport scheduled to open in the fall of 1987 will more than double the size of the existing airport which has approximately 400 flights a day to ninety cities in the United States and Canada. The establishment of the new American Airlines hub will add between 30 and 60 flights a day.

The site is in the south central part of Nashville and within a mile of the 21st Avenue interchange with Interstate 440 which is the southern bypass for Interstate 40. See Exhibit II-1. Proximity to this interchange provides easy access from the site to the entire Nashville metropolitan area and the Nashville airport. In addition, the site is three to four miles from the upscale Bellemeade and Green Hills residential areas and 1.5 miles from the downtown business district. The site is one of the few remaining undeveloped land parcels on 21st Avenue north of the Interstate 440 interchange.

The Village at Vanderbilt will have direct access to 21st Avenue for the retail and office components of the project. The residential components will have access to Capers Avenue with additional ingress-egress points along South Avenue. See Exhibit II-2.

2. Adjacent Land Use

The site is at the northeast corner of the intersection of 21st Avenue and Capers Avenue and at the southeast corner of the Vanderbilt campus. See Exhibit II-3. The Peabody School of Education is directly north of the site. Across 21st Avenue is the Vanderbilt Medical Center and north of the Medical Center are the nursing, divinity, business, and law school buildings. In 1981 Vanderbilt opened a 13-floor 575,000 square foot hospital with 661 beds which anchors the 781,000 square foot Medical Center complex. One hundred-fifty yards south of the site is a shopping area known as Hillsborough Village, an older campus corner type shopping area with one-story retail oriented toward students and faculty. South and west of the site is a residential area oriented toward Vanderbilt students and employees. Many of these residences are large brick and frame houses in a stable high-end residential neighborhood. Four to five blocks to the northeast is Music Row, an area which caters to Nashville's music industry with typical tenants being recording studios, agents, artists, and some tourist orientation (e.g. the Country Music Hall of Fame). The aerial photographs attached as Exhibits II-4A and II-4B provide views of the surrounding land uses.

D. GROUND LEASE

Vanderbilt University will lease the site for a term of 75 years to a limited partnership in which it will be the limited partner and The Mathews Company will be the general partner. The rent for the entire term will be $1,250,000 to be prepaid in full. Prepayment of the ground lease eliminates the risk of a monetary default. Vanderbilt is using a ground lease in this transaction so it can retain ultimate control of the land. The terms of the ground lease are subject to USF&G's approval, and a preliminary review indicates that with two minor changes the ground lease will be satisfactory.

E. THE SITE

The site is a 900 by 350 foot rectangle containing approximately 6.88 acres of land. The 350-foot frontage is on 21st Avenue and the 900 foot frontage is on Capers Avenue and South Drive. The site gently rises 40 feet from 21st Avenue, and from the top floor of the apartments, townhouses and the office building there will be good views of the Vanderbilt campus. See Exhibit II-5.

Vanderbilt presently uses the site for parking, a soccer field, and tennis courts. On January 28, 1987 the site was re-zoned to permit development in accordance with the site plan attached as Exhibit II-6. The Edge Group has performed an environmental assessment of the site and concludes that there is no indication that the site has been used for the disposal of industrial waste.

F. THE IMPROVEMENTS

The Village of Vanderbilt will have four product types. Bordering on 21st Avenue will be a four-story office and retail building containing a total of 71,500 square feet of office space, 23,500 square feet of retail space with 165 surface parking spaces and an underground parking garage containing 180 spaces. The building will span the entranceway from 21st Avenue. The retail space will be rectangular in shape with floor plates of 16,250 and 5,250 and will have good tenant signage along 21st Avenue. The floor plates for the second and third floor office space will be 30,000 square feet and 13,500 square feet for the fourth floor. The building structure will be poured-in-place concrete with steel reinforcing and there will be three electric traction elevators. The exterior of the building will be brick and glass with pre-cast stone detailing, and there will be brick pavers to conform with the architecture on the Vanderbilt campus. Exhibit II-7A is design drawings of the retail and office buildings, and Exhibit II-7B is the parking plan.

In the middle third of the site will be 148 apartments arranged in a square to surround an "oxford style" courtyard space with a swimming pool in the middle. The rest of the square will be a common green area. The three-story apartment buildings will be above an underground parking garage with 190 spaces. There will be hydraulic elevators at the northerly and southerly ends of the parking garage providing direct access to the apartments. The exterior of the apartments will be brick, and each of the apartments will have a working fireplace, washer/dryer hookups, solid core entrance doors, dishwashers, disposals and mini-blinds on the windows. The exterior courtyards will have brick pavers. Each of the units will be separately metered for utilities. Exhibits II-7C, II-7D, and II-7E show the floor plans and elevations for the apartments.

On the eastern third of the site will be 39 three-story townhouses. The townhouses will also be arranged in an "oxford style" courtyard enclosing a common green area with the residents of the townhouses having access to the swimming pool in the apartment courtyard. The townhouses will have a total of 78 parking spaces, 39 as individual garages and 39 surface spaces (i.e. two reserved spaces for each townhouse). There will also be additional visitor parking. The exterior of the townhouses will be brick, and each of the townhouses will have a working fireplace, washer/dryer hookups, solid core entrance doors, dishwashers, disposals and mini-blinds on the windows. The exterior courtyards will have brick pavers. Each of the units will be separately metered for utilities. The townhouses will also have wood garage doors and French doors with full glass lites. Exhibit II-7F shows the floor plan for a corner townhouse.

The architecture of Village at Vanderbilt complements the brick buildings on the Vanderbilt campus and blends in with the surrounding residential neighborhoods. The design is consistent with the surrounding architectural styles and the project will have excellent visibility for 21st Avenue travelers.

G. PROJECT BUDGET

The project budget is set forth in Exhibit II-8. The total project cost is $23,500,000 which represents a cost of $128.63 per rentable square foot for the office and retail space, $52,398 per unit for the apartments, and $90,385 per unit for the townhouses. Tenant finish allowances for office space are $15.00 per rentable square foot. These costs are reasonable and competitive for each product type in the Nashville market.

H. CONCLUSION

The site on the Vanderbilt campus is an excellent location; accessible to downtown and metropolitan Nashville, to Vanderbilt University, to the airport, and to the West End corridor. Each land use segment of the project has been well thought out and its design is consistent with the competitive properties within its respective market segment. Each use at Village at Vanderbilt is complimentary and the overall project should work very well at this location. The improvements are well-designed and should be attractive to the target market, and the architectural design of the project compliments adjoining land uses.

