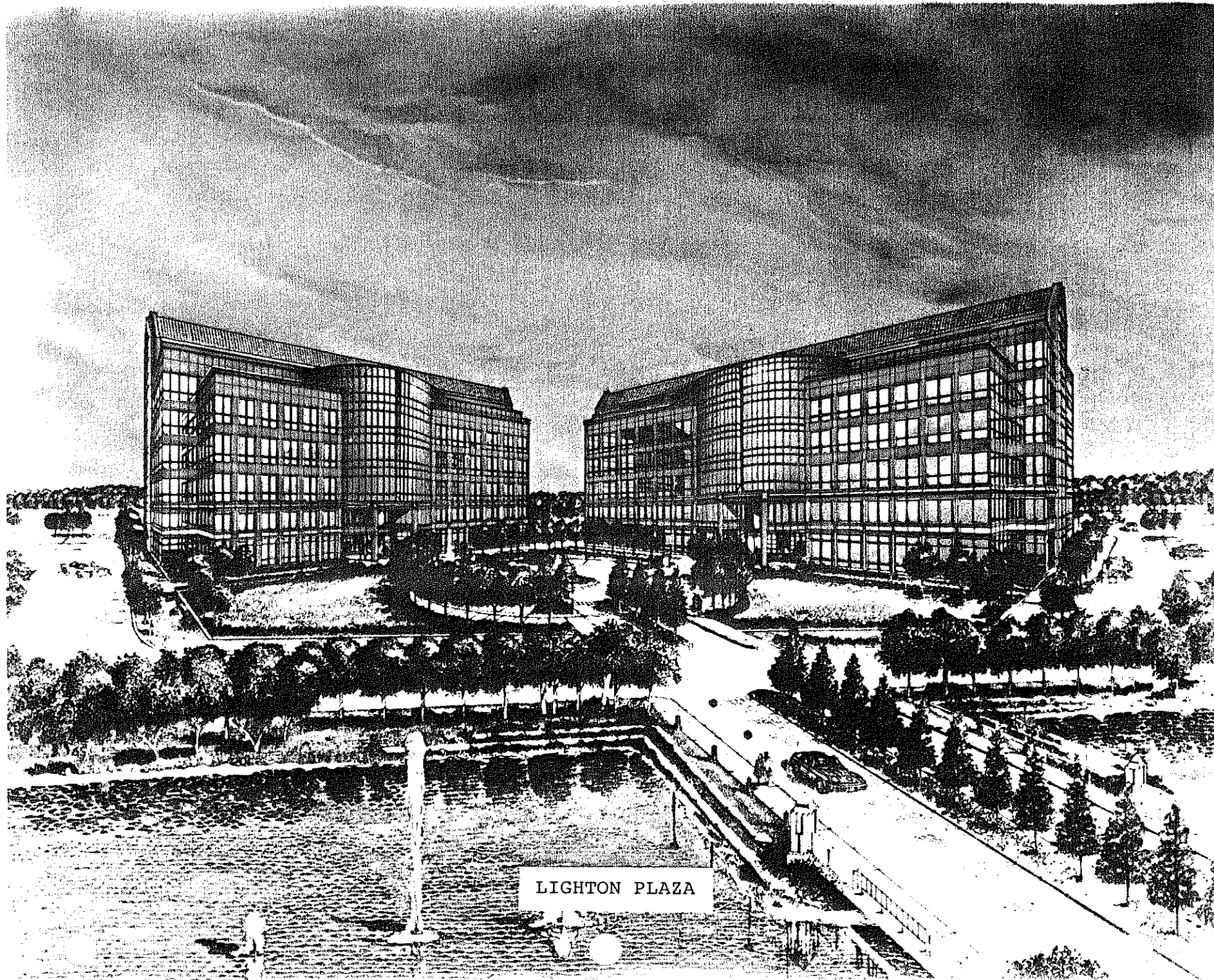


**LIGHTON PLAZA II OFFICE BUILDING  
OVERLAND PARK, KANSAS**

Piedmont Realty Advisors  
650 California Street, 22nd Floor  
San Francisco, California 94108  
(415) 433-4100  
March 19, 1987



LIGHTON PLAZA

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## **I. INTRODUCTION**

**PIEDMONT REALTY ADVISORS**

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

March 19, 1987

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

Dear Committee Members:

Enclosed for your review is an investment report on Lighton Plaza Phase II to be developed by the Trammell Crow Company in Overland Park, Kansas. Phase I construction was completed in December 1986 and funded by USF&G in February 1987. Piedmont Realty Advisors intends to review the recommendations outlined in this report with the Real Estate Investment Committee on March 25, 1987. A summary of the proposed investment structure is shown as Exhibit I-1.

**Property**

The subject property is a 116,000 net rentable square foot office building to be built as the second phase of the Lighton Plaza Development. The 6.0 acre site is located 15 miles southwest of the Kansas City central business district near the intersection of I-435 and Metcalf Avenue. I-435 is the Overland Park area's transportation corridor to all of the commercial centers of metropolitan Kansas City. Metcalf Avenue is a major retail area which contains a wide array of shopping, dining and commercial services. Land uses adjacent to the site include a Marriott Hotel, a recently completed 100,000 square foot specialty retail center and several new high-rise office buildings.

Lighton Plaza II will be a mirror image of the existing six-story Lighton Plaza I featuring recessed corners (which double the number of corner offices), a copper pitched roof, and a full height bay window along the front of the building. The building is constructed of steel and concrete with a granite exterior. Phase I is currently 38% leased and ahead of the original lease-up schedule. The subject property, Lighton Plaza II, completes the development scheme thereby maximizing the visual impact of the project. Together the two buildings will enhance the project's position within the College Boulevard high-rise core market.

### **The Market**

Overland Park is the primary suburban office market in Kansas City. It is a convenient location for corporate users due to its access characteristics, available services, and proximity to Overland Park's residential areas. The subject site is located at the center of Overland Park's premier office building corridor known as College Boulevard. This area has recently experienced a wave of new building construction which has resulted in an increase in office vacancy to 20.5% which represents a 1-1/2 year supply of space. This oversupply should persist until early 1988 as vacant space in existing buildings and buildings under construction is absorbed.

Based on Piedmont's review of the market, Lighton Plaza II's pro forma contract rent should average \$18.75 in early 1988. Leases will include a \$4.00 expense stop and free rent discounts averaging 17% of the lease value, indicating an effective rate of approximately \$16.00 per net rentable square foot. The borrower will offer a tenant improvement workletter valued at \$18.00 per net rentable square foot. These pro forma figures are slightly higher than those currently demonstrated by competitive properties in the College Boulevard office market. It is very likely that effective rents will increase by the end of 1988 and continue to increase through 1989.

### **Borrower**

The borrowing entity will be a general partnership comprised of Bob Kresko and Tuck Spaulding. In June, 1986 Trammell Crow reorganized to increase the integration between the company's three major units - commercial, residential and special uses - and to increase local control over the development process.

Bob Kresko was promoted to head the commercial division. He was previously in charge of Tuck Spaulding's development activities as regional partner. Mr. Kresko has been with Trammell Crow for 20 years. The Trammell Crow partner for Kansas City is C.A. "Tuck" Spaulding who has been with Trammell Crow for 15 years and has developed and managed over 1.8 million square feet of office and warehouse space in the Kansas City area.