Exhibit II-1
REGIONAL LOCATION MAP
NASHVILLE AREA

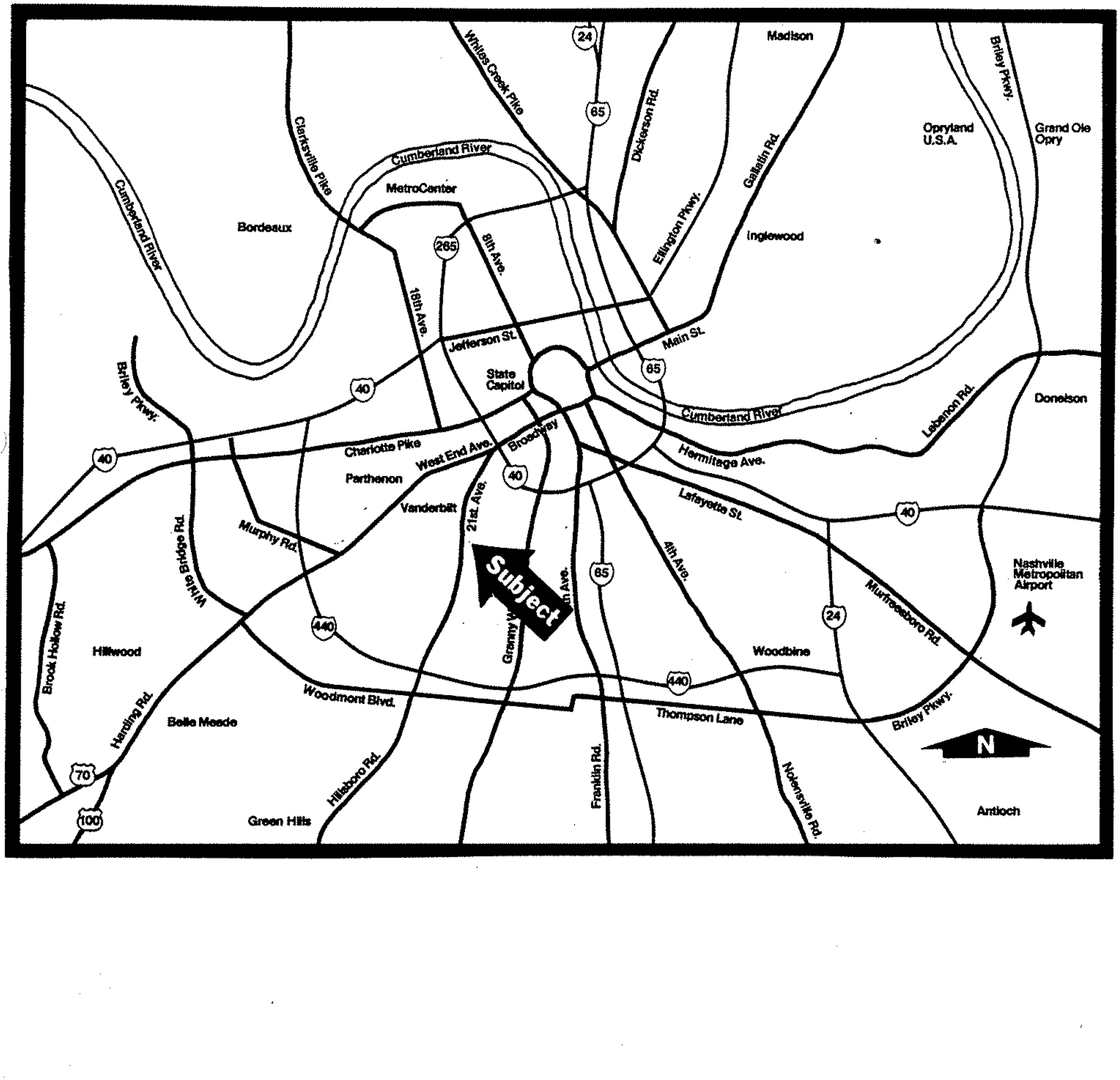


Exhibit II-2

SITE ACCESS MAP

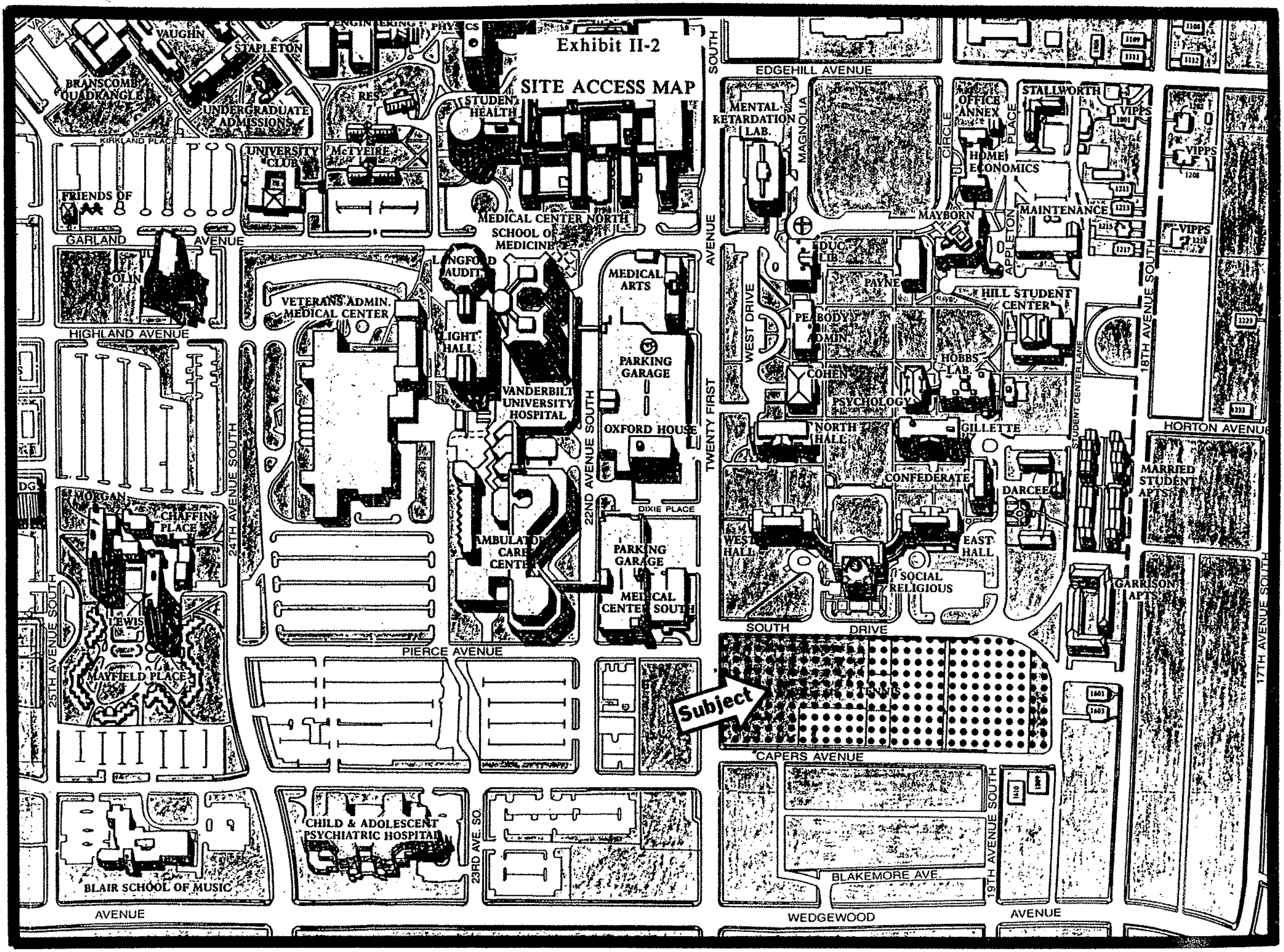


Exhibit II-3

SITE VICINITY MAP

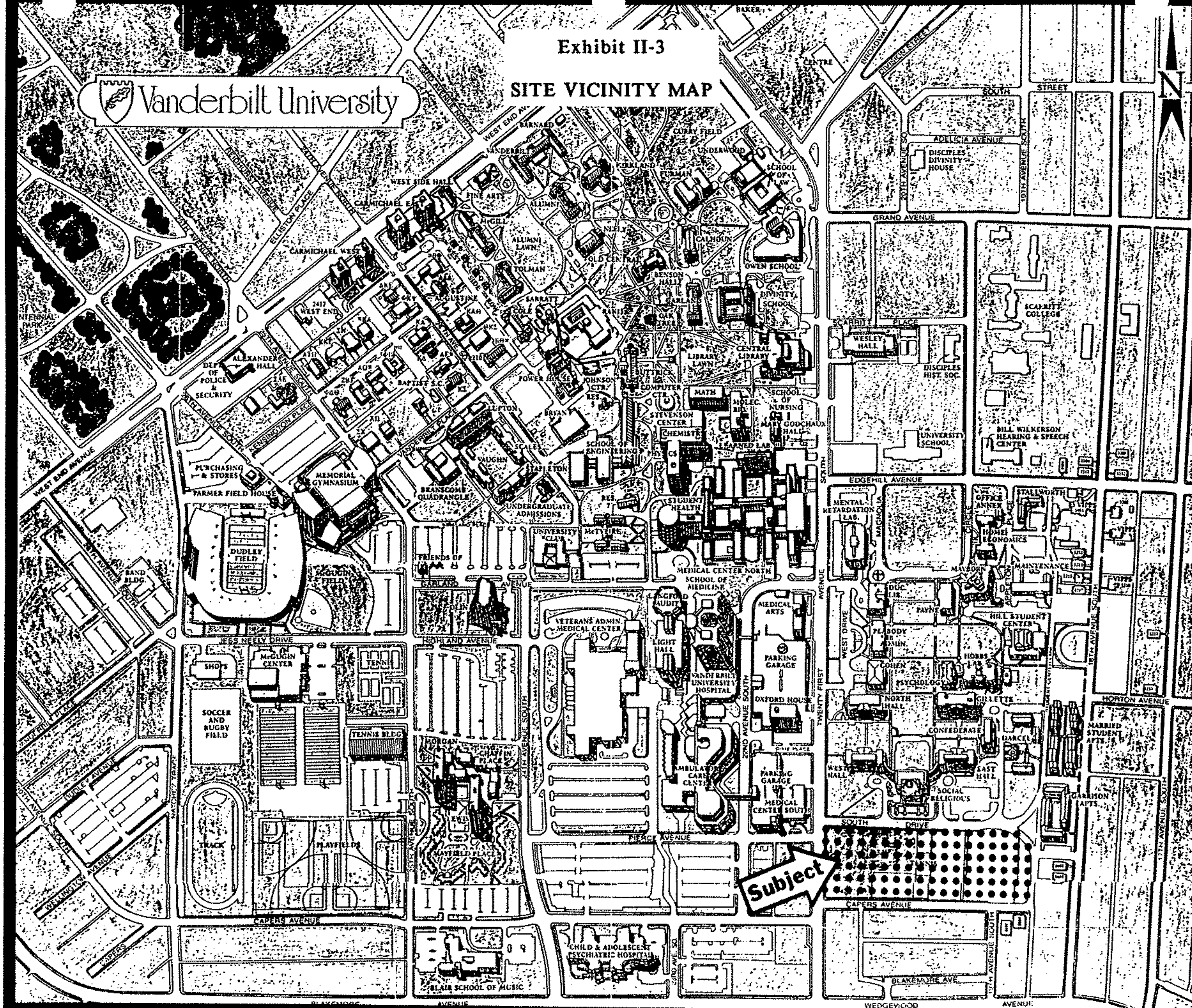


Exhibit II-4A
AERIAL PHOTOGRAPH LOOKING NORTH

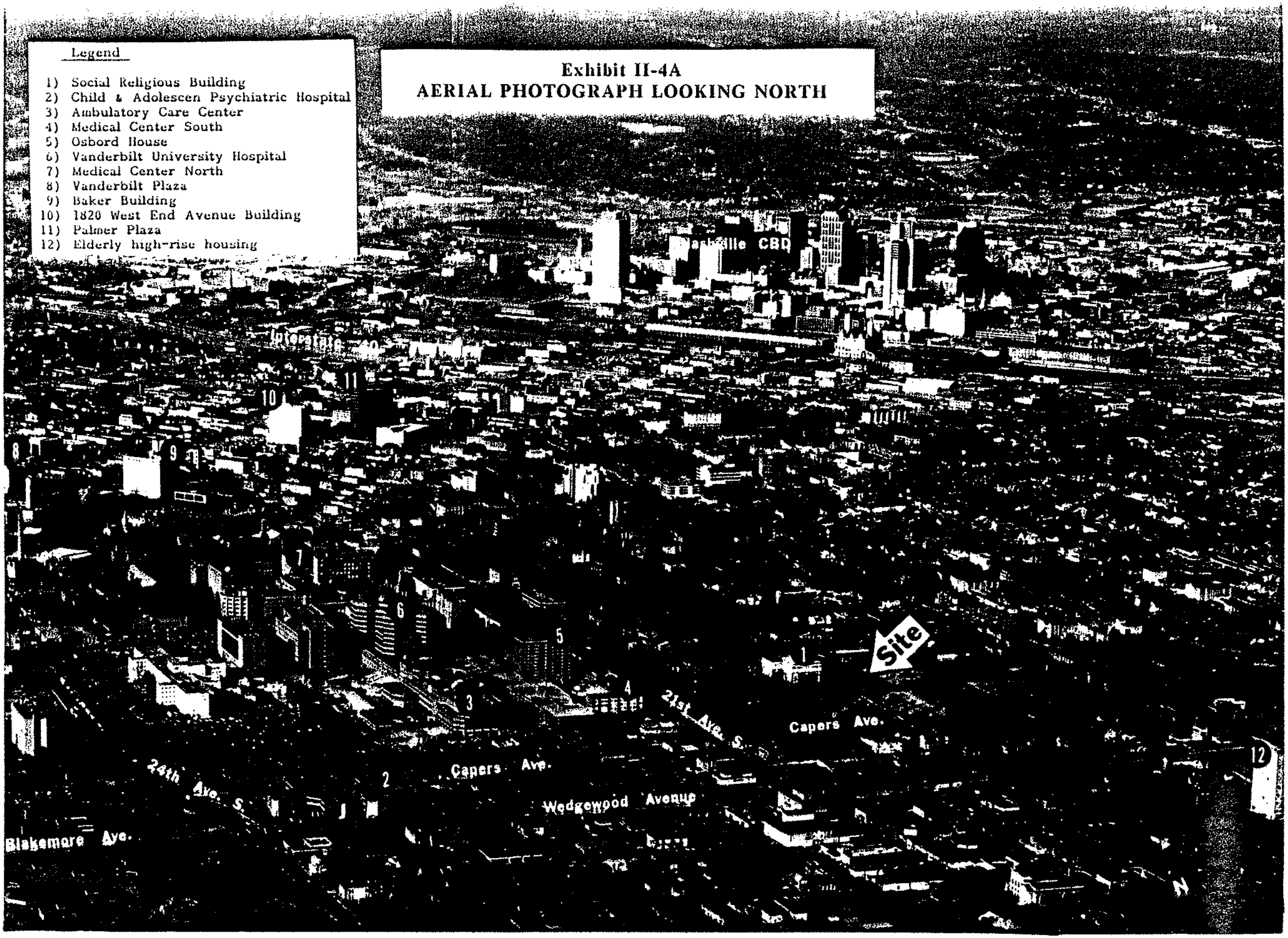


Exhibit II-4B
AERIAL PHOTOGRAPH LOOKING EAST

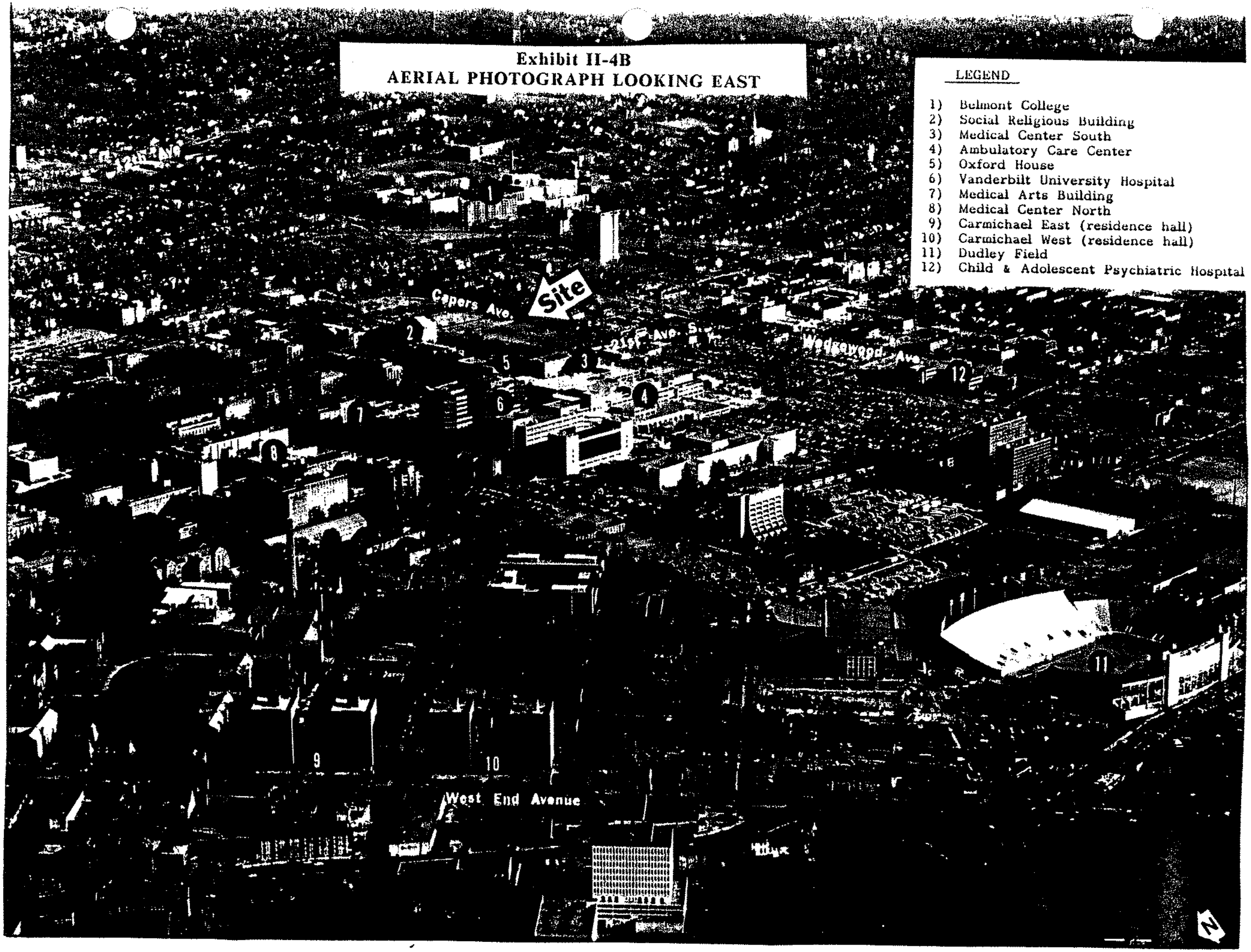
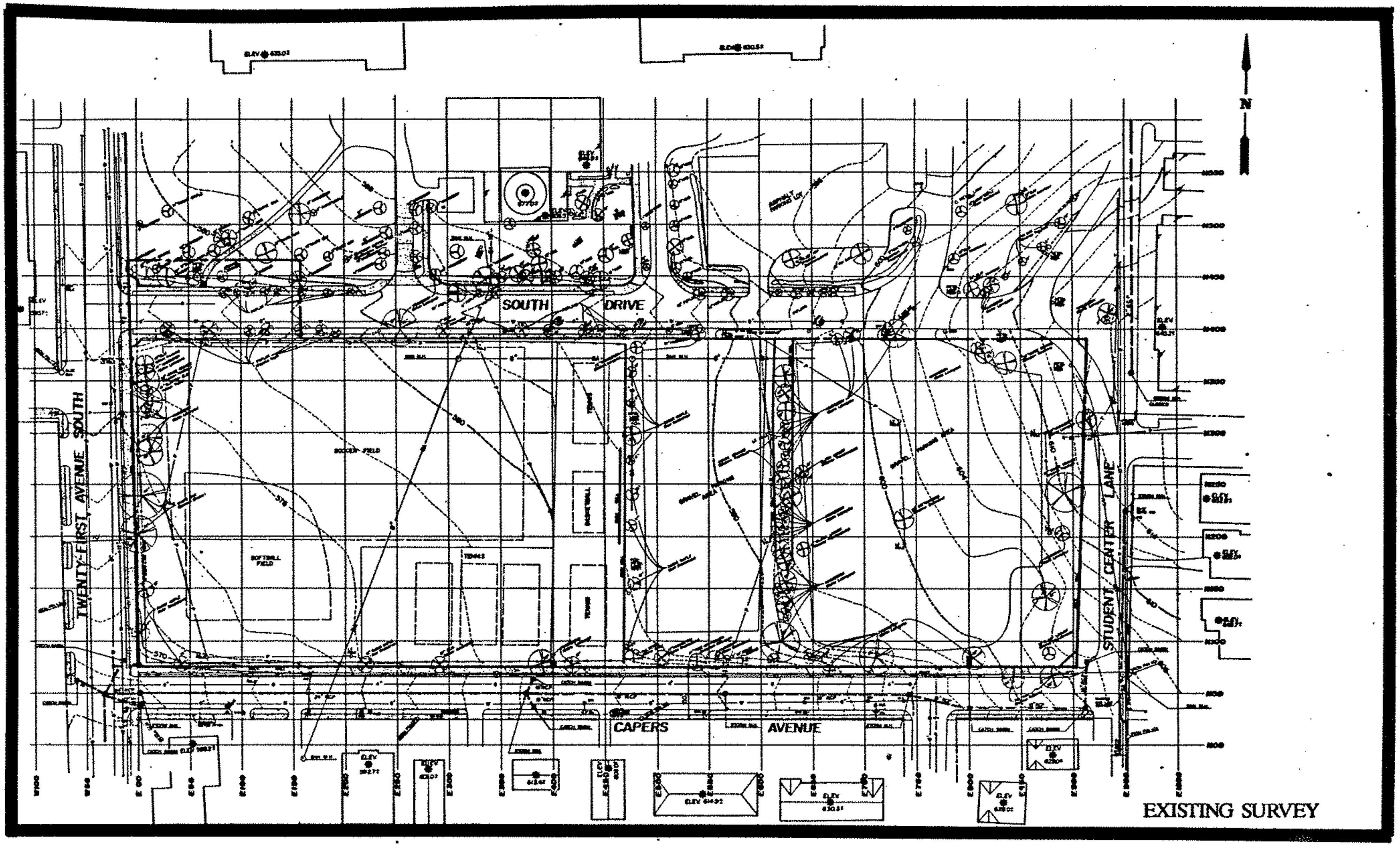


Exhibit II-5
SITE SURVEY



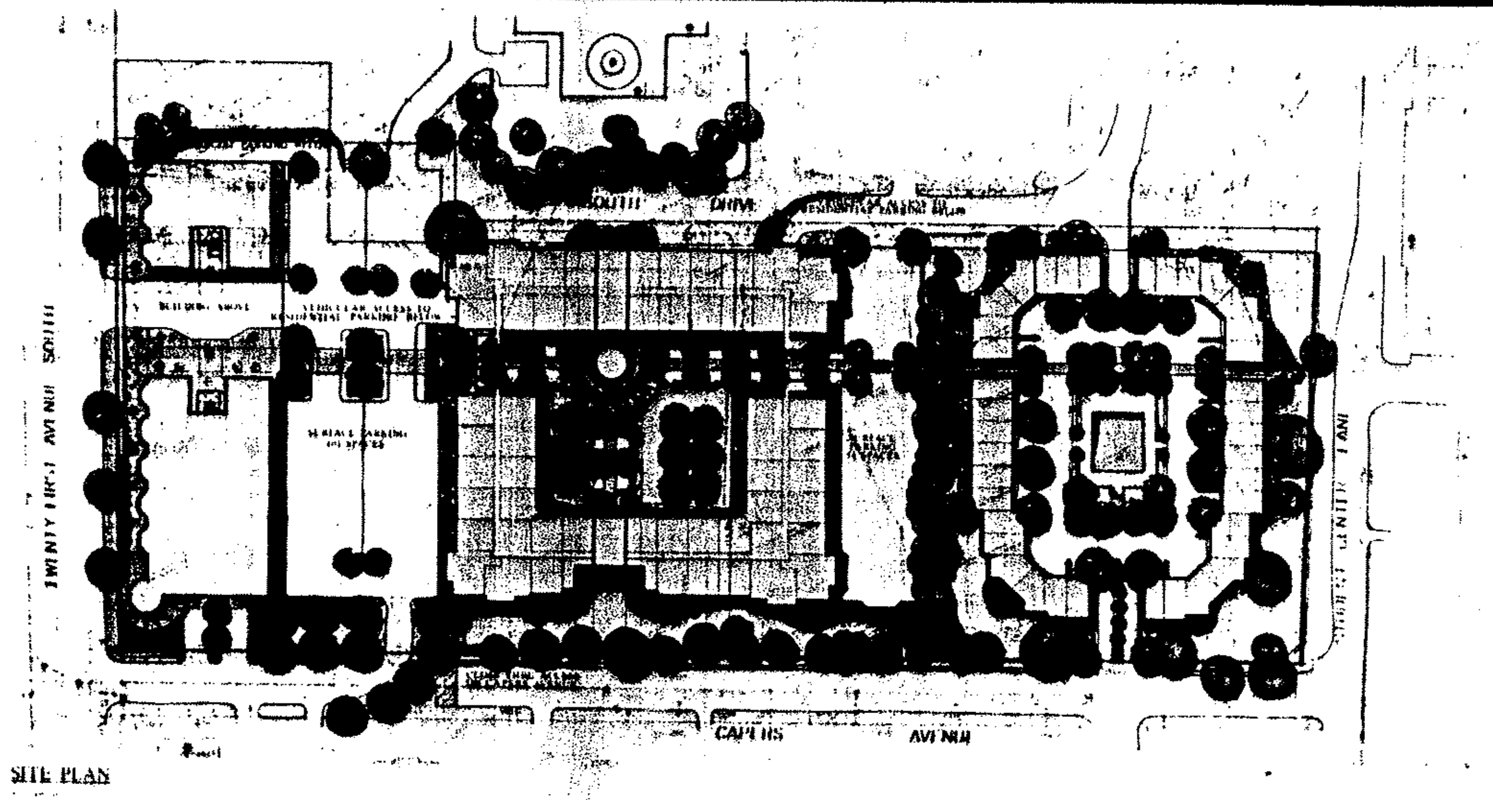
The Village at Vanderbilt

THE MATHEWS COMPANY
DEVELOPER

TUCK HINTON EVERTON ARCHITECTS
ARCHITECTURE AND INTERIOR DESIGN

HODGSON AND DOUGLAS
LANDSCAPE ARCHITECTURE AND URBAN DESIGN

Exhibit II-6
VILLAGE AT VANDERBILT
SITE PLAN



MASTERPLAN DEVELOPMENT

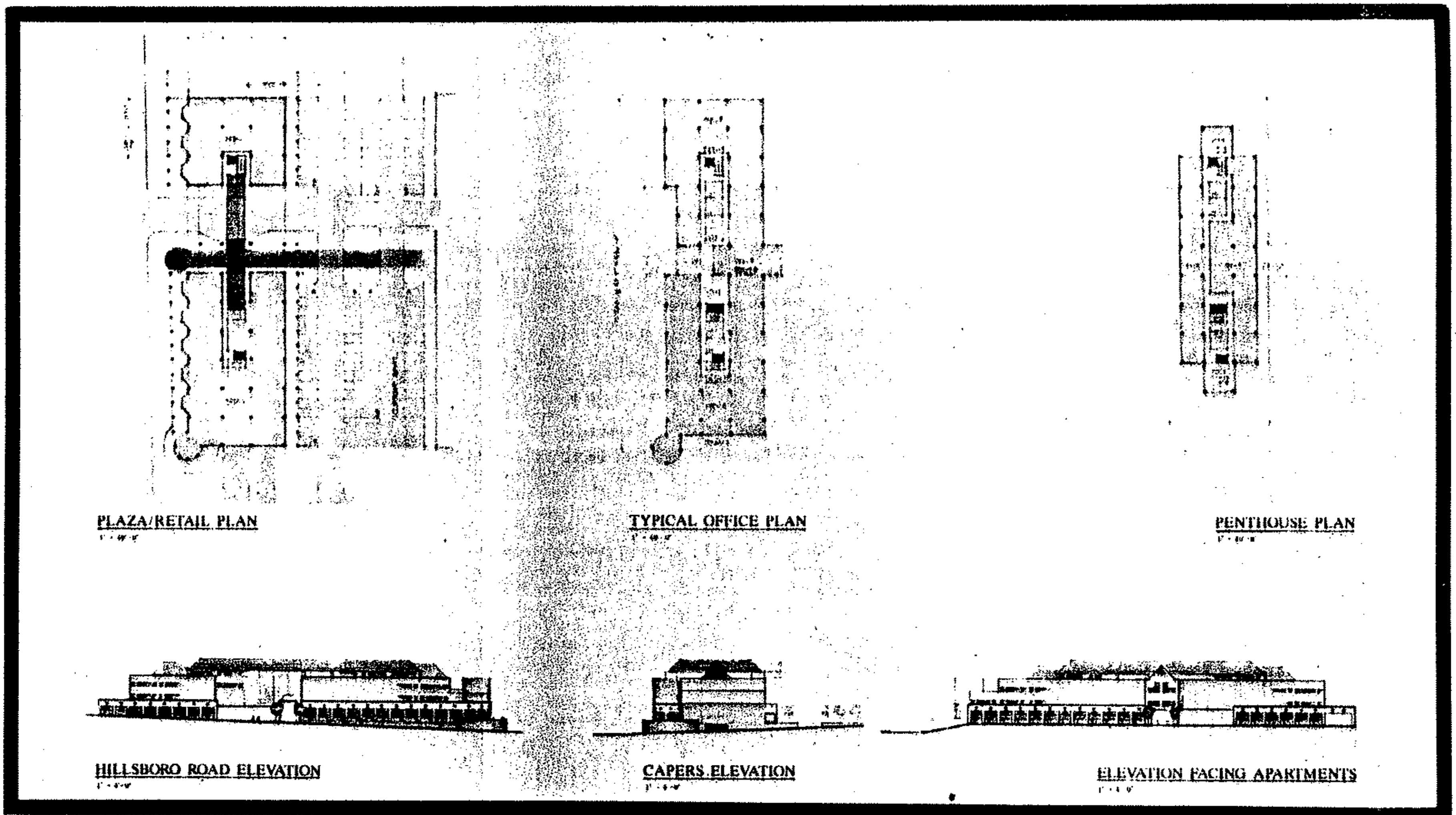
JUNE 25, 1987

THE MATHEWS COMPANY

The Village at Vanderbilt

LANDSCAPE PLAN

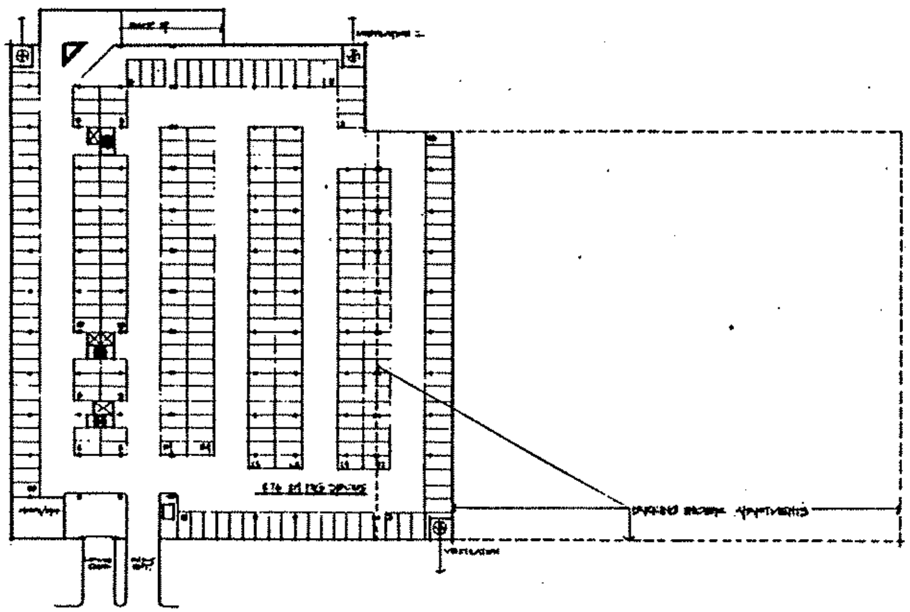
Exhibit II-7A
VILLAGE AT VANDERBILT
COMMERCIAL/RETAIL DEVELOPMENT



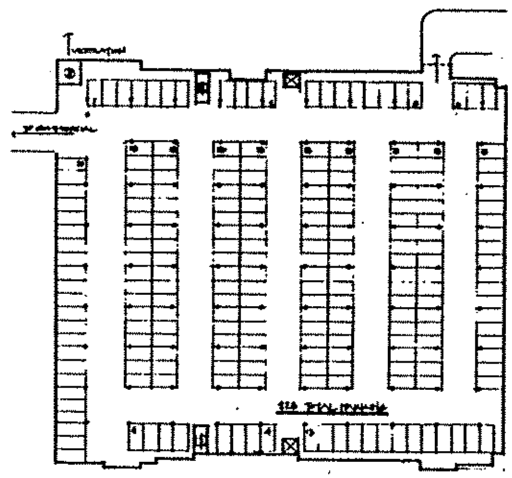
COMMERCIAL/RETAIL DEVELOPMENT
JUNE 25, 1987

THE MATHEWS COMPANY
The Village at Vanderbilt
TUCK HINTON EVERTON ARCHITECTS

Exhibit II-7B
VILLAGE AT VANDERBILT
COMMERCIAL/RETAIL PARKING PLAN



COMMERCIAL/RETAIL PARKING PLAN



APARTMENT PARKING PLAN

THE MATHEWS COMPANY

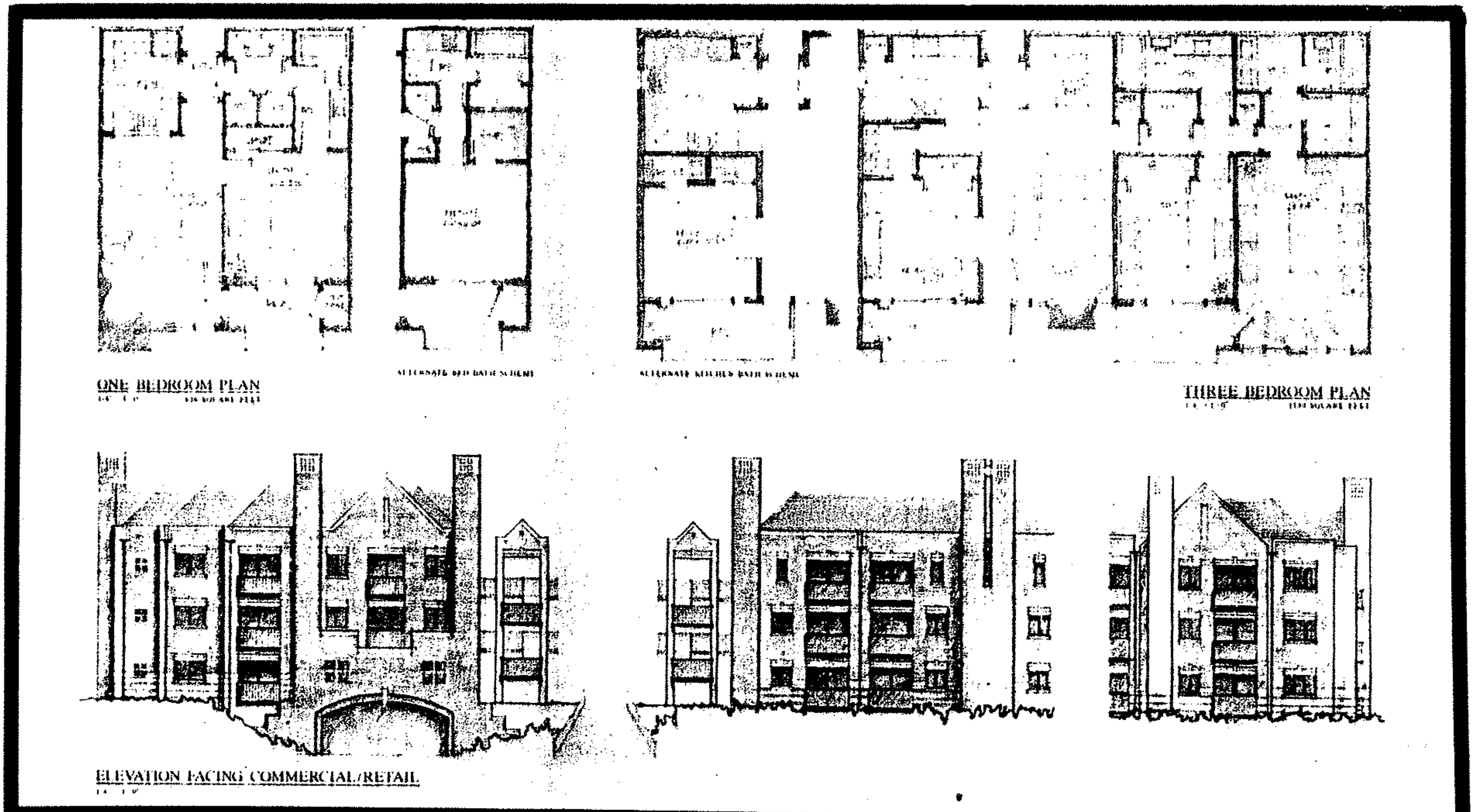
The Village at Vanderbilt

PARKING

JUNE 25, 1987

TUCK HINTON EV[illegible]ON ARCHITECTS

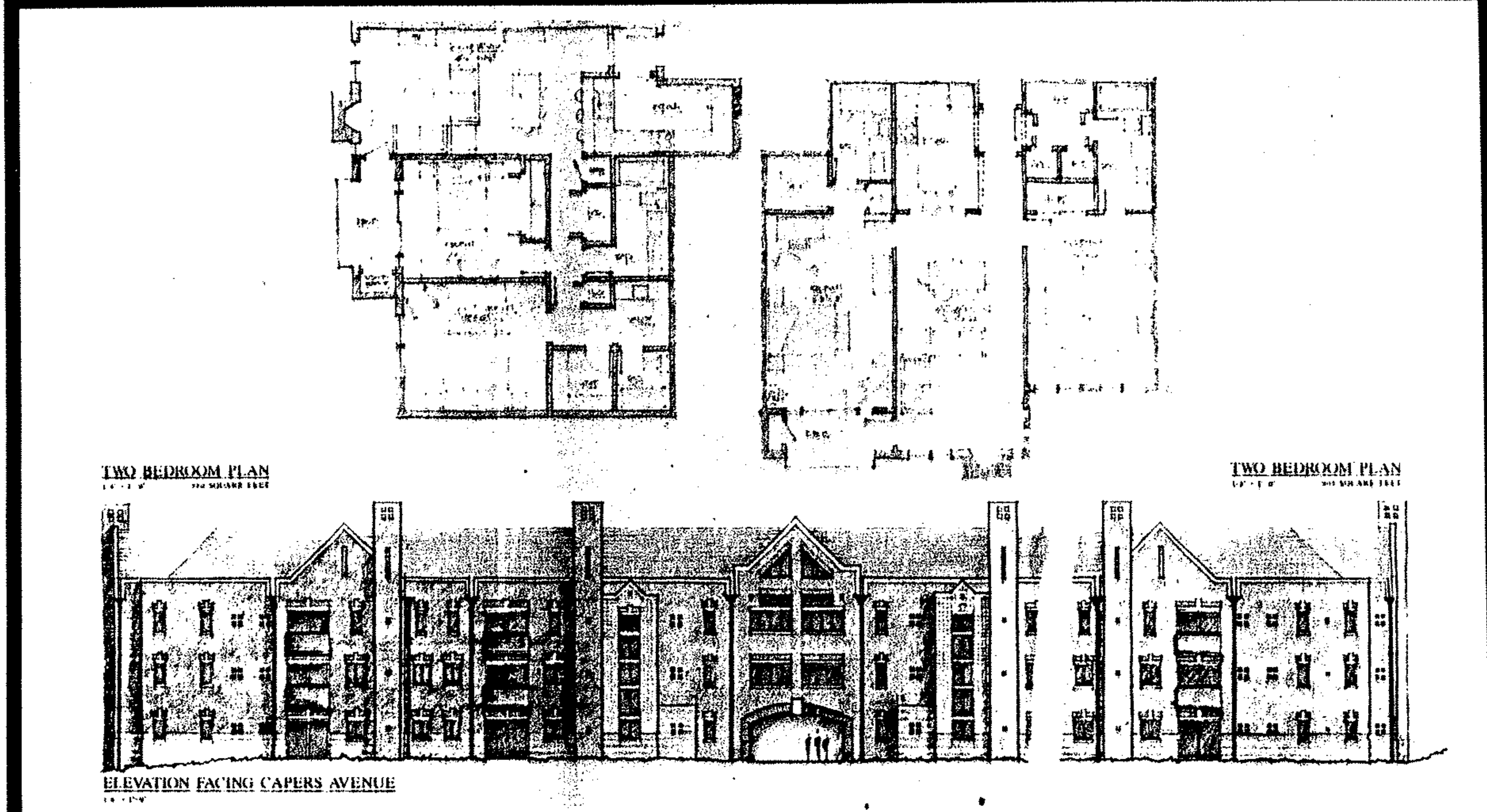
Exhibit II-7C
VILLAGE AT VANDERBILT
APARTMENT DEVELOPMENT FACING COMMERCIAL/RETAIL