### **Risk/Return**

The subject property features the same locational attributes of the first phase of Lighton Plaza which include a prime intersection location on one of the last available parcels in a strong and growing suburban market. Average effective rental rates for the office market surrounding Lighton Plaza II have fallen approximately 10% since 1985 due to overbuilding. However, absorption of new office space in 1985, 1986 and early 1987 has been at record levels and is expected to continue at record levels through 1988. The market and operating risks are therefore minimal.

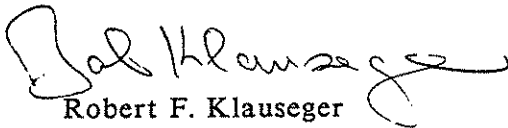
Real Estate Investment Committee Members

March 19, 1987

Page 3

Lighton Plaza I is now open and ahead of its projected lease up schedule. Phase II, the subject property, will be completed in early 1988. Both buildings feature quality construction and design which should result in an excellent long-term asset for USF&G. Tuck Spaulding brought Phase I in on time and under budget and his leasing and management people are performing well. The proposed loan structure provides an interest rate of 9.25% and a projected internal rate of return of 12.4%. Therefore, Piedmont Realty Advisors recommends that USF&G issue a participating loan commitment for Phase II of Lighton Plaza in Overland Park, Kansas.

Sincerely,

A handwritten signature in cursive script, appearing to read "Bob Klauseger", written in dark ink.

Robert F. Klauseger

APPLICATION LETTER  
LIGHTON PLAZA II

PIEDMONT REALTY ADVISORS

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

415-433-4100

February 17, 1987

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

Re: Lighton Plaza Phase 2  
Overland Park, Kansas

Dear Tuck:

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

**Property:** Lighton Plaza Phase 2 - A six-story building consisting of 116,000 net rentable square feet with 425 surface parking spaces.

**Location:** Between College Boulevard and 110th Street north of Metcalf Avenue, Overland Park, Kansas.

**Land Area:** Approximately 6.0 acres.

**Borrower:** Trammell Crow Company

**Lender:** USF&G Realty Company

**Loan Amount:** \$14,350,000

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

<u>Loan Years</u>	<u>Interest Pay Rate</u>	<u>Interest Accrual Rate</u>
1 - 5	8.500% on initial loan	9.250%
6 - 20	8.750% on the outstanding balance the first day of the sixth loan year.	9.250%



**Term:** Twenty years.

**Amortization:** Not applicable; interest only.

**Call Option:** Lender has option to call loan anytime after the 12th loan year. Lender will give borrower 12 months written notice of its intent to call the loan.

**Prepayment:** \*

\*

No prepayment through year 5.

Prepayment fee of 5% of the outstanding loan balance in loan years 6, 7 and 8, then declining 1% per year to 1% of the outstanding loan balance in year 12 and thereafter.

\*

No prepayment fee if lender exercises its call option.

**Guarantees:** The proposed loan will be non-recourse to the borrower.

**Additional Interest**

**A. Accrued Interest:** The unpaid portion of the 9.250% interest rate will be added to the outstanding mortgage balance every quarter.

**B. Operations:** Lender receives 50% of the project's annual net cash flow. Net cash flow shall be defined as all collected gross revenues less all approved operating and capital expenses and base debt service. Additional interest payments are payable quarterly.

**C. Sale or Refinancing:** Lender receives 50% of the difference between the net sales price of the property (third party selling expenses not to exceed 3% of selling price. NOTE: Trammell Crow Investment Banking Group will be considered a third party) the outstanding loan balance if the property is sold, or 50% of the difference between the appraised fair market value of the property and the outstanding loan balance if the property is not sold before the loan is called, refinanced or matures.

**Commitment Fee:** \$287,000; \$143,500 in cash which is earned upon acceptance of the commitment, \$143,500 in an unconditional letter of credit which will be refunded to borrower at closing.

**Initial Funding:** \$10,469,780; initial funding will occur upon receipt of a notice of completion or occupancy permit.

**Holdbacks**

**A. Tenant Improvements:** \$1,508,000; the tenant improvement holdback will be disbursed on a lease by lease basis as tenant improvements are completed for approved leases. The amount of the disbursement will be \$13.00 per square foot of rentable area.

**B. Leasing Commissions:** \$372,220; disbursed as commissions are paid not to exceed \$3.21 per square foot of rentable area.

Any unfunded tenant improvements and leasing commission holdbacks will be disbursed when the building achieves 95% physical occupancy.

**C. Interest Reserve:** \$1,000,000; disbursed on a monthly basis to cover base interest payments on the first mortgage. Any unfunded interest reserve holdbacks will be disbursed when the building achieves 95% physical occupancy.

**D. Economic Holdback:** \$1,000,000; disbursed at a rate of \$1.04 earnout for every \$1.00 of effective gross rent collected in excess of \$1,073,000. Borrower has 36 months after initial funding to earn out the economic holdback. Disbursements of the economic holdback may occur after the 36-month earnout period if the leases were commenced during that period.

The economic holdbacks will be disbursed using effective rents. Lender will exempt a 10% discount (e.g. 3.6 months on a 3-year lease, 6 months on a 5-year lease, etc.) from the calculation of the effective rents. If, however, discounts exceed 10%, there will be an effective reduction in the rental income used in the holdbacks. Discounts which occur before the initial funding will be exempt from the effective rent calculation. See Exhibit A for examples.

### Contingencies

#### A. Plans and Specifications:

The lender reserves the right to review and approve the plans and specifications for all proposed improvements and to approve any changes, modifications, or corrections to the plans during construction. Any changes in excess of \$20,000 will require lender consent.

#### B. Leases:

Lender reserves the right to approve all leases subject to agreed leasing standards. Agreed upon leasing standards will be part of the commitment letter. Upon approval of the standard lease form, lender's approval will only be required for material deviations.

#### C. Secondary Financing:

Lender will not permit secondary financing on the property.

#### D. Market Value Appraisal:

Lender requires a market value estimate of the property from a MAI designated appraiser approved by lender which is not less than \$16,000,000.

#### E. Master Lease:

The general partner of the borrower shall master lease the project to breakeven. The master lease will be terminated at the sooner of breakeven occupancy or 36 months. As interest payments are disbursed from the interest holdback they will be credited to the master lease payments. In addition, as third party leases are signed, the master lease will be reduced correspondingly.

Mr. C.A. "Tuck" Spaulding, III  
February 17, 1987  
Page 5

PS  
\*\*

~~F. Preleasing Phase I:~~

~~Construction on Phase II will not begin  
until Phase I is 35% leased.~~

G. Budget Approval:

The lender reserves the right to review and approve all annual operating and capital budgets.

H. Phase III Construction:

Construction of the building on Phase III land will not occur until Phase II is 35% leased.

I. Future Financing:

Lender reserves the first right to negotiate the permanent financing for Phase III development.

J. Lender Approval:

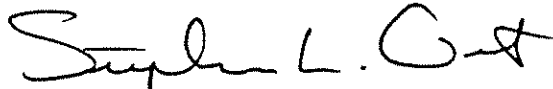
This application must be approved by the lender's Investment Committee.

K. Tri-Party Agreement:

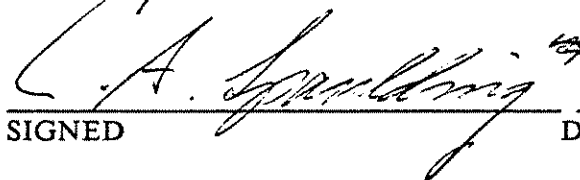
The commitment is contingent upon the lender, borrower, and the interim lender entering into an acceptable Tri-Party Agreement within 120 days after the commitment is accepted.

If the terms outline din this letter are acceptable, please sign below and return this letter with an Application Fee in the amount of \$75,000 by February 18, 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 \$75,000.

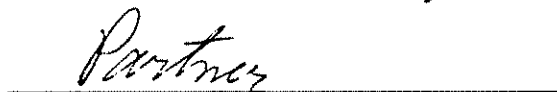
Sincerely,



Stephen L. Grant  
Vice President

  
SIGNED

2-18-87  
DATE

  
TITLE

PS  
\*\* This is signed with the understanding that section "F" of the Contingencies will be removed.

Exhibit A  
EFFECTIVE RENT EXAMPLES

The allowable rent concession is 10% of the total lease payments without the rent concession. The effective rent is calculated 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 year X \$12 PSF/Year)	\$ 6.00
divided by:	Total Rental Payments w/o Concession (3 Years X \$12 PSF/Year)	36.00
equals:	Rent Concession Given	16.67%
less:	<u>Allowable Concession</u>	<u>10.00%</u>
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)	<u>.80</u>
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	\$ <u>13.00</u> 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:	<u>Total Rental Payments w/o Concession</u>	<u>36.00</u>
equals:	Rental Concession Given	15.28%
less:	<u>Allowable Concession</u>	<u>10.00%</u>
equals:	Reduction in Contract Rent	5.28%
so that,		
	Average Contract Rent *(36/3 Years)	\$12.00 PSF
less:	<u>Reduction in Contract Rents (\$12 X 5.28%)</u>	<u>.63</u>
equals:	Effective Rental Rate	\$ 11.37 PSF

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

## II. THE PROPERTY

## **II. THE PROPERTY**

### **A. INTRODUCTION**

Lighton Plaza II will be the second phase twin of Lighton Plaza Phase I which was funded by USF&G in February 1987. The Lighton Plaza project is located in Overland Park, Kansas. Overland Park is a suburb of Kansas City, Missouri and is located 15 miles southwest of the City's central business district (see Exhibit II-1). Since 1975, Overland Park's College Boulevard Corridor has emerged as the largest market of Class A office space in the Kansas City area (4.7 million square feet).

Overland Park is well suited for this suburban office space expansion. The physical infrastructure is capable of accommodating existing and future development. The median household income is the highest in the metropolitan area at over \$36,000 versus \$28,000 for the metropolitan area as a whole. The school system is considered the best in the region. There is both an ample and diverse residential stock with prices ranging between \$20,000 and \$250,000 with the average home price of slightly over \$96,000. Overland Park businesses have created more than 5,000 new jobs annually during the past 10 years. This represents a growth rate which is greater than twice that of rival Jackson County office market which includes the Downtown, Plaza/Midtown, and South Kansas City office markets.

### **B. LOCATION**

#### **1. Accessibility**

The subject property has excellent access to all major highways (see Exhibit II-2). Lighton Plaza is located on 110th Street just south of the interchange of Interstate 435 (east-west) and Metcalf Avenue (north-south). The site has direct access to Metcalf (and thereby I-435) via College Boulevard or 110th Street. Two miles west on I-435 is an interchange with US 69, the north-south freeway which provides the area with access to downtown (15 miles) and the Kansas City International Airport (30 miles to the north).

#### **2. Adjacent Land Uses**

The subject site is at a prime intersection location and is one of the last available parcels in a well established area of office, retail and residential uses. North of I-435, the Metcalf Retail Corridor is anchored by the Metcalf South Mall, an enclosed regional center with over 100 shops on three levels. Metcalf Avenue features restaurants, a wide variety of strip center and freestanding retail buildings and many other commercial services (See Exhibit II-3). At the intersection of I-435 and Metcalf are six hotels - Marriott, Embassy Suites, Rodeway Inn, Drury Inn, Red Roof and Overland Park Inn - containing over 1100 rooms.

The land uses for parcels immediately surrounding the subject site include Property Corporation of America's office building and the Marriott Hotel to the north (See Exhibit II-4). Immediately east of the subject property is the recently completed Plaza West retail/office complex. Plaza West features 70,000 square feet of restaurants and shops combined with 30,000 square feet

of retail offices (i.e., Travel Agent, Printer, Stock Broker). The site's proximity to the Marriott Hotel and the new retail space will be a major advantage over competitive office space.

To the west of the site between College Boulevard, I-435 and Antioch Road is the Executive Hills South development. The developer, Executive Hills, is an active speculative developer in Kansas City and has been building in Overland Park since 1979. Executive Hills South contains approximately 1 million square feet of space, with major tenants including Allstate Insurance, Burlington Northern and General Electric. There are two remaining development sites in Executive Hills South - PCA Phase II (180,000 square feet) and Lighton Plaza Phase III (250,000 square feet).

West of Antioch Road, bounded by I-435, Route 69 and College Boulevard is the 294-acre Corporate Woods Office Park which is being developed by Metropolitan Life. Corporate Woods broke ground in 1975 and pioneered the office market in Overland Park by offering tenants quality space in a heavily landscaped master planned environment. Corporate Woods currently contains 1.9 million total square feet of office space with a land inventory that will allow the development of an additional 800,000 square feet over the next 5 to 8 years.

The College Boulevard corridor continues to the east of the subject site with the area bounded by Metcalf, I-435, Lamar Road and College. This area contains the Drury Inn, The Johnson County Athletic Club and low-rise office space. The sole high-rise office is a two phase development called Financial Plaza. Financial Plaza Phase I, is a 115,000 square foot tower completed in 1984. Phase II is a 160,000 square foot tower completed at the end of 1986. East of this area and Lamar Road is the Fox Hills Office Park. This park contains low-rise office space developed by the Kroh Brothers and was completed in 1983. The College corridor east of Metcalf totals approximately 2.3 million square feet of office space.

To the south of the subject site along Metcalf is the recently completed Executive Hills Building 40 containing 240,000 square feet of space. Across Metcalf is a 37 acre parcel being developed by Copaken, White, and Blitt. Renaissance I, a 160,000 square foot development and the first of four planned buildings, was completed in 1985. The second building was completed in late 1986 adding 148,000 square feet. There are no immediate plans to start a third building.

### C. THE SITE

The subject site is an irregularly shaped 6.0-acre parcel with a slight downslope to the southeast (See Exhibit II-5). The site's soil is sedimentary in nature and is suitable for high-rise development. The sedimentary sub-soil does not allow rapid drainage so controlled run-off of storm water is required by the City. This will be accomplished by the use of the Phase I retention pond which will appear as a water feature within the project. The site is zoned for commercial office up to 121,145 gross square feet on eight floors with 425 parking spaces. The intended Phase II improvements conform to the current zoning.



#### **D. THE IMPROVEMENTS**

Lighton Plaza II will be a mirror image of Lighton Plaza I, six stories in height with a gross building area of 121,000 square feet, a net rentable area of 116,000 square feet and 425 surface parking spaces. The proposed building will be constructed with steel pilings, a steel frame and subflooring of concrete poured over metal decking.