APARTMENT DEVELOPMENT
JUNE 25, 1987

THE MATHEWS COMPANY
The Village at Vanderbilt
TUCK HINTON EVERTON ARCHITECTS

Exhibit II-7D
VILLAGE AT VANDERBILT
APARTMENT DEVELOPMENT ELEVATION FACING CAPERS AVENUE



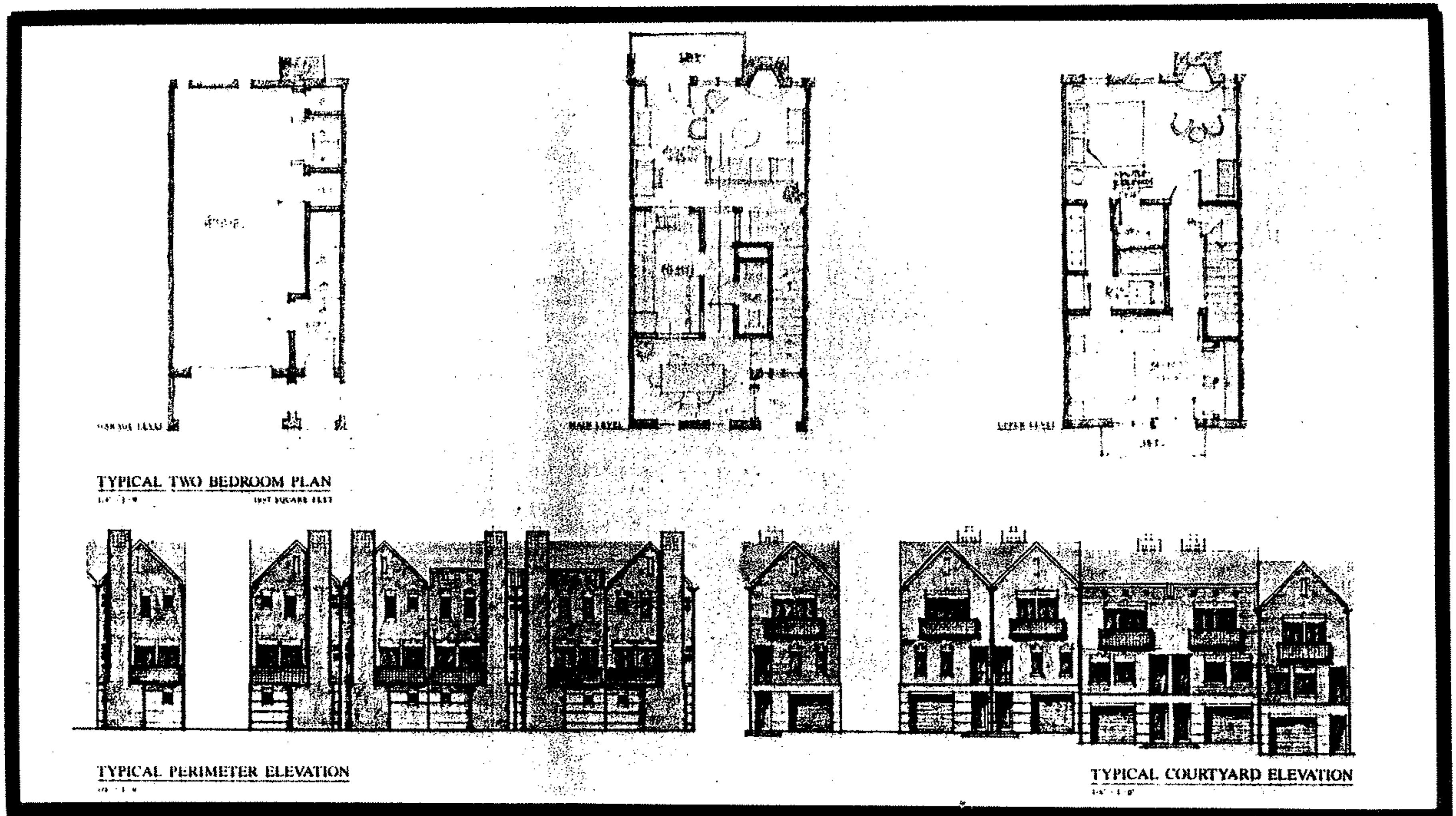
THE MATHEWS COMPANY
The Village at Vanderbilt

APARTMENT DEVELOPMENT

JUNE 25, 1987

TUCK HINTON EVERTON ARCHITECTS

Exhibit II-7E
VILLAGE AT VANDERBILT
TYPICAL PERIMETER AND COURTYARD ELEVATIONS
TYPICAL TWO BEDROOM PLAN



THE MATHEWS COMPANY

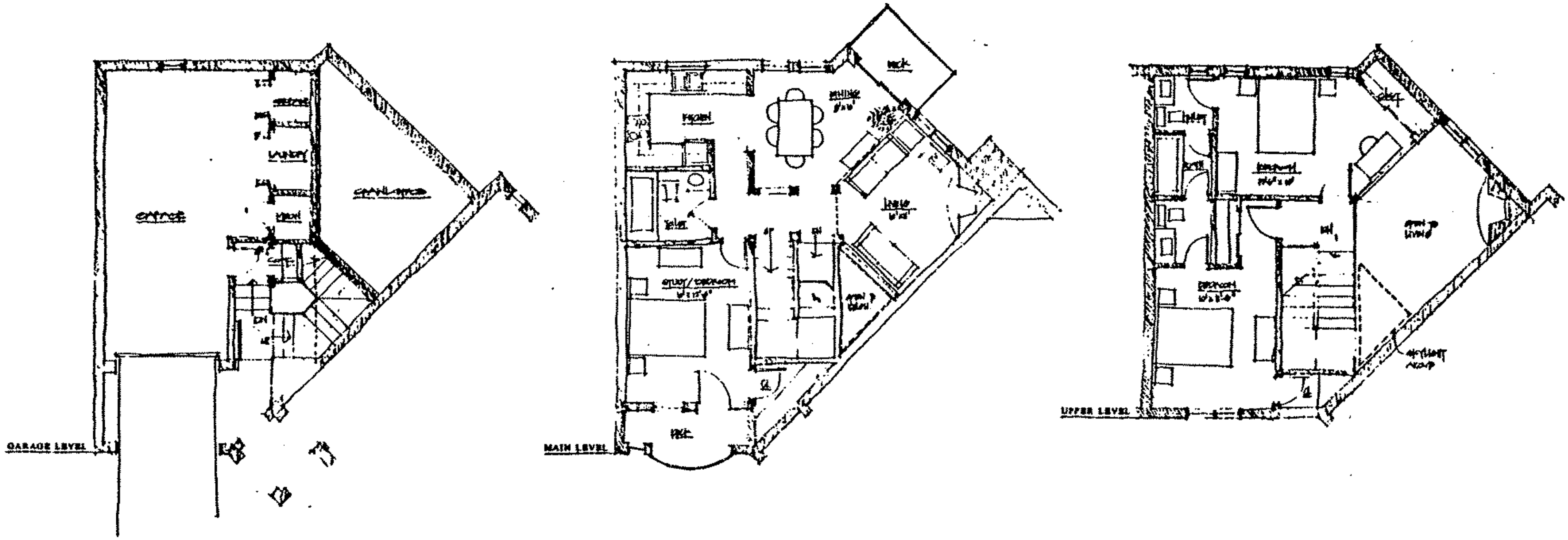
TOWNHOUSE DEVELOPMENT

The Village at Vanderbilt

JUNE 25, 1987

TUCK HINTON EVERTON ARCHITECTS

Exhibit II-7F
TOWNHOUSE DEVELOPMENT
CORNER THREE BEDROOM PLAN



CORNER THREE BEDROOM PLAN

1/4" = 1'-0" 1310 SQUARE FEET

Exhibit II-8

DEVELOPMENT BUDGET

Land Payment to Vanderbilt		$1,250,000	
Site Work		850,000	
Shell Constuction			
Office/Retail	$3,750,000		
Apartment	3,735,000		
Townhomes	2,215,590		
Total		$9,700,590	
Parking -- Surface and Structured		2,092,902	
Landscaping		130,000	
Construction Contingency		564,795	
HARD COSTS TO SHELL COMPLETION			$14,588,287
Architect and Engineering		730,651	
Marketing and Advertising		763,765	
Legal and Accounting		307,189	
Construction Interest and Loan Fees		1,350,891	
Developer's Overhead and Administration		531,000	
SOFT COSTS TO SHELL COMPLETION			3,683,496
TOTAL COSTS TO SHELL COMPLETION			$18,271,783
Tenant Improvements for Office		1,425,000	
Leasing Commissions		334,850	
Reserve for Negative Cash Flows		2,400,000	
Contingent Land Payment to Vanderbilt(1)		750,000	
Contingent Development Fee to Mathews(1)		318,367	
TOTAL COSTS AFTER SHELL COMPLETION			5,228,217
TOTAL PROJECT COSTS			$23,500,000

(1) The contingent payments to Vanderbilt and The Mathews Company will be payable out of the primary and secondary economic earnouts.

Sources: The Mathews Company
Piedmont Realty Advisors

III. THE MARKET

III. THE MARKET

A. INTRODUCTION

Nashville and Davidson County have a population of approximately 500,000 and have experienced rapid population growth in the past twenty years. The Nashville Metropolitan Statistical Area (MSA), which includes Nashville, Davidson County, and six surrounding counties, has a population of approximately 1,000,000 and is the 5th largest in the southeast and the 48th largest in the United States. From 1970-1980, the population of the Nashville MSA grew 21.6% and since 1980, the population has grown by 2% per year. Approximately 50% of the population of the United States lives within 600 miles of Nashville.

Nashville is widely recognized as a diversified economy with insurance, banking, publishing, and distribution as its mainstays. Eleven insurance companies have headquarters in Nashville, and three banks have assets in excess of one billion dollars. Nashville is the nation's fourth largest printing and publishing center, and the City's central location within the southeast makes it a major distribution center. The middle Tennessee region is also emerging as a major automobile manufacturing center with the opening of the Nissan truck factory in Smyrna, Tennessee, and the recent decision of General Motors to locate a $3.5 billion Saturn plan in Spring Hill, Tennessee. Both of these factories are within fifty miles of Nashville.

In recent years, the Nashville MSA has experienced excellent growth in jobs. For the period 1978-82, job growth in the Nashville MSA was 19.12%, more than twice the national average of 9.45% for metropolitan areas. A recent study by Chase Economics ranked Nashville as 13th in a list of cities for which the greatest job growth is predicted in the 1980s. Forty-five employers in the Nashville MSA employ 1,000 or more persons, including Vanderbilt University, which has approximately 8,500 employees and is the third largest employer in the Nashville area. Some of the other major employers are Hospital Corporation of America, Avco, Dupont, Shoney's, South Central Bell, and Northern Telecom. A recent event which will positively impact Nashville's growth in the near future is the decision of American Airlines to locate a north-south hub in Nashville. The opening of the hub in the fall of 1987 coincides with the expansion and renovation of the airport which is scheduled to be completed in late 1987.

B. CITY OF NASHVILLE OVERVIEW

Since 1984 Nashville has undergone a boom in office and residential construction. Office space increased 53%, or 4,867,500 square feet, from 1984 to 1986 with the Airport, Brentwood, West End and Metro Center markets posting the largest percentage increases. See Exhibit III-1. Apartment growth has also been very strong with a 31% gross increase in units since 1984 - a total of 12,642 new units. See Exhibit III-3. For the period 1984 to 1986, absorption of office space has been very strong with a total of 2,951,000 square feet absorbed. However, due to record levels of construction the citywide occupancy rate has decreased from 85.52% to 76.82%. See Exhibit III-2. The vacancy rate for apartments, however, has remained quite low with the rate being 8.87% in March 1987. See Exhibit III-4.

C. THE WEST END

The West End submarket is the area between West End Avenue and 21st Avenue, south of downtown Nashville and north of Interstate 440. 21st Avenue and West End Avenue are the two major thoroughfares within the submarket, and they merge at the northern corner of the Vanderbilt campus and proceed directly into the downtown district. The submarket has excellent access to downtown, prime residential neighborhoods, Music Row, the airport, and Interstate 440. Of the two thoroughfares, West End Avenue has more intense development with larger office buildings and shopping centers whereas 21st Avenue has smaller buildings and more diversity in the type of users. Both 21st Avenue and West End Avenue have interchanges with Interstate 440 which increase their access to the greater Nashville area. Vanderbilt University is the major influence on the West End since the campus occupies 305 acres within the submarket and its presence lends a certain prestige to the West End. It is also a major source of demand for space.

1. Office Market

a) <u>Office Market Overview</u> - The West End has experienced rapid growth in the last three years, with a 64% increase in office space from 1,506,000 square feet in 1984 to 2,464,100 square feet in 1986. However, during this period the West End absorbed more space than any other Nashville submarket except downtown. For the period 1984 to 1986, the West End absorbed 742,000 square feet of office space which was 25% of the Nashville total. Correspondingly, the occupancy rate in the West End increased from 75.50% to 79.01% from 1985 to 1986 while the aggregate Nashville occupancy declined. See Exhibit III-2.

b) <u>Competitive Office Properties</u> - The office building at Village at Vanderbilt represents the introduction of Class A space to the 21st Avenue corridor. Primary competition for the office space will come from West End buildings such as American Center One, Palmer Plaza, the 3322 Building, One Bellemeade Plaza, Crystal Terrace, and the Burton Hills project which is located approximately three miles south on 21st Avenue in the Green Hills submarket. See Exhibit III-6A. Piedmont physically inspected all of the above office buildings as well as several others in the West End market. The contract rental rates range from $16.75 to $20.00 with operating expense stops of $3.75 to $4.00. The effective rental rates with concessions of approximately 10% are in the neighborhood of $16.50 indicating effective net rental rates of $12.50 to $12.75. The Village at Vanderbilt conservative rental rates are $18.00 with stops of $5.00 and 10% concessions. Consequently, the effective net rent for Village at Vanderbilt will be $11.20 to $12.00. Both of these rates are below the West End Avenue buildings. In addition to being affordable the office space at Village at Vanderbilt should compete effectively because: (1) there is no new office space under construction and no projects which are definitely planned (there is talk that American Center One may begin a phase two when occupancy in phase one reaches 75%), (2) at current absorption rates there is approximately one year's supply (i.e. 500,000 square feet) in the West End and therefore vacancy rates should continue to decline and the office space will come on line during a supply constrained environment, (3) The Mathews Company has an excellent track record leasing office space as demonstrated by the 90% lease-up of One Nashville Place, (4) the tenant improvement budget of $15.00 for the office building is $3.00 to

\$5.00 higher than that offered by competitive buildings in the West End market, and (5) the proposed floor plates of 30,000 and 13,500 feature a variety of tenant bay depths and view orientations; a building characteristic which should appeal to all tenant segments in the West End.

2. The Retail Market

a) Retail Overview - West End Avenue and 21st Avenue are both well established retail locations. There are small stores along both corridors and a few small shopping centers on West End Avenue. Just to the south of the site is Hillsborough Village, a one-story, student oriented retail area with rents in the area of \$10.00 per square foot triple net. Hillsborough Village is an older area with record stores, book stores and health food stores. Farther south on 21st Avenue is the Green Hills Shopping Center with 75 shops. This shopping area opened in 1955 and services the upscale Green Hills community.

b) Competitive Retail Properties - The best comparables in terms of retail space are two small shopping centers on West End Avenue, Park Plaza and Carmichael Place. See Exhibit III-5A. Park Place rents for \$17.00 on a net basis and is 100% occupied and Carmichael Place rents for \$15.00 on a net basis and has 3,000 square feet of second floor retail space vacant. The expected rents for Village at Vanderbilt are \$15.00 on a net basis and therefore will be competitive. In addition, the retail space will be desirable because of the demand created by the apartments and townhouses in the project and the substantial daytime workforce just across the street at the Medical Center. The Hillsborough Village area will not be competitive since the subject space will have better access, design, and parking.