The exterior materials will be granite with double insulated reflective glass windows and a full height bay window at the front of the building (see rendering on front page of this report). A copper-plated peaked roof will serve as an architectural accent. Recessed corners at the edges of the building will double the number of corner offices available to tenants.

The exterior granite theme will be continued into the lobby with a granite wall treatment. Floors will be flame-cut granite and the ceiling will be a reflective chrome or glass material. Accents will be provided by carpeting, planters, and brass fixtures. Two electric elevators will provide access to tenant floors.

Building standard tenant finishes will include wall to wall carpeting, 9 foot ceilings, 9 foot solid core doors, parabolic lighting, 2 foot by 2 foot mineral fiber ceiling tiles and horizontal metal blinds for perimeter windows. Security will incorporate the use of an electrical passcard system which operates locks, HVAC, lighting and alarm systems. As shown in Exhibit II-6 office bay depths will be 40 feet and all floors will have smoke detectors, automatic fire doors and full sprinkler systems.

#### **E. PROJECT BUDGET**

The budget for the subject property is presented in Exhibit II-7. The project budget totals \$14,350,000 which represents \$123.71 per square foot of net rentable area. This per square foot cost is above average for the Overland Park area. The cost reflects above average material costs for the proposed building and premium paid for a site in a superior location.

Shell costs include tenant improvement items valued at \$8.00 per square foot with additional improvements budgeted at \$8.76 per square foot for a total of \$16.76. This figure reflects actual costs to the developer which will be marked up on a workletter basis to \$18.00 per square foot; a competitive finish allowance for Overland Park office space. The budget also includes a \$3.00 per square foot tenant improvement contingency for tenant concessions.

#### **F. CONCLUSIONS**

Lighton Plaza I has achieved recognition in the market for its high quality and unique design features. The subject property, Lighton Plaza II, completes the development scheme thereby maximizing the visual impact of the project. Together the two buildings will enhance Lighton Plaza's position within the College Boulevard high-rise core market.