There are two tenant bays for the retail space with 21st Avenue exposure. The remaining space is oriented toward the office building thruway and the parking area on the west side of the office building. The resulting design is a village retail concept dependent on distinctive consumer behavior. The retail market surrounding the site is large and economically viable, but the success of the retail will be dependent on a careful selection of tenants and cost effective build out of tenant improvements.

3. The Residential Market

a) Residential Overview - The present residential market in the West End is characterized by middle level student housing. There are presently no residential rental units within walking distance of the Vanderbilt campus which are of the same quality proposed at Village at Vanderbilt. This absence of high quality residential space will provide Village at Vanderbilt with a monopolistic advantage for people who want upscale apartments within walking distance of the campus. At the same time, proximity to the campus will provide the project with a substantial competitive edge over projects of similar quality which are not located within walking distance of the campus.

The residential submarket around Vanderbilt University is exceptionally strong. As can be seen from Exhibit III-3, the vacancy rate in the submarket is consistently below the Citywide vacancy rate, and for the past five years the submarket vacancy rate has been less than 5%.

b) Competitive Properties - There are no apartment complexes which will be direct competition within the West End submarket, so an appropriate consideration is whether the projected rents for the apartments and townhouses are presently obtainable in the suburban residential market. Another relevant consideration is to compare the projects rents for the apartments and townhouses with the rents presently obtainable in the Vanderbilt area. See Exhibit III-7A.

The best two suburban comparables are Brixworth and Chowning Square which are south of the West End Avenue interchange with I-440. Brixworth is a two-story walkup with an excellent occupancy history since it opened in 1985 as a development of Property Company of America. Rents for one-bedroom apartments range from $510 to $535 and rents for two bedrooms range from $685 to $725 whereas rents at Village at Vanderbilt for one-bedrooms are expected to be $530 to $565 and $780 to $810 for two bedrooms. Brixworth is two miles from the Vanderbilt campus and has a singles atmosphere. The interior of the model apartment indicates a relatively low quality to the finish work. On a per square foot basis the rents at Brixworth are approximately 7 cents per square foot less than the projected rents for Village at Vanderbilt.

Chowning Square is a three-story, 12-year-old apartment and townhouse complex approximately 2.5 miles from the Vanderbilt campus and within walking distance of Brixworth. The apartments are larger than Brixworth and Village at Vanderbilt, but they reflect their age. The complex appeals much more to families and couples than Brixworth. Rents for three-bedrooms at Chowning Square range from $845 to $995 and the townhouses range from $810 to $995 whereas rents for three bedrooms at Village at Vanderbilt are expected to be $880 to $910 and rents for the townhouses will be $975 to $1,000. On a per unit basis, Chowning's rents are approximately the same as Village at Vanderbilt, although on a per square foot basis they are significantly lower. Chowning Square demonstrates the strength of the townhouse market as the townhouses are very rarely vacant.

The best comparables for student type units near Vanderbilt are Natchez Village and The Columns. They are representative of the type of middle market accommodations presently available. One bedrooms at Natchez Village rent for $400 and at The Columns one bedrooms rent for $410 with per square foot rents of 79 cents and 65 cents respectively. These units are approximately 30 years old and poorly maintained. They are far less desirable than what will exist at Village at Vanderbilt and in fact the rents which these complexes presently achieve demonstrates the strength of the apartment market within walking distance of Vanderbilt.

While the suburban units will not be direct competition for Village at Vanderbilt, the suburban rents demonstrate that the projected Village at Vanderbilt's rents are presently obtainable. The one-bedrooms which comprise 118 of the 148 units will be especially price competitive. The Village will also compete very well against projects within walking distance of Vanderbilt because, although the subject property's rents will be higher, it will be the only project within walking distance of Vanderbilt offering new units with a nice amenity package. It will have far superior interior and exterior finish than the modest student housing presently available.

D. CONCLUSION

The residential rental market around Vanderbilt University is extremely strong with consistently high rents and low vacancy rates. The residential component, which represents over one-half of the project's projected income, should perform very well since there are presently no residential projects of comparable quality in the Vanderbilt neighborhood. The location of the apartments and townhouses and the fact that they are projected to rent at levels comparable to what Brixworth and Chowning Square rent for will make these units very competitive in the Vanderbilt neighborhood. While Village at Vanderbilt represents the introduction of Class A space to 21st Avenue north of the Interstate 40 interchange, demand for space in the West End submarket has been strong and the outlook for the future is excellent. The retail space will be in a well established retail location where it will benefit from an internally generated demand as well as the Vanderbilt University demand. It will be very price competitive.

Exhibit III-1
NASHVILLE OFFICE MARKET
HISTORIC TRENDS

	Total Square Feet				
SUB-MARKET	1984	1985	1986	Net Increase	Percentage Increase
Green Hills	874,000	1,090,700	1,051,700	177,700	20%
Downtown	3,234,400	4,277,700	4,498,000	1,263,600	39%
Airport	1,534,600	2,329,200	2,733,400	1,198,800	78%
Brentwood	880,000	1,275,800	1,709,000	829,000	94%
West End/Bellemeade	1,506,000	1,733,500	2,464,100	958,100	64%
* Metro Center	776,700	1,159,900	1,285,000	508,300	65%
East Nashville	254,400	216,400	186,400	(68,000)	(26%)
TOTAL SQUARE FEET	9,060,100	12,083,200	13,927,600	4,867,500	53%

* Subject Sub-Market

Sources: Aladdin Resources
Northland Financial
Piedmont Realty Advisors

Exhibit III-2
NASHVILLE OFFICE MARKET
OCCUPANCY AND ABSORPTION TRENDS

SUB-MARKET	Total Occupancies (%) 1984	1985	1986	Absorption (Sq.Ft.) 1984-1986	Percent of Market Absorption 1984-1986
Green Hills	94.10%	84.90%	88.00%	103,100	4%
Downtown	83.50%	82.80%	79.00%	852,700	29%
Airport	84.20%	73.50%	70.00%	621,300	21%
Brentwood	85.69%	78.30%	78.99%	596,000	20%
* West End/Bellemeade	80.11%	75.50%	79.01%	742,000	25%
Metro Center	96.70%	62.70%	66.00%	97,000	3%
East Nashville	86.91%	92.79%	86.00%	(60,800)	(2%)
TOTALS	85.52%	77.92%	76.82%	2,951,300	100%

* Subject Sub-Market

Sources: Aladdin Resources
Northland Financial
Piedmont Realty Advisors

Exhibit III-3

HISTORIC APARTMENT VACANCY

	Total Market	Subject Sub-Market
January 1983	3.22%	.3%
January 1984	4.12%	2.5%
January 1985	5.46%	1.8%
January 1986	7.05%	4.1%
January 1987	10.63%	3.86%
March 1987	8.87%	2.86%

HISTORIC APARTMENT GROWTH

Year	No. of Units
1960	162
1961	218
1962	719
1963	286
1964	666
1965	539
1966	745
1967	837
1968	1,109
1969	1,043
1970	1,517
1971	897
1972	3,537
1973	2,525
1974	3,097
1975	2,106
1976	866
1977	220
1978	2,022
1979	1,129
1980	450
1981	356
1982	120
1983	2,562
1984	5,149
1985	5,019
1986	2,356
1987 (Year to Date)	118
TOTAL UNITS	40,370

Sources: Nashville Apartment Guide
Northland Financial
Piedmont Realty Advisors

Exhibit III-4
NASHVILLE AREA APARTMENT MARKET
OVERALL SUMMARY
March 1987

Area/Location	Units Total	Units Vacant	Efficiencies Total	Efficiencies Vacant	1 Bedroom Total	1 Bedroom Vacant	2 Bedroom Total	2 Bedroom Vacant	3 Bedroom Total	3 Bedroom Vacant	4 Bedroom Total	4 Bedroom Vacant	Percent Vacant
Donelson/Hermitage/Old Hickory	4,046	427	172	21	1,641	205	1,959	205	274	36	0	0	10.55%
Madison/Goodlettsville/Rivergate	3,838	332	107	0	1,777	141	1,666	173	284	18	4	0	8.65%
Harding/Mall/Hickory/Hollow Mall/Antioch	11,108	1,126	159	15	5,486	546	4,897	519	512	44	54	2	10.14%
Murfreesboro Rd./Airport/Thompson Ln. from Briley Pkwy. to Murfreesboro Rd.	5,390	395	104	3	2,178	140	2,632	223	475	29	1	0	7.33%
East Nashville/Dickerson Rd./Downtown	1,472	150	25	1	639	89	637	54	163	5	8	1	10.19%
* West End/Forrest Hills/Oak Hill	385	11	81	2	138	3	113	3	50	3	3	0	2.86%
Berry Hill/Belmont	415	27	40	1	190	12	185	14	0	0			6.51%
Bellemeade/West End	1,389	100	49	2	556	26	664	59	104	13	16	0	7.20%
Brentwood/Franklin	1,364	135	44	3	339	22	763	108	218	2			9.90%
Bellevue/Hwy. 70/Vaughn's Gap	1,743	170	45	0	626	69	772	97	300	4			9.75%
Charlotte Pike	1,308	70	0	0	385	13	678	41	235	16	10	0	5.35%
Henderson/Gallatin	1,455	158	48	0	549	77	764	75	94	6			10.86%
North Nashville/Bordeaux	720	47			220	17	388	25	108	5	4	0	6.53%
Murfreesboro/Smyrna	1,820	87	18	1	904	44	783	31	115	11			4.78%
TOTALS/AVERAGES	36,453	3,235	892	49	15,628	1,404	16,901	1,627	2,932	192	100	3	8.87%

* Subject Sub-Market

Sources: Aladdin Resources
Northland Financial
Piedmont Realty Advisors

Exhibit III-5A

COMPETITIVE PROPERTY SURVEY - RETAIL

Map #	Project Name and Address	Developer	Total Rentable Square Feet	Square Feet Available	Percent Vacant	Rental Rate	Lease Type	Year Completed	Comments
1.	Park Place 2817 West End Avenue	Spiva-Hill Investments	55,405	0	0	$17.00	Net	1984	$2.00 CAM; excellent location, excellent occupancy history.
2.	Carmichael Place 2404 West End Avenue	Spiva-Hill Investments	20,000	3,000	15%	$15.00	Net	1985	$2.00 CAM; 2-story walk-up retail with vacancy on 2nd floor.

Exhibit III-5B

LOCATION OF COMPETITIVE RETAIL PROPERTIES

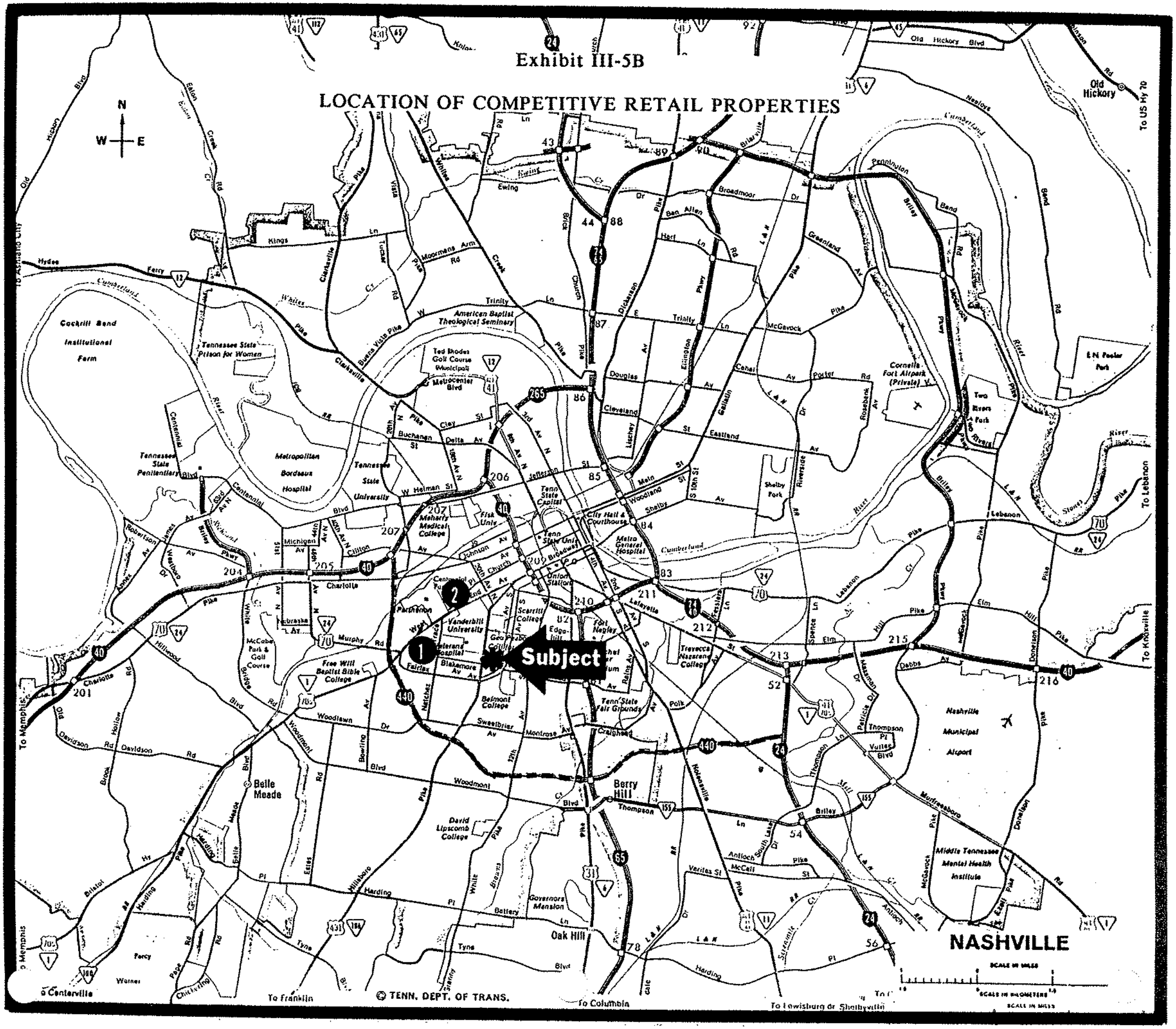


Exhibit III-6A
COMPETITIVE PROPERTY SURVEY - OFFICE
EXISTING CLASS SPACE IN WEST END SUB-MARKET

Map #	Project Name and Address	Developer	Total Rentable S.F.	Square Feet Available	Percent Vacant	Rental Rate	Lease Type	Year Completed	Comments
1.	American Center One 3100 West End Avenue	Property Company of America	214,125	74,943	35%	$18.35- $20.00	Gross w/ Stop at $4.00	1986	Probably most attractive property on West End. 10% concession.
2.	Crystal Terrace 3319 West End Avenue	Corporex Development	105,000	35,000	33%	$17.75	Gross w/ Stop at $3.75	1986	Poor building design. Poor access to West End Avenue.
3.	Palmer Plaza 1801 West End Avenue	Alex Palmer Co.	243,056	53,039	22%	$18.25- $19.25	Gross w/ Stop at $3.75-$4.00	1986	First development of Alex Palmer Cos., 10% concessions. Equinox is anchor.
4.	3322 West End Avenue 3322 West End Avenue	Emery Partnership	223,193	88,000	39%	$17.00- $19.00	Gross w/ Stop at $3.75	1986	
5.	One Belle Meade Place 4400 Harding Road	Webb Companies	130,000	5,000	4%	$17.50- $19.50	Gross w/ Stop at $3.75	1986	Leased by Owner-User. 10% concession.
6.	Burton Hills One Burton Hills Blvd.	Carroll Properties/ STM Development/ The Cumberland	120,000	2,400	2%	$16.75	Gross w/ Stop at $3.67	1986	Cooper Cary architecture design. Phase I leased up in 8 mos. Phase II is 20% pre-leased.
		Totals	1,035,374	258,382	25%				

Sources: Cushman Wakefield
West End Market Survey
Northland Financial Company
Piedmont Realty Advisors