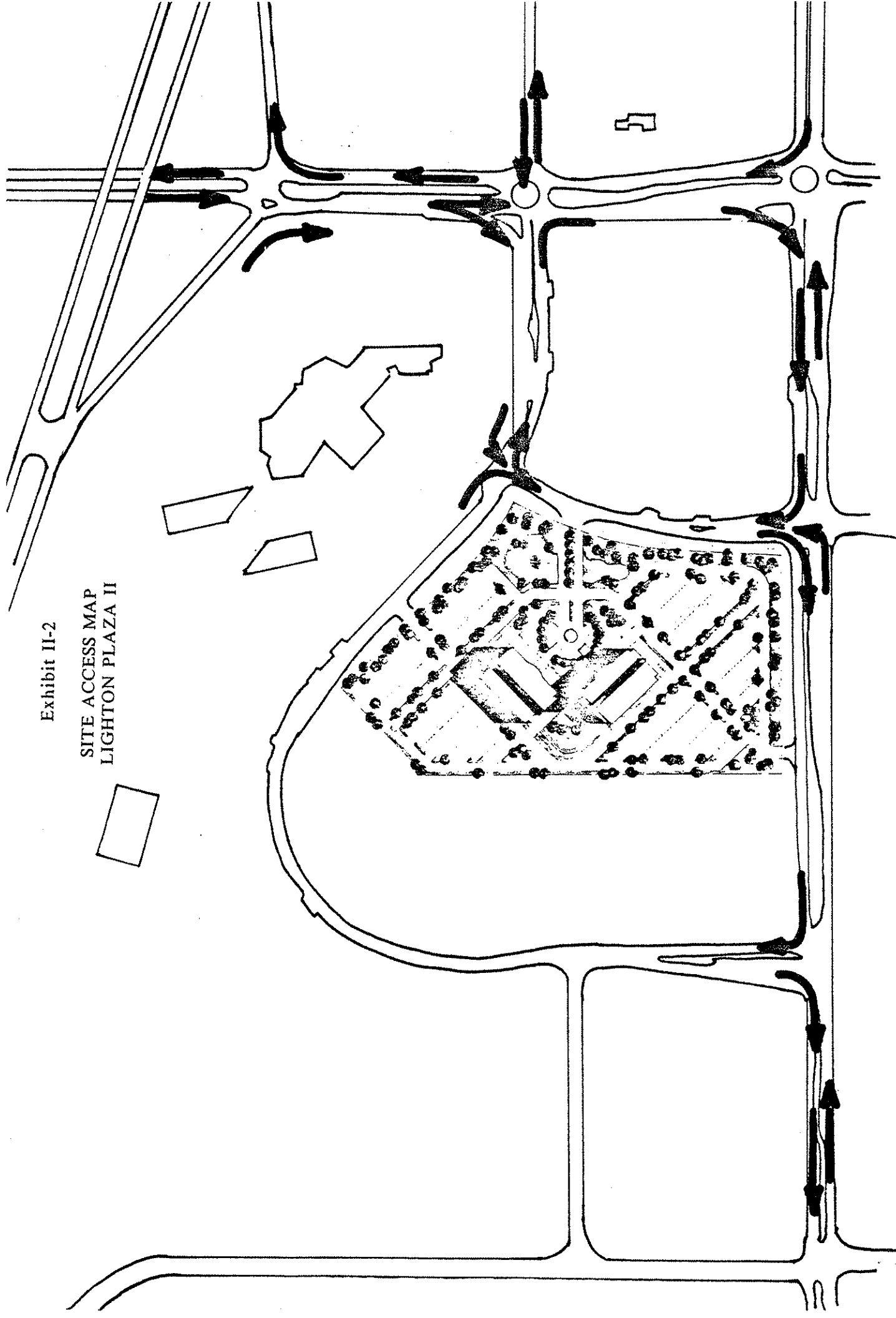
# Exhibit II-1

## REGIONAL LOCATION MAP LIGHTON PLAZA II



Exhibit II-2

SITE ACCESS MAP  
LIGHTON PLAZA II



Lighton Plaza - Trammell Crow Company Development

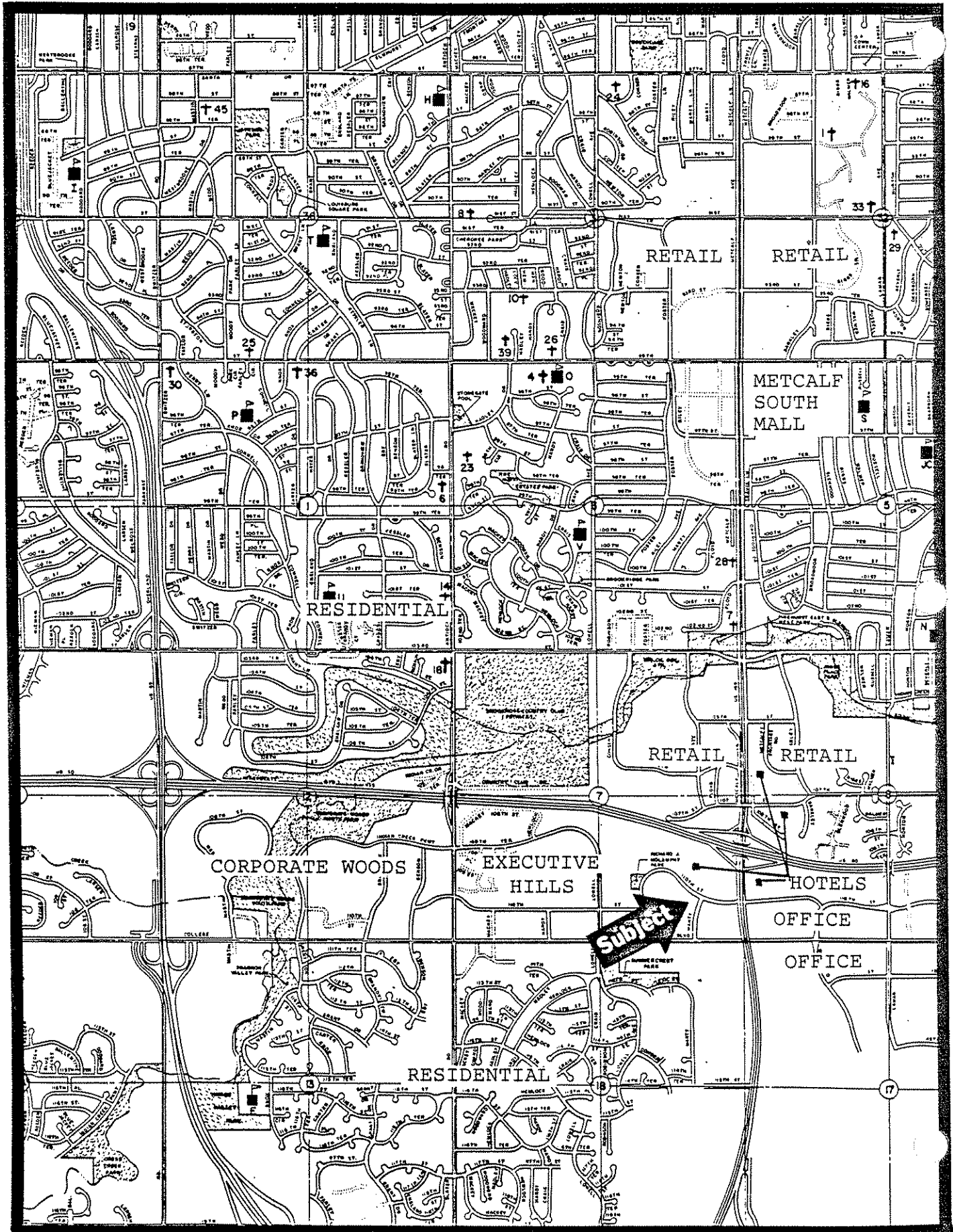