Exhibit III-6B

LOCATION OF COMPETITIVE OFFICE BUILDINGS

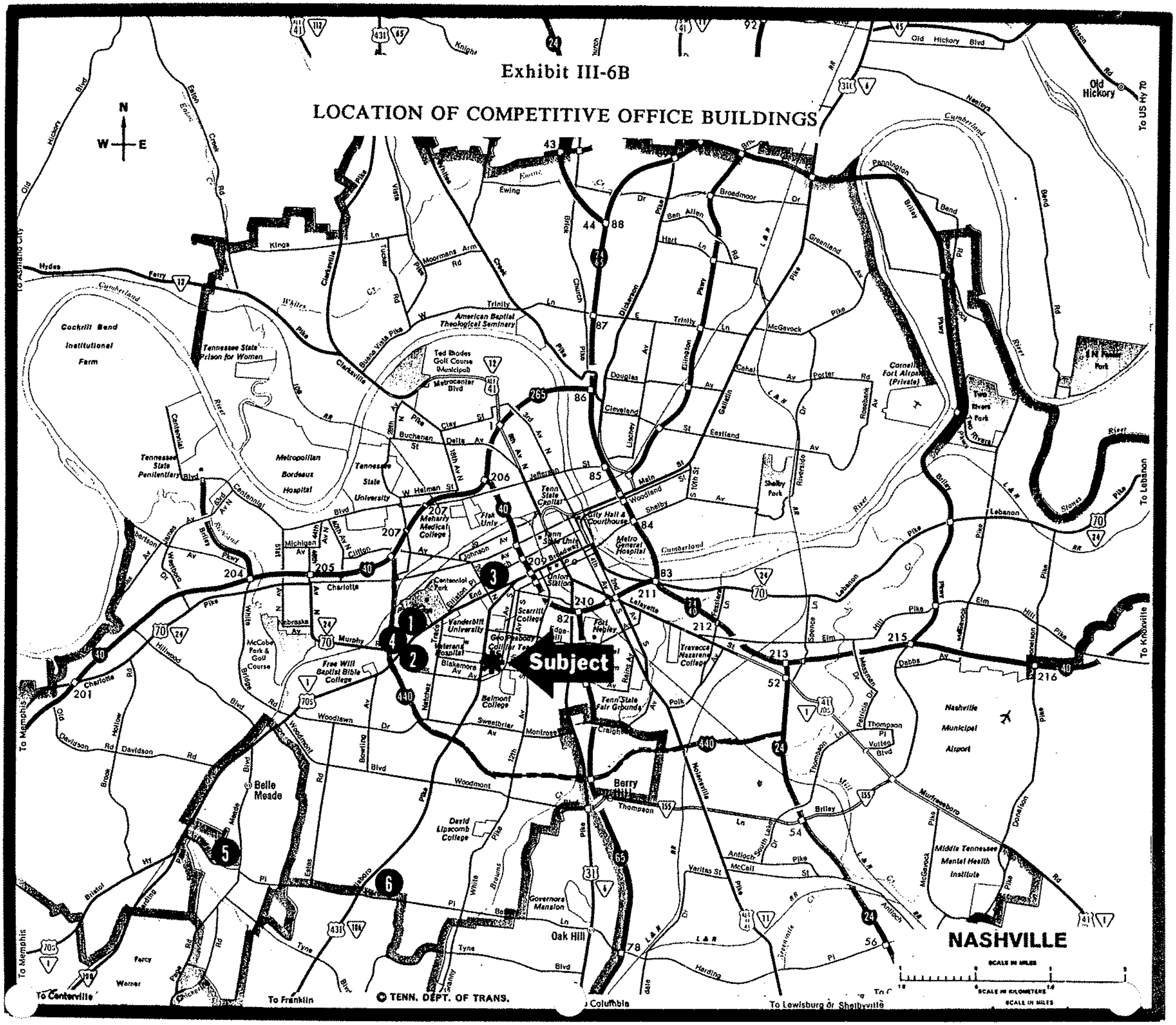


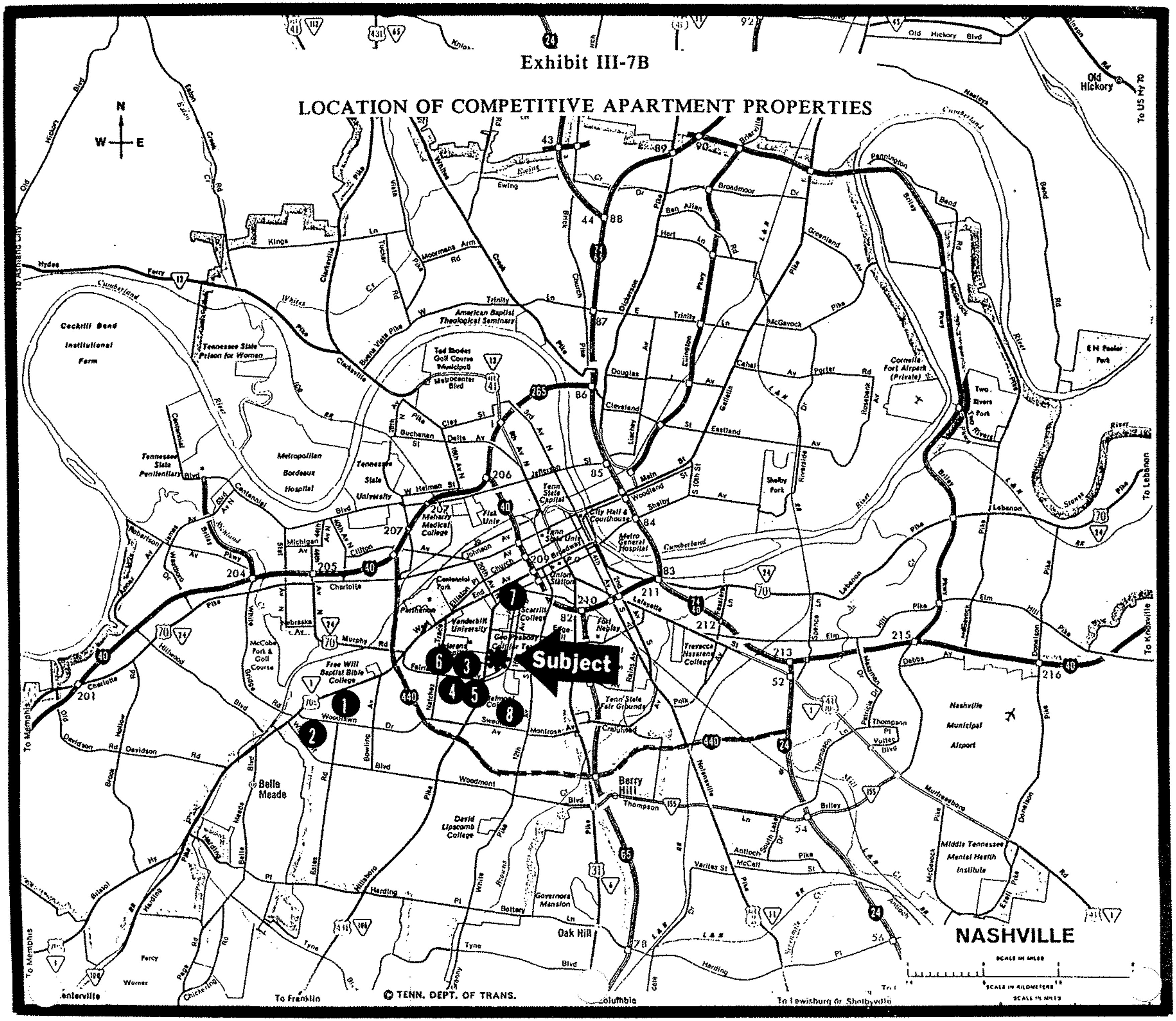
Exhibit III-7A
COMPETITIVE PROPERTY SURVEY - APARTMENTS

Map #	Property Name and Address	Year Built	Units	Occupancy	Type of Unit	Square Feet	Rent Per Month	Rent Per Square Foot	Comments
1.	Brixworth Apartments	1984	215	98%	48 Efficiency	494	$470	$.95	Caters to singles.
	101 Brixworth Lane				131 1-BR	685	$510-535	$.76	Good exterior appearance, but
					36 2-BR	900	$685-725	$.78	inexpensive inside finish.
2.	Chowning Square Apartments	1975	85	88%	2 1-BR	1,000	$570	$.57	Family oriented.Large apts.
	4141 Woodlawn Drive				2 1-BR/1-1/2 BA	1,343	$745	$.55	with nice interior but shows age.
					18 2-BR/2BA	1,343	$745	$.55	
					9 2BR/2BA/Study	1,488	$745	$.52	
					16 2BR/2-1/2BA Twnhse.	1,806	$810	$.50	
					26 3BR/2BA	1,586	$845	$.53	
					26 3BR/2BA/Study	1,731	$875	$.51	
					10 3BR/2-1/2BA Twnhse.	2,071	$995	$.48	
3.	Natchex Village	1966	50	N/A	34 Efficiency	434	$340-350	$.79	Modest student housing.
	211 Fairfax					714	$395-405		
4.	The Columns	1963	18	N/A	16 1-BR	650	$410-435	$.65	Modest unattractive student
	2121 Fairfax								housing.
5.	Commodore Apartments	1964	26	92%	26 1-BR	650	$325	$.50	
	2308 21st Avenue								
6.	Chateau Apartments	1962	66	100%	26 1-BR	625	$370	$.59	
	2000 24th Ave.				40 2-BR/2-BA	1,050	$475	$.45	
7.	Terrace Place Apartments	1962	50	N/A	45 Efficiency	380	$310	$.82	
	1016 Terrace Place				5 1-BR	420	$375	$.82	
8.	Sterling Court Apartments	N/A	84	N/A	31 1-BR	700	$350	$.50	
	2101 Belmont Blvd.				52 2-BR/1BA	1,400	$450	$.32	

Sources: Northland Financial Company
Nashville Apartment Guide

Exhibit III-7B

LOCATION OF COMPETITIVE APARTMENT PROPERTIES



IV. BORROWER/DEVELOPER

IV. BORROWER/DEVELOPER

A. INTRODUCTION

The borrower will be a Tennessee limited partnership whose general partner will be RCM Interests, a Tennessee limited partnership, whose general partners are Robert C. Mathews, Jr., and his two sons, Robert C. Mathews, III, and Walker C. Mathews. RCM Interests is the holding entity for all of the Mathews' family interests and uses the name "The Mathews Company" as a tradename. It has a net worth of approximately $25 million. The limited partner in the borrower will be Vanderbilt University.

B. RCM INTERESTS

The Mathews family first started in real estate development over 50 years ago. The first big project was the 11-story headquarters for National Life and Accident Insurance Co. built in 1938. The founder's son, Robert C. Mathews, Jr., joined the company in 1952 and took over the firm in 1964. He received a B.A. in Engineering from Vanderbilt University in 1951 and later served on the Board of Trust of the University. Recently, Robert C. Mathews, Jr.'s two sons have joined the company. Robert C. Mathews, III who received degrees from North Carolina and Harvard Universities heads the property management and finance areas. Walker C. Mathews received degrees from Princeton and Stanford and heads construction management. The resumes of Bob Mathews, his two sons, and Art Fields are attached as Exhibits IV-1A, 1B, 1C, and 1D.

Since 1952 The Mathews Company has been involved in the development of over 3,000 acres in the Nashville area. One Nashville Place, a 380,000 square foot Class A office building which was a joint venture with the Edward DeBartolo Company, was completed in 1986 and is currently 90% leased. The Mathews Company is also active in Orlando, Florida. Exhibit IV-2 is a representative list of the developments of The Mathews Company. The Mathews Company has 30 employees and their own leasing, property management, construction and development departments.

C. VANDERBILT UNIVERSITY

Vanderbilt University was founded as a private university in 1873 when Cornelius Vanderbilt made a gift of a million dollars to endow the University. It presently enrolls approximately 5,200 undergraduates and 3,800 graduate students. It is widely recognized as one of the finest universities in the southeast and certain of its schools, most especially the Medical School, have a national reputation. Vanderbilt has an endowment of approximately $375 million and has 8,500 employees, 5,000 of whom work at the Medical Center. As a limited partner in the borrower, Vanderbilt will have no management responsibilities. Vanderbilt has an irrevocable commitment to the project since the improvements will be constructed on its campus, it owns the reversionary interest under the ground lease, and it is a limited partner in the borrower.

D. DEVELOPMENT TEAM

The members of the development team are presented in Exhibit IV-3. The contractors for the project have not yet been selected. The Mathews Company plans to have one contractor for the office/retail and parking structure and a second contractor for the apartments. The Mathews Company will act as leasing agent and property manager.

E. CONCLUSION

The Mathews Company has an excellent reputation as developers of quality real estate in the Nashville market. Vanderbilt University will be an outstanding entity to have as a limited partner in the borrower because of its long term commitment to the project and its substantial net worth. The combination of Vanderbilt and Mathews should result in an investment with virtually no default risk with good upside potential due to the Mathews' previous successes in the Nashville area.

Exhibit IV-1A

BACKGROUND OF ROBERT C. (BOB) MATHEWS, JR.

Professional:

Managing General Partner, The Mathews Company
Managing Partner, RMC Interests
Managing Partner, R.C. Mathews, Contractor
Chairman of the Board, Orion Building Corp.
Co-Developer, MetroCenter Properties
Developer, Metropolitan Industrial Park
Co-Developer, One Nashville Place
Developer, Grassmere Business Park
Developer, Second Avenue Historic Renovations

Civic:

Chairman of the Board of Commissioners
Metropolitan Nashville Airport Authority
Past Chairman, Federal Reserve Bank of Atlanta, Nashville Branch
Past President, Nashville Area Chamber of Commerce
Past President, Cheekwood Botanical Gardens and Fine Arts Center
Past President, Cumberland Museum & Science Center
Life Member Board of Trust and Past President, Ensworth School
Past Chairman of the Advisory Committee, Cumberland Valley Girl Scout Council
Member, Urban Land Institute
Member, National Trust for Historic Preservation

Education:

Vanderbilt University
Bachelor of Science - Engineering (1951)

Exhibit IV-1B

BACKGROUND OF ART W. FIELDS

Professional:	Executive Vice President, The Mathews Company Member, Urban Land Institute Member, National Association of Office and Industrial Parks
Civic:	Board of Advisors, Tennessee State University Board of Directors, Murray State Business School Alumni Association
Education:	Murray State University Bachelor of Arts (1965) Master of Business Administration (1967)

Exhibit IV-1C

BACKGROUND OF ROBERT C. MATHEWS, III

Professional:	1980 to Present - Vice President Property Management, The Mathews Company
	1983 to 1984 - Administrative Assistant to Congressman Jim Cooper
	1977 to 1978 - Investment Analyst and Sales Manager, Harvard Square Investment Associates, Ltd., Cambridge, Massachusetts and Nashville, Tennessee
	1976 to 1977 - Real Estate Problem Loan Department, First American National Bank, Nashville, Tennessee
Civic:	Chairman, Metropolitan Transit Authority Chairman, Historic Nashville, Inc. Member, Leadership Nashville 1987 Member, National Trust for Historic Preservation Member. Board of Directors, American Passenger Transit Association
Education:	1978 to 1980 - Harvard Business School Master of Business Administration
	1972 to 1976 - University of North Carolina Bachelor of Arts Degree with Honors in Urban Studies

Exhibit IV-1D

BACKGROUND OF WALKER C. MATHEWS

Professional: 1983 to Present - Vice President, Construction Management, RCM Interests
1979 to 1983 - Gerald S. Hines Interests.
Construction Manager for high rise office projects in Houston and Denver.

Education: 1978 to 1979 - Stanford University
Master of Science - Civil Engineering
Program of Construction Engineering and Management

1974 to 1978 - Princeton University
Bachelor of Science - Civil Engineering
Graduate Magna Cum Laude

Exhibit IV-2

THE MATHEWS COMPANY
CURRENT AND RECENT PROJECTS

One Nashville Place: At the corner of Fourth Avenue North and Commerce Street in Nashville. This $50,000,000 office tower, a joint venture with the Edward J. DeBartolo Corporation, contains 380,000 square feet and is 92% leased.

Grassmere Business Park: Located on Trousdale Drive at Elysian Fields Road in Nashville. A $75,000,000 office and office/showroom complex covering 95 acres, it is a development with the NCNB Real Estate Fund of North Carolina National Bank.

Grassmere I and Grassmere II: 90,000 and 145,000 square feet respectively, office/showroom buildings developed jointly with NCNB Real Estate Fund in Grassmere Business Park in Nashville. Grassmere I is a $9 million project and 90% leased. Grassmere II is a $15 million project and 65% leased.