Overland Park, Kansas

Site Plan

UNAWO 5-10-63 J.P.

May 31, 1963

ADJACENT LAND USES  
LIGHTON PLAZA



AERIAL PHOTOGRAPH  
LIGHTON PLAZA



# SITE PLAN LIGHTON PLAZA

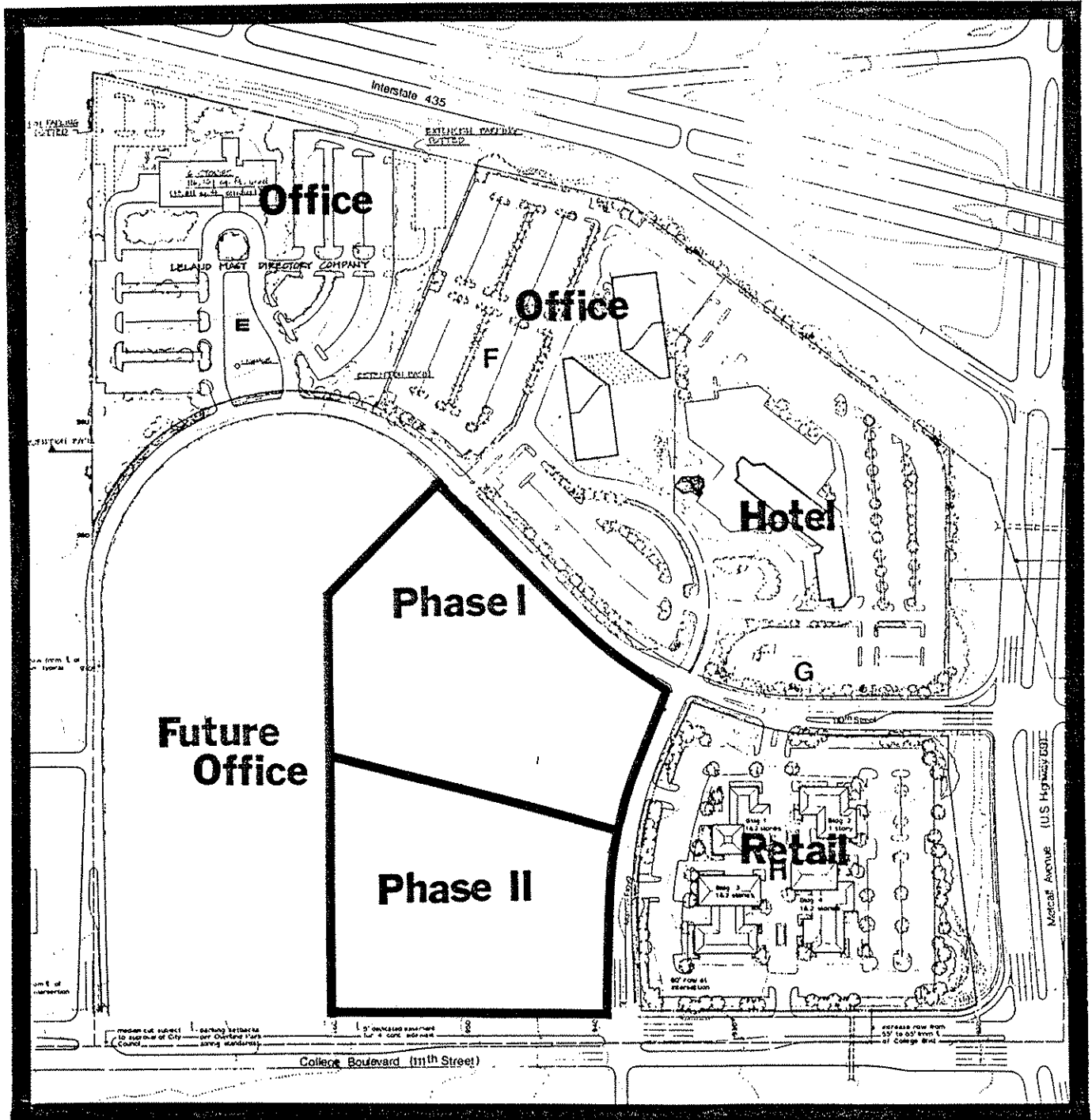
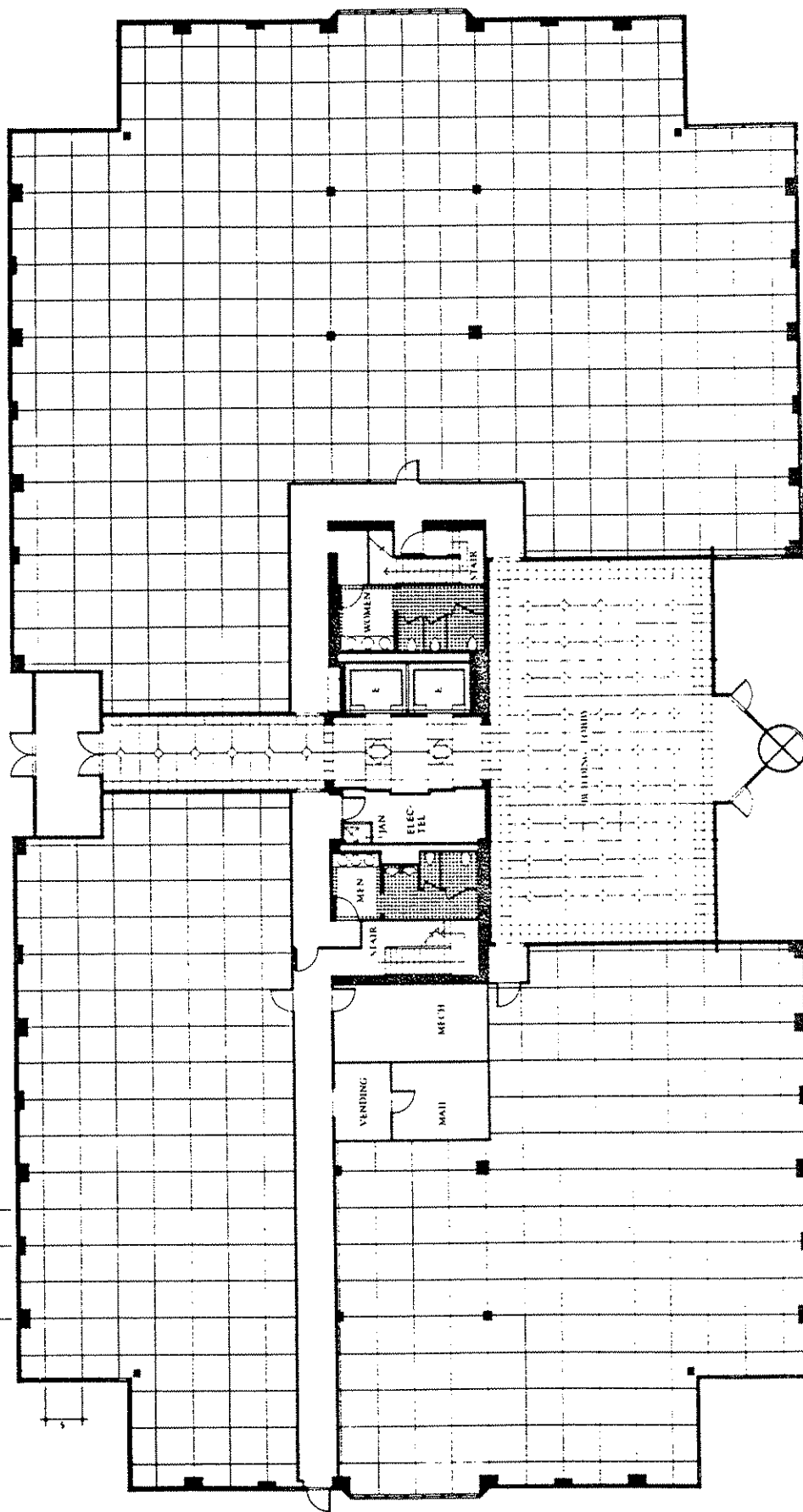


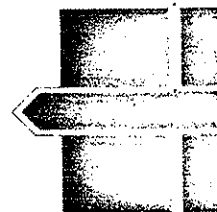


Exhibit II-6

FLOOR PLANS  
LIGHTON PLAZA II

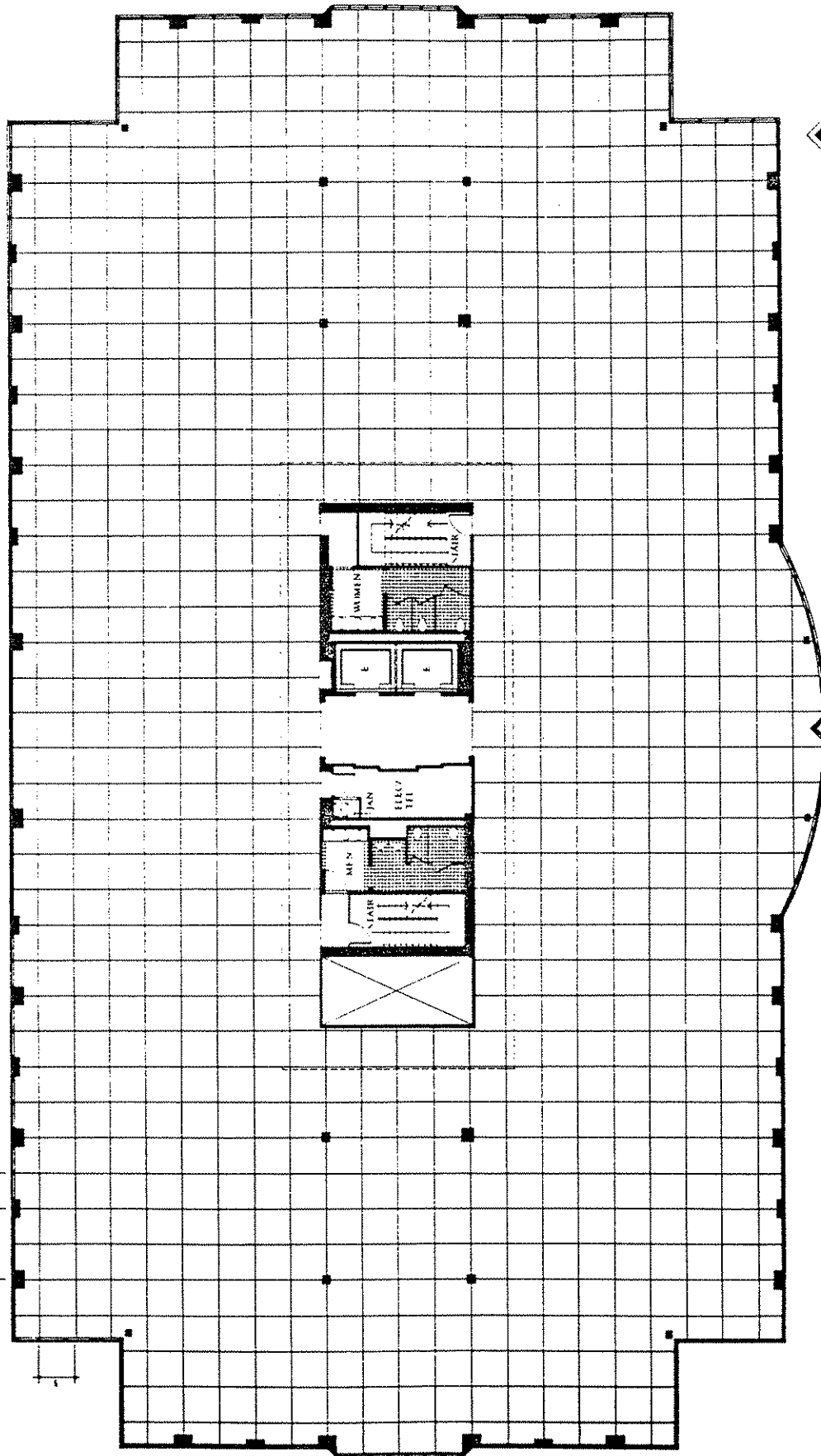


First Floor Plan

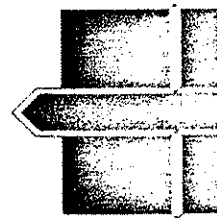


Lighton Plaza

10  
5



3-5 Floor Plan



Lightton Plaza



**Exhibit II-7  
PROJECT BUDGET  
LIGHTON PLAZA II**

	<u>Total Cost</u>	<u>Cost PSF N.R.A.</u>	<u>Percent of Total Budget</u>
Land cost	\$2,320,000	\$20.00	16.2%
Hard costs			
Site work	\$ 120,000	\$ 1.05	0.8%
Shell construction <sup>(1)</sup>	6,496,000	56.00	45.3%
Architect	245,000	2.11	1.7
Tenant improvements	1,160,000	10.00	8.1
Landscaping	<u>180,000</u>	<u>1.55</u>	<u>1.3</u>
	\$8,201,000	\$70.70	57.2%
Soft costs			
Legal/title	\$ 50,000	\$ 0.43	0.3%
Insurance	15,000	0.13	0.1
Taxes	45,000	0.39	0.3
Marketing	75,000	0.65	0.5
Commissions	375,000	3.23	2.6
Interest during construction	510,000	4.40	3.6
Loan fees	208,500	1.80	1.5
Developer fee	200,000	1.72	1.4
Miscellaneous	350,000	3.01	2.4
Operating deficits <sup>(2)</sup>	<u>2,000,000</u>	<u>17.24</u>	<u>13.9</u>
	\$3,828,500	\$33.00	26.6%
	=====	=====	=====
TOTAL DEVELOPMENT COSTS	\$14,349,500	\$123.70	100.0%

(1) Shell includes all lighting, ceiling tile and grid, perimeter blinds and hardware, and HVAC installation and distribution. These items are valued at \$8.00 PSF.

(2) Operating deficit based on a 24 month lease up period with 12 months of free rent.

SOURCES: Trammell Crow Company;  
Piedmont Realty Advisors.

### **III. THE MARKET OVERVIEW**

### **III. THE MARKET OVERVIEW**

#### **A. INTRODUCTION**

Kansas City is best described as a regional headquarters city. While relatively few national companies have corporate headquarters in Kansas City, more than 200 of the Fortune 500 firms maintain regional offices in the area. This has created a diversified economic base for the area which includes manufacturing, transportation, insurance, food processing and other business service firms. The population in the seven county greater Kansas City area is approximately 1.5 million people with an average annual growth rate of .57% since 1970.

#### **B. THE KANSAS CITY OFFICE MARKET**

The most significant office submarkets in Kansas City are the Central Business District (CBD), the Country Club Plaza area and Overland Park (see Exhibit III-1). As a result of poor demand, the CBD experienced no new construction from 1974 through 1984. During the 10-year period, construction activity as well as substantial tenant migration was focused on suburban office locations, most notably Overland Park. The CBD's first wave of new construction began in 1985. The development activity was spurred by significant preleasing from AT&T, United Missouri Bank, and Commerce Bank of Kansas City. The CBD has a total office inventory, including new buildings of 7.6 million square feet with a 19.52% vacancy factor. Annual absorption is expected to follow historic patterns due to expansion of existing tenants. Average rental rates are currently in the \$10.00 to \$23.00 per net rentable square foot range for new and rehabilitated downtown office space.

The Country Club Plaza area is best known for having the first shopping mall in the United States. The area has many exclusive shops (Brooks Brothers, Saks Fifth Avenue, Etc.) and fine restaurants. Office tenants in this area are primarily image conscious professional firms such as lawyers and brokers. The Plaza area has an existing base of 2,507,000 square feet of Class A office space. 450,000 square feet of office space is currently under construction with most of the space being speculative. The existing vacancy rate for the Plaza area is 23.6% and should increase to over 30% as space under construction is completed. Market softness is expected to persist in the Plaza office market due to its smaller tenant base, the lack of any direct freeway access to the area and traditionally high rents. The Plaza area has the most expensive office space in the City with rental rates in the \$20.00 to \$30.00 per net rentable square foot range.

#### **C. THE OVERLAND PARK MARKET**

##### **1. Overview**

The Overland Park area emerged as the fastest growing market of Class A office space during the 1974 to 1984 period when there was no new office development in the CBD. In 1973 Overland Park had a base of 400,000 square feet of office space mostly of this space was occupied by owner/user tenants.

In 1974 Metropolitan Life Insurance broke ground with five buildings totaling 165,000 square feet in its 294-acre Corporate Woods Office Park. The concept behind Corporate Woods was to provide Class A office space in a master-planned park with heavily wooded landscaping, dedicated open space, exercise trails and other amenities. Corporate Woods has added an average of 150,000 square feet per year since inception for a total current office space inventory of 1.9 million square feet. Available land inventory in the Corporate Woods Park will permit up to 800,000 square feet of new development during the next 5 to 8 years.

## **2. College Boulevard Office Market**

The success of Corporate Woods and the credibility it gave to the area as an office market attracted several speculative builders and owner/user tenants to Overland Park. The easy access provided by the Metcalf and I-435 interchange along with the amenities planned and existing along Metcalf resulted in a shift of focus from Corporate Woods to the currently recognized market core of College Boulevard and Metcalf. Most new development has occurred along College Boulevard with the most prominent high-rise buildings adjacent to Metcalf. Lesser quality, low-rise office buildings extend east and west along College outside the high-rise core. This area is known as the College Boulevard Market has had construction averaging 500,000 square feet of office space per year since 1980. The total inventory for this market is currently 4.7 million square feet of Class A office space.

The strength of the College Boulevard office market is its tenant base. Forty two of The Fortune 500 companies are represented in the immediate area. The tenant base is typically a regional headquarters office of a national firm with a predominance of insurance companies. Major tenants include Allstate Insurance, Mast Publishing and Burlington Northern, each occupying over 150,000 square feet. A typical tenant occupies 3,000 to 10,000 square feet with a three to five year lease.

Vacancy in the College Boulevard Market is currently 20.5%, or 971,000 square feet with absorption averaging over 400,000 square feet annually since 1983. The market absorbed nearly 550,000 square feet 1985 (see Exhibit III-2). Absorption for the College Boulevard area is typically generated by internal expansion of existing firms, movement of tenants from the CBD, and tenants moving in from out of state. The new core high-rise buildings have experienced additional absorption benefits from existing tenants in the market upgrading from older low-rise buildings and from tenants previously located in Corporate Woods seeking better access to amenities.

New first class buildings completed during 1986 in the College Boulevard Market include Renaissance II (145,000 square feet), Financial Plaza II (160,000 square feet), Executive Hills Building 40 (240,000 square feet), and Lighton Plaza I (116,000 square feet). Their completion pushed vacancy up to 20% at year end 1986. New buildings to be completed in 1987 will be Corporate Woods Building 70 (106,000 square feet) and Corporate Woods Building 12 (105,000 square feet). In addition, Plaza West, a 100,000 square foot retail center with 30,000 square feet of retail/office space located immediately east of the subject property will be completed in April 1987. The current supply combined with unleased space in buildings under construction represents an average oversupply of 18 months.