AT&T Data Center: Located in Grassmere Business Park in Nashville, this is a $27 million, 228,000 square foot building developed and built as a joint venture with AT&T Resource Management.

Airlane Business Centers: A group of three office/showroom buildings totaling 200,000 square feet located in Metropolitan Industrial Park in Nashville.

Maryland Farms Fashion Square: A 55-acre regional retail fashion project including a 980,000 square foot center on Old Hickory Boulevard at Westpark Drive in Nashville. This is a joint venture with The Edward J. DeBartolo Corporation, and is a $60 million project.

National Baptist World Center: A $12 million, 90,000 square foot facility for the National Baptist Convention, U.S.A., overlooking the Cumberland River, adjacent to the campus of American Baptist College on White's Creek Pike in Nashville.

Air Park West: This 57-acre office/distribution development off Harding Place at Ezell Pike in Nashville is a joint venture with the Buckley-Nelley Group, and is 50% sold out.

Harding Industrial Center: A 592,000 square foot warehouse complex on Harding Industrial Drive in Nashville. This $11 million project is a joint activity with Aldrich, Eastman & Waltch.

Southwest Corporate Center: A 96,000 square foot office/distribution facility in Orlando, Florida, near the intersection of the Florida Turnpike and Interstate 4. This is a $10 million project that is 100% leased.

Exhibit IV-2

THE MATHEWS COMPANY
CURRENT AND RECENT PROJECTS (Continued)

Borroughs Property: This 128-acre tract along Kirkman Road in southwest Orlando was recently acquired from the Borroughs Corporation. Preliminary plans are for a commercial development for the office and office/distribution market.

Landmark Center and Adjacent Crescent Building: At Fourth Avenue North and Church Street in Nashville, this $28 million project includes the L and C Tower and the Chamber of Commerce Building for a total of 300,000 square feet of office and retail space.

G.E. Property: 181 acres surrounding the General Electric Facility at 250 East Main Street outside Nashville. A commercial development is being planned for this site which was purchased for approximately $2.5 million.

Jackson Downs: This $3 million project is a 129-acre commercial and residential development on property adjacent to the Donelson Hospital on Lebanon Road near Stones River in Nashville.

Four Forty Center: 57 acres of commercially zoned land bordering I-440 between Bransford Avenue and Nolensville Road in Nashville. It is a joint venture with the Buckley-Nelley Group, and an $8.5 million project.

Devonmeade: A 550-acre tract of residential property adjacent to Edwin Warner Park between Vaughn Road and Highway 100 in northwest Williamson County, Tennessee. It is valued at $6.25 million.

Second Avenue Historic District: Over 200,000 square feet of office and retail space on Second Avenue North between Broadway and Church Street in downtown Nashville.

Commerce Street Retail and Parking Facility: A $10 million joint venture with Central Parking System, Inc. It contains 900 parking spaces and 28,000 square feet of commercial space on Commerce Street at Second and Third Avenues North in downtown Nashville.

Barge, Waggoner, Sumner and Cannon Building: A 42,000 square foot builidng at 162 Third Avenue North in Nashville, this $4 million project is the home office for Barge, Waggoner, Sumner & Cannon.

Exhibit IV-3

DEVELOPMENT TEAM
VILLAGE AT VANDERBILT

Borrower

Vanderbilt University
c/o Jeff Carr
Vice Chancellor for University
Relations & General Counsel
Nashville, Tennessee 37240
Telephone: (615) 322-7311

RCM Interests d.b.a.
The Mathews Company
One Nashville Place,
Suite 1010
Nashville, Tennessee 37219
Telephone: (615) 244-2130

Mechanical and Electrical Engineers

Gresham, Smith and Partners
3310 West End Avenue
Nashville, Tennessee 37203
Telephone: (615) 385-3310

Structural Engineer

Stanley D. Lindsey and Assoc. Ltd.
1901 West End End Avenue
Nashville, Tennessee 37203
Telephone: (615) 329-3838

Architect

Tuck, Hinton, Everton
1810 Hayes Street
Nashville, Tennessee 37203
Telephone: (615) 320-1810

Soils Engineer

Geologic Associates
P.O. Box 111893
Nashville, Tennessee 37222
Telephone (615) 333-1110

Civil and Traffic Engineers

Barge, Waggonner, Sumner &
Cannon
162 Third Avenue North
Nashville, Tennessee 37201
Telephone: (615) 254-1500

Landscape and Urban Architects

Hodgson and Douglas
3016 Vanderbilt Place
Nashville, Tennessee 37212
Telephone: (615) 327-4447

Contractors

To be selected among the
following for office, retail
and parking structure:

McDevitt & Street, Charlotte,NC
Beers, Atlanta, GA
Hardaway, Nashville, TN

For apartment and townhouse
structures:

Crow-Terwilliger, Atlanta, GA
Embry, San Antonio, TX (still
subject to USF&G approval)

V. RISK AND RETURN

V. RISK AND RETURN

A. INTRODUCTION

In the proposed financing the participating mortgage will be secured by a first lien on the leasehold interest owned by the borrower with the rent under the ground lease being prepaid in full for 75 years. Vanderbilt University owns the fee interest in the property but will not pledge the fee interest as security for USF&G's loan. As additional security, the general partners of RCM Interests will guarantee all cash flow deficits until the earlier to occur of 24 months following initial funding, or breakeven occupancy.

The proposed investment structure is very similar to the existing portfolio of USF&G participating loans. The loan provides for multi-staged funding with an initial disbursement sufficient to pay off the construction loan and subsequent disbursements during the lease-up period to pay for leasing commissions and tenant finish work. There will be an economic holdback of $2.35 million (i.e. 10% of the maximum loan amount) which is sub-divided into a primary holdback of $1.35 million and a secondary holdback of $1 million. The disbursement rate for the primary economic holdback provides for a maximum loan amount of $22,500,000 when the project is 95% leased at the conservative rental rates. The disbursement rate for the secondary economic holdback provides that the loan amount may be further increased to $23,500,000 if the project is 95% leased at the optimistic rental projections. This two-staged economic holdback is designed to maintain an acceptable loan-to-value ratio and investment yield by linking the amount which USF&G funds to the rental income of the project. In all cases the borrower has an incentive to remain committed to and aggressively lease the property.

The distinctive features of this application include (1) a 75-year ground lease with the rent prepaid in full; (2) the owner of the fee estate included as a limited partner in the borrower; (3) a mixed use project involving office, retail, and residential space; and (4) an expectation that the value of the property at the maturity of the loan will be determined by appraisal rather than a sale to a third party since Vanderbilt will likely purchase the leasehold interest. In addition, USF&G's participation percentage in additional interest from operations is linked to a 12% annual return on the outstanding loan balance. USF&G will receive 50% of the net cash flow until it has received a 12% annual return, and thereafter it will receive 25% of the net cash flow. It is unlikely that a reduction to 25% will occur before the 10th loan year when, in any event, USF&G may call the loan. The loan also provides for pay and accrual rates during the first five loan years. The purpose of allowing a limited portion of the interest to accrue during these early years is to minimize cash flow deficits and the corresponding default risk. The loan provides, however, that all positive cash flow during the first five loan years shall be used to pay interest which would otherwise accrue.

B. VALUATION

1. Pro Forma Income and Expenses

The pro forma income and expenses are presented in Exhibit V-1 for conservative and optimistic scenarios. The conservative scenario is based on rental rates which are attainable in today's market while the optimistic scenario has rental rates which are 5% higher than the conservative case. There is a decent possibility that the optimistic rental rates will be achieved because of the property's location and quality as well as improving market conditions.

In both optimistic and conservative cases, a 5% vacancy allowance is used and operating expenses are estimated at $5.00 per square foot per year for office space and $2,200 per year per residential unit. The retail space is expected to lease on a net lease basis so no operating expenses are included for this space. While the interest rate remains 9.625%, the disbursed loan amount changes for each scenario (conservative is $22,500,000, and optimistic $23,500,000). Consequently, the base debt payments change as the loan amount changes.

As the loan amount increases, both the debt coverage ratio and the additional interest increase. Therefore, as more loan dollars are funded, the risk decreases because the debt coverage ratio increases, and the annual return increases. The debt coverage ratio under the conservative case is estimated at 1.16, increasing to 1.18 if the optimistic scenario is achieved.

2. Valuation Methodology

The forward commitment aspect of the participating mortgage enables USF&G to invest at a wholesale level (i.e., the actual cost of development), and immediately participate in 50% of the spread between the cost and the value of the property when it is built and leased. The estimation of value is therefore an important part of the investment analysis. Using the three approaches to value accepted by the American Institute of Real Estate Appraisers, Piedmont evaluated Village at Vanderbilt. These value estimates are based on the conservative rental rates and are presented in Exhibit V-2. Correlating the three estimates, Piedmont estimates the market value of the project to be $26,200,000 to $27,500,000 when it is built and leased. This value represents a loan to value ratio of 86%. For purposes of valuing the leasehold interest Piedmont has assigned a value to the land of $4,000,000 which is equal to Vanderbilt's original asking price when Vanderbilt solicited development proposals from The Mathews Company, Trammell Crow, Lincoln Property Company, and Property Company of America. Vanderbilt accepted a cash payment of $1,250,000, a contingent payment of $750,000, and a 50% carried interest in the borrower.

C. RETURN

The projected summary of cash flows for the project are presented in Exhibits V-4A and V-4B for the conservative and optimistic scenarios. The assumptions used in these cases are set forth in Exhibit V-3. The different types of cash flows that contribute to the loan's yield are base debt service, accrual interest offset, additional interest from operations, and additional interest from sale or refinancing or, most likely, additional interest based on the appraised value of the property.

1. Base Debt Service

While the interest rate for the loan is 9.625%, the annual pay and accrual rates are as follows:

	Pay Rate	Accrual Rate
Year 1	8.75%	.875%
2	8.75%	.875%
3	9.00%	.625%
4	9.25%	.375%
5	9.50%	.125%
6-20	9.625%	0%

2. Accrual Interest Offset

If the property generates positive net cash flow then USF&G will receive 100% of the net cash flow to pay interest which would otherwise accrue.* In other words, after payment of interest at the pay rate, USF&G receives 100% of cash flow until it receives an annual return of 9.625% on the outstanding loan balance. In this way, accrued interest is held to a minimum, and USF&G receives its full interest rate as soon as possible. The project is expected to produce positive cash flow in the second loan year.

3. Additional Interest from Operations

The additional interest from operations, due quarterly, is 50% of the annual net cash flow and is expected to increase over the term of the loan. The additional interest from operations is based on two participation rates. USF&G receives 50% of the cash flow until it receives an annual return of 12% of the outstanding balance. Thereafter, USF&G receives 25% of any cash flow above the 12% level. The annual return is not expected to exceed 12% under low and moderate inflation.

4. Additional Interest from Sale or Refinancing

This portion of the return assumes that the loan will be called by USF&G at the end of the 10 year holding period and that the property's value at that time will be based on a 9% capitalization rate. The additional interest is determined by multiplying USF&G's 50% residual interest by the net appraised value. Selling expenses of up to 3% of the gross sales price and the outstanding loan balance are deducted from the appraised value to arrive at the net cash proceeds. The projected value of this residual interest ranges from $7,310,785 to $8,112,799. In this transaction an appraisal will probably be used since it is unlikely that Vanderbilt will permit a sale of the property to occur since Vanderbilt has a right of first offer to purchase the property. The application specifies that the appraisal shall value the sum of the fee and the leasehold interests rather than appraising the value of the leasehold interest alone. This approach avoids the potential difficulties of an appraiser valuing a 75-year leasehold on which the rent has been prepaid.

5. Yield Analysis

The expected nominal (non-inflation adjusted) yield on the participating mortgage under 5% inflation assumptions is 12.0% for the conservative scenario and 12.2% for the optimistic scenario. See Exhibits V-5A and V-5B. Exhibit V-6 is a sensitivity analysis in matrix form for the two scenarios. The two variables used for this analysis are the inflation rate and the capitalization rate at the appraisal. The yields in the matrix are nominal internal rates of return which increase as inflation increases and decrease as the capitalization rate increases.

D. RISK

The risk exposure from this investment can be divided into four categories: market, operations, default, and interest rate.

1. Market Risk

The market risk occurs if the property cannot achieve its pro forma rental rates during the 24-month lease-up period following completion of construction. This could be caused by either decreased demand or an oversupply of space. In addition, Village at Vanderbilt contains specific market risks for each product type. The risk for the office and retail space is that Class A space is being introduced to the 21st Avenue corridor. This risk is addressed by pro forma rents below West End Avenue. The risk for the residential component is that The Mathews Company has less experience in developing apartments. The Mathews Company has addressed this risk by soliciting opinions of other apartment developers and incorporating their suggestions into the plans for Village at Vanderbilt. Piedmont Realty Advisors submitted the proposed plans for the apartments and townhouses to Trammell Crow Residential's partner in Nashville and his response was very positive. While the market risk is the most significant risk in this investment, the competitive advantages of the property as discussed in the market section of this report, along with the economic earnout provisions, have reduced this risk to an acceptable level.

2. Operational Risk

The operational risk occurs when the property is not efficiently managed or marketed. The Mathews Company will manage this project along with over 2.0 million square feet of office, commercial, and industrial space which it manages in the Nashville area. This firm's extensive experience in marketing, their stature in the Nashville area, and their track record leasing space reduces the management and marketing risk to a minimum. By participating in the net cash flow USF&G also bears some of the operational risks of the property. This risk is addressed by providing USF&G with the right to review and approve annual operating and capital budgets which set forth permitted operating expenses as well as adequate replacement reserves, tenant improvements and leasing commissions for second and subsequent generation tenants.

3. Default Risk

The risk of default is addressed by a guarantee of payment of cash flow deficits by the principals of The Mathews Company for up to 24 months, and collateralization of the loan by a well-located, well-designed property. The fact that Vanderbilt is a limited partner in the borrower further reduces the risk of default since Vanderbilt will not want to be part owner of a project on its campus which is in default. In addition, Vanderbilt will not want a default to occur because its limited partnership interest (and consequently its right to receive distributions as a limited partner) would be terminated by a foreclosure sale. The debt coverage ratio of 1.16 in the conservative economic scenario is considered adequate and even further reduces the default risk.

4. Interest Rate Risk

The interest rate risk occurs due to the forward commitment nature of the loan. This risk is addressed by the participations in cash flow and residuals which allows the nominal yield to increase with inflation (and therefore interest rate) increases. If interest rates decline the borrower will be locked in by a Tri-Party Agreement with the construction lender and the real return to USF&G will increase accordingly.

F. CONCLUSION

Village at Vanderbilt presents a rare investment opportunity because the borrower is composed of a premier Nashville developer and a prominent educational institution with the project located on the campus of the educational institution. The combination of these factors makes the risk of default extremely low. The project is well-planned and appropriate for the market in which it will compete and it has substantial upside potential. The investment structure is flexible but it protects a very attractive yield for USF&G given the risks involved.

Exhibit V - 1

PRO FORMA INCOME AND EXPENSES
VILLAGE AT VANDERBILT

		Conservative	Optimistic (1)
Gross Income			
Office (Avg.)	71,500 SF @ $18.00	$1,287,000	$1,351,350
Retail	23,500 SF @ $15.00	352,500	370,125
Apartments - 148 Units			
1 Bedroom	118 Units @ $531.00 / Month	751,896	789,491
2 Bedroom	24 Units @ $780.00 / Month	224,640	235,872
3 Bedroom	6 Units @ $880.00 / Month	63,360	66,528
Other Income	148 Units @ $ 33.72 / Month	59,880	62,074
Townhouses	39 Units @ $975.00 / Month	456,300	479,115
Other Income	39 Units @ $ 33.85 / Month	15,840	16,632
Total Gross Income		$3,211,416	$3,371,987
Less : Vacancy @ 5.00%		160,571	168,599
Equals : Effective Gross Income		$3,050,845	$3,203,387
Less : Operating Expenses			
Retail	Net Leases	0	0
Office	71,500 SF @ $5.00 PSF	357,500	357,500
Apartments	148 Units @ $2,200.00 / Unit / Year	325,600	325,600
Townhouses	39 Units @ $2,200.00 / Unit / Year	85,800	85,800
Total Operating Expenses		768,900	768,900
Equals : Net Operating Income		$2,281,945	$2,434,488
Less : Base Debt Service 8.75% (2)		1,968,750	2,056,250
Less : Additional Interest (3)		255,035	291,931
Equals : Cash Flow To Borrower		$ 58,160	$ 86,307
Indicated Debt Coverage Ratio		1.16	1.18

(1) Rents 5% higher than Conservative Scenario.
(2) Base Debt Service for the Conservative Case is based on anoriginal loan amount of $22,500,000 and Base Debt Service for the Optimistic Case is based on an original loan amount of $23,500,000.
(3) Lender receives 100% of Cash Flow up to 9.625%, 50% of cash flow between 9.625% and 12%. and 25% of Cash Flow above 12%.

Exhibit V-2

VALUATION ANALYSIS

Cost Approach

	Cost of Improvements (Exhibit II-8)	$21,500,000
+	Developer's Profit @ 10%	2,150,000
+	Land Value	4,000,000
=	Total Property Value	$27,650,000
	Estimated Value of Leasehold plus Improvements	$27,600,000

Direct Sales Comparison Approach

		Conservative	Optimistic
	Stabilized Net Operating Income	$ 2,336,041	$ 2,492,317
-	Overall Capitalization Rate	.09	.09
	Total Property Value	$25,956,011	$27,692,411
	Estimated Value of Leasehold plus Improvements	$25,956,011	$27,692,411
	Rounded to	$26,000,000	$27,700,000

Capitalized Income Approach

	Present Value of NOI @ 12%	$13,782,360	$14,199,961
+	Present Value of Net Sale Proceeds @ 12%	12,429,894	13,283,440
=	Total Property Value	$26,212,254	$27,483,401
	Estimated Value of Leasehold plus Improvements	$26,212,254	$27,483,401
	Rounded to	$26,200,000	$27,500,000

Correlation of Value Estimates

The three approaches to value indicates a range of values from $26,000,000 in the conservative case to $27,700,000 in the optimistic case. In the correlation of value estimates, each approach to value is considered in terms of market reliability and relevance to the subject property. In this case, the range of estimates is rather narrow, and the best estimate of property value is considered to be the Capitalized Income Approach because it reflects a reasonable estimate of the property's earning power on an annual cash flow basis for both conservative and optimistic market conditions. Consequently, the value of the subject property when it is built and leased is estimated to range between:

$26,200,000 and $27,500,000

The indicated loan to value ratios would be 86% for conservative and optimistic market conditions respectively. In this appraisal process it is assumed that the value of the leased fee is zero since the present value of the leased fee 75 years in the future approaches zero.

Exhibit V-2A
IMPROVED PROPERTY SALES

Sale #	Location	Grantor/Grantee	Size	Year Built	Sale Date	Price	Overall Capitalization Rate
	COMMERCIAL						
1.	Carmichael Place 2404 West End Avenue Nashville, Tennessee	West End Ave. Partnership/ Paula K. Vogel & Johnanna Kurz	20,773 S.F. (Bldg.) 30,144 S.F. (Land)	1985	7/31/86	$2,800,000	9.40%
2.	Brookwood Place 103 White Bridge Road Nashville, Tennessee	White Bridge Road Associates/ Brookwood Investment Assoc. L.P.	15,735 S.F. (Bldg.) 43,564 S.F. (Land)	1986	12/22/86	$1,860,000	7.30%
3.	Bandywood Mall 2212 Bandywood Drive Nashville, Tennessee	C.R. Clements III & Betty Clements/ Rhode Island Hosp. Trust Nat. Bank	12,155 S.F. (Bldg.) 30,000 S.F. (Land)	1976	1/26/87	$1,290,000	7.42%
4.	Bandywood Fashion Square Bandywood Fashion Square West Nashville, Tennessee	James B. Blevins, Tr; Fashion Square West/ Bandywood Fashion Square, Ltd.	39,612 S.F. (Bldg.) 109,771 S.F. (Land)	1979,1981	12/20/85	$5,000,000	9.50%
5.	Westminster Square 1602 21st Avenue South Nashville, Tennessee	George N. Spiva/Vianda Hale Hill/ Westminster Square Ltd.	7,897 S.F. (Bldg.)	1982	8/16/83	$750,000	11.2%
6.	Vanderbilt Square 400 21st Avenue South Nashville, Tennessee	Grand Properties/ Vanderbilt Square Ltd.	9,113 S.F. (Bldg.)	1983	12/12/83	$875,000	10.6%

Sources: Piedmont Realty Advisors
Michael P. Ishie, MAI
Piedmont Realty Advisors

Exhibit V-2A (Continued)
IMPROVED PROPERTY SALES

Sale #	Location	Grantor/Grantee	# of Units	Year Built	Sale Date	Price	Gross Income Multiplier	Overall Capitalization Rate
	APARTMENTS							
1.	5246 Edmonston Pike Nashville, Tennessee	Richard Schmidt/ BVT Country Place, Ltd.	302	1974	4/82	$ 6,500,000	5.24	9.90%
2.	714 New Due West Nashville, Tennessee	Triangle-Brookwood/ Brookwood Venture	206	1974	5/83	$ 5,500,000	8.04	8.34%
3.	180 Wallace Road Nashville, Tennessee	Ehren Kratz et al/ Consolidated Capital	472	1971	4/83	$12,257,976	7.70	6.56%
4.	Hicks Road Nashville, Tennessee	Post Ridge Nashville/ Consolidated Capital	150	1973	6/83	$43,909,255	5.99	9.76%
5.	6001 Old Hickory Blvd. Hermitage, Tennessee	McNeil & Associates/ Consolidated Capital	350	1973	9/83	$10,500,000	7.05	9.17%
	Overall Capitalization Rate							9.00%

Sources: Piedmont Realty Advisors
Michael P. Ishie, MAI

Exhibit V-3

CASH FLOW ASSUMPTIONS

Contract Market Renta in Base Year (PSF)	
Office	$ 18.00 gross
Retail	$ 15.00 net
Apartments:	
1-Bedroom	$531.00/month
2-Bedroom	780.00/month
3-Bedroom	880.00/month
Other Income	33.72/month
Townhouses:	$975.00/month
Other Income	$ 33.85/month
Lease-Up Period:	No preleasing.. 24 months to lease-up to 95% physical occupancy.
Inflation Rate:	5.0%
Vacancy Rate (Year 1)	50.0%
Vacancy Rate (Years 2-10)	5.0%

OFFICE RENEWAL ASSUMPTIONS

25% of the space is re-let to new tenants.

Refit cost for new tenants is $10.00/PSF increased at the inflation rate.

Market lease commissions are paid on 100% of the space as leases renew.

Renewal rental rates are based on effective rental rates which are increased at the inflation rate.

SALE ASSUMPTIONS

Overall Capitalization Rate:	9.00%
Selling Expenses:	3.00%

LOAN ASSUMPTIONS

Investment Amount (Conservative)	$22,500.000
Investment Amount (Optimistic)	$23,500.000
Interest Rate:	9.625%

Exhibit V-3 (cont'd.)

Pay Rate:	
Years 1 and 2	8.75 %
Year 3	9.00 %
Year 4	9.25 %
Year 5	9.50 %
Years 6 through 10	9.625%
Amortization	Not Applicable
Term:	20 Years
Holdbacks:	
Tenant Improvements	$1,425,000
Leasing Commissions	334,850
Economic	2,350,000
Interest	1,118,367
Lender Participation in Cash Flow:	100% up to 9.625% 50% from 9.625 to 12.0% 25% over 12%
Lender Participation Rate at Sale:	50%

NOTE: Optimistic Assumptions same as above except pro forma rents are increased by 5%.

Exhibit V-4A

CONSERVATIVE FINANCIAL PROJECTIONS

SUMMARY OF CASH FLOWS

Loan Year	1	2	3	4	5	6	7	8	9	10
Gross Potential Income										
Office	$1,287,000	$1,287,000	$1,287,000	$1,313,190	$1,313,190	$1,411,506	$1,514,248	$1,514,248	$1,514,248	$1,633,185
Retail	352,500	352,500	352,500	380,281	380,281	428,976	461,136	461,136	461,136	498,366
Apartments	1,099,776	1,154,765	1,212,503	1,273,128	1,336,785	1,403,624	1,473,805	1,547,495	1,624,870	1,706,114
Townhouses	472,140	495,747	520,534	546,561	573,889	602,584	632,713	664,348	697,566	732,444
Total Gross Income	$3,211,416	$3,290,012	$3,372,537	$3,513,161	$3,604,145	$3,846,689	$4,081,903	$4,187,228	$4,297,821	$4,570,109
Less : Vacancy Allowance	1,605,708	164,501	168,627	175,658	180,207	192,334	204,095	209,361	214,891	228,505
Equals : Effective Gross Income	$1,605,708	$3,125,511	$3,203,911	$3,337,503	$3,423,938	$3,654,355	$3,877,807	$3,977,867	$4,082,930	$4,341,604
Less : Operating Expenses										
Office	357,500	357,500	357,500	385,675	385,675	435,061	467,677	467,677	467,677	505,435
Apartments	325,600	341,880	358,974	376,923	395,769	415,557	436,335	458,152	481,059	505,112
Townhouses	85,800	90,090	94,595	99,324	104,290	109,505	114,980	120,729	126,766	133,104
Total Operating Expenses	768,900	789,470	811,069	861,922	885,735	960,123	1,018,993	1,046,559	1,075,503	1,143,652
Equals : Net Operating Income	$836,808	$2,336,041	$2,392,842	$2,475,580	$2,538,203	$2,694,232	$2,858,815	$2,931,308	$3,007,427	$3,197,952
Less : Base Debt Service	1,968,750	1,985,977	2,042,719	2,099,461	2,160,502	2,188,929	2,188,929	2,188,929	2,188,929	2,188,929
Less : Tenant Re - Fit Expenses	0	0	0	336,254	0	370,720	389,256	0	0	450,612
Less : Additional Interest	0	274,331	245,989	39,866	203,065	67,291	140,315	371,190	409,249	279,205
Equals : Borrower 's Cash Flow	($1,131,942)	$75,733	$104,134	($0)	$174,637	$67,291	$140,315	$371,190	$409,249	$279,205

Summary of Sales Proceeds in Loan Year 10

	Sales Price	$38,636,422
Less :	Selling Expenses @ 3.00 %	772,728
Less :	Refit Expenses in Year 11	500,000
Less :	Outstanding Mortgage Balance	22,742,123
Less :	Additional Interest at Sale	7,310,785
Equals :	Borrower 's Cash Proceeds at Sale	$7,310,785

Exhibit V - 4B

OPTIMISTIC FINANCIAL PROJECTIONS

SUMMARY OF CASH FLOWS

Loan Year	1	2	3	4	5	6	7	8	9	10
Gross Potential Income										
Office	$1,351,350	$1,351,350	$1,351,350	$1,378,850	$1,378,850	$1,482,081	$1,589,961	$1,589,961	$1,589,961	$1,714,845
Retail	370,125	370,125	370,125	399,295	399,295	450,425	484,193	484,193	484,193	523,285
Apartments	1,154,765	1,212,503	1,273,128	1,336,785	1,403,624	1,473,805	1,547,495	1,624,870	1,706,114	1,791,419
Townhouses	495,747	520,534	546,561	573,889	602,584	632,713	664,348	697,566	732,444	769,066
Total Gross Income	$3,371,987	$3,454,512	$3,541,164	$3,688,819	$3,784,353	$4,039,024	$4,285,998	$4,396,590	$4,512,712	$4,798,615
Less : Vacancy Allowance	1,685,993	172,726	177,058	184,441	189,218	201,951	214,300	219,829	225,636	239,931
Equals : Effective Gross Income	1,685,993	3,281,787	3,364,106	3,504,378	3,595,135	3,837,073	4,071,698	4,176,760	4,287,076	4,558,684
Less : Operating Expenses										
Office	357,500	357,500	357,500	385,675	385,675	435,061	467,677	467,677	467,677	505,435
Apartments	325,600	341,880	358,974	376,923	395,769	415,557	436,335	458,152	481,059	505,112
Townhouses	85,800	90,090	94,595	99,324	104,290	109,505	114,980	120,729	126,766	133,104
Total Operating Expenses	768,900	789,470	811,069	861,922	885,735	960,123	1,018,993	1,046,559	1,075,503	1,143,652
Equals : Net Operating Income	$917,093	$2,492,317	$2,553,038	$2,642,456	$2,709,400	$2,876,950	$3,052,705	$3,130,202	$3,211,573	$3,415,032
Less : Base Debt Service	2,056,250	2,074,242	2,133,506	2,192,770	2,252,034	2,281,666	2,281,666	2,281,666	2,281,666	2,281,666
Less : Tenant Re - Fit Expenses	0	0	0	336,254	0	370,720	389,256	0	0	450,612
Less : Additional Interest	0	312,749	283,846	101,164	243,499	112,282	190,891	424,268	464,954	341,377
Equals : Borrower 's Cash Flow	($1,139,157)	$105,325	$135,686	$12,268	$213,867	$112,282	$190,891	$424,268	$464,954	$341,377

Summary of Sales Proceeds in Loan Year 10

	Sales Price	$41,256,349
Less :	Selling Expenses @ 3.00 %	825,127
Less :	Refit Expenses in Year 11	500,000
Less :	Outstanding Mortgage Balance	23,705,625
Less :	Additional Interest at Sale	8,112,799
Equals :	Borrower 's Cash Proceeds at Sale	$8,112,799

Exhibit V - 5A

INVESTOR'S YIELD SUMMARY

CONSERVATIVE CASE

Year	Annual Debt Service	Additional Interest - Operations	Loan Balance	Additional Interest - Sale	Total
1	$1,968,750	0			$1,968,750
2	1,985,977	274,331			2,260,308
3	2,042,719	245,989			2,288,708
4	2,099,461	39,866			2,139,327
5	2,160,502	203,065			2,363,566
6	2,188,929	67,291			2,256,221
7	2,188,929	140,315			2,329,244
8	2,188,929	371,190			2,560,119
9	2,188,929	409,249			2,598,178
10	$2,188,929	$279,205	$22,742,123 (1)	$7,310,785 (2)	$32,521,042

Estimated Yield (IRR) = 12.0 % (3)

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(1) Outstanding Loan Balance equals the Investor's initial investment plus $242,123 of accrued interest.

(2) Net Sales Price of $37,363,694 less the Outstanding Loan Balance of $22,742,123 equals a Residual of $14,621,571 which is to be split 50 - 50 with the Borrower .

(3) Internal Rate of Return is calculated using $22,500,000 as the Investor's initial investment.

Exhibit V - 5B

INVESTOR'S YIELD SUMMARY

Optimistic Case

Year	Annual Debt Service	Additional Interest - Operations	Loan Balance	Additional Interest - Sale	Total
1	$2,056,250	0			$2,056,250
2	2,074,242	312,749			2,386,992
3	2,133,506	283,846			2,417,352
4	2,192,770	101,164			2,293,934
5	2,252,034	243,499			2,495,533
6	2,281,666	112,282			2,393,948
7	2,281,666	190,891			2,472,558
8	2,281,666	424,268			2,705,934
9	2,281,666	464,954			2,746,620
10	$2,281,666	$341,377	$23,705,625(1)	$8,112,799 (2)	$34,441,467

Estimated Yield (IRR) = 12.2 % (3)

(1) Outstanding Loan Balance equals the Investor's initial investment plus $205,625 of accrued interest .

(2) Net Sales Price of $39,931,222 less the Outstanding Loan Balance of $23,705,625 equals a Residual of $16,225,597 which is to be split 50 - 50 with the Borrower .

(3) Internal Rate of Return is calculated using $23,500,000 as the Investor's initial investment.

Exhibit V - 6

SENSITIVITY ANALYSIS

Conservative Case

Overall Cap Rate	Inflation Rate 3.00%	5.00%	7.00%
9.50%	10.8%	11.8%	12.6%
9.00%	11.0%	12.0%	12.9%
8.50%	11.2%	12.3%	13.2%

Optimistic Case

Overall Cap Rate	Inflation Rate 3.00%	5.00%	7.00%
9.50%	10.8%	12.0%	13.0%
9.00%	11.0%	12.2%	13.2%
8.50%	11.2%	12.5%	13.5%