College Boulevard has been a very dynamic leasing market over the past five years. Two substantial 'peaks' in construction occurred in 1979 and 1983 and the market reacted by effectively absorbing the space within 12 months (see Exhibit III-2). The historical relationship between supply and demand in the College Boulevard office market indicates that a significant inventory of available space attracts tenants to the area and demonstrates the market's resiliency to short run oversupply problems (see Exhibit III-3). This trend will most likely repeat itself in 1987. US Sprint is currently negotiating a 150,000 square foot lease with Executive Hills to take 8 floors in their Building 40. This lease represents almost 30% of the market's historical annual absorption level.

#### **D. COMPETITIVE OFFICE SPACE**

The existing and proposed office buildings which will be in direct competition with the subject property are summarized in Exhibit III-4 and the location of each property is noted in Exhibit III-5. The contract rental rates for competitive buildings range from \$15.00 to \$18.50 per net rentable square foot. Expense stops average \$3.50 to \$4.00 per square foot. Leases for an average size tenant feature 8 to 12 months free rent with a 5-year term. Leases for large tenants (greater than 50,000 square feet) feature rent concessions up to 18 months of free rent with a 5-year term. The average tenant improvement workletter is valued at \$15.00 per square foot.

The competitive office product in the College Boulevard market will see significant activity in early 1987. US Sprint is expected to absorb 150,000 square feet; Ohio Casualty will absorb 30,000 square feet; Digital Equipment and New York Life will add 65,000 square feet to the 1987 absorption. Piedmont Realty Advisors concludes that most of the vacant space in competitive buildings will be absorbed prior to the completion of Lighton Plaza II. The estimated pro forma rent for Phase II is \$18.75 per square foot of net rentable area with a \$4.00 expense stop. Budgeted concessions average 17% of the lease value. The tenant improvement workletter for Phase II will be valued at \$18.00 per square foot. Although these figures are based on current market conditions. It is likely that the actual performance of Phase II will exceed Piedmont's expectations due to the timing of the construction period within the context of the College Boulevard market.

#### **E. CONCLUSION**

The Overland Park office market is Kansas City's premier suburban area. It is a convenient location for corporate users due to its access characteristics, available services, and proximity to Overland Park's eighteen residential areas. The College Boulevard market currently has a 20.5% vacancy rate which represents an 18-month supply of office space. This oversupply should persist until early 1988 as vacant space in existing buildings and buildings under construction is absorbed.

Lighton Plaza II will be very competitive in the Overland Park marketplace. The site's access to I-435 and the Metcalf corridor of retail, restaurants and services is excellent. The project is within walking distance of the Marriott Hotel and a new 100,000 square foot retail center. The quality of the buildings' architecture, construction and tenant finishes have been met with a demonstrated demand from the market. Based on Piedmont's review of the market, the subject property should generate contract rents averaging \$18.75 per square foot of net rentable area, with effective rents of approximately \$16.00 and achieve 95% occupancy within 24 months of initial occupancy.

Exhibit III-1  
MARKET SUMMARY  
KANSAS CITY OFFICE MARKET

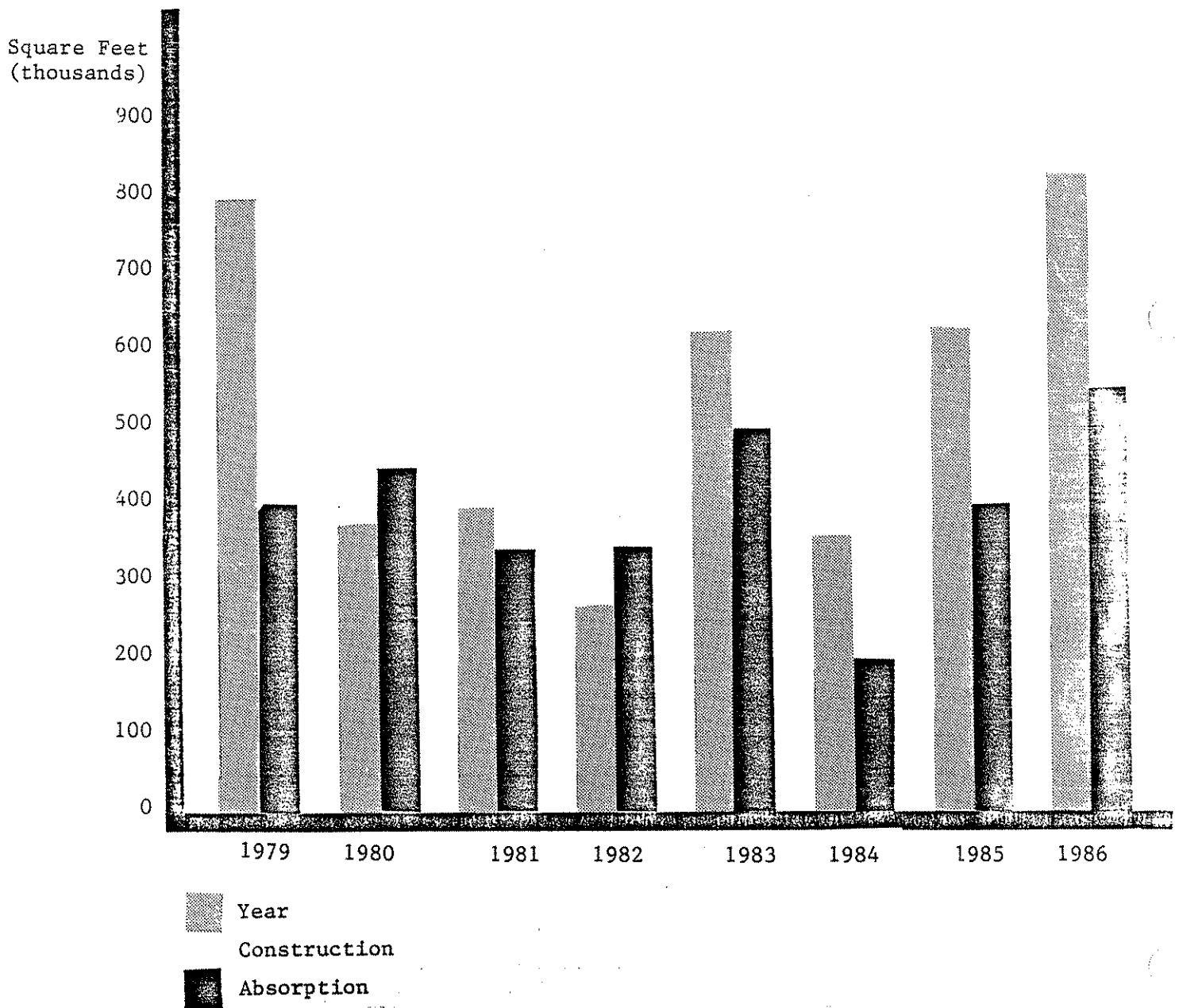
Office District	Total Square Feet (000's)	Vacant Square Feet (000's)	Vacancy Rate	Under Construction SF (000's)
Downtown	8,554	1,670 <sup>(1)</sup>	19.52%	624 <sup>(2)</sup>
Midtown/Plaza	2,507	593	23.63%	450
So. Kansas City, MO	1,732 <sup>(3)</sup>	167	9.61%	0
No. Johnson Co.	3,199	545	17.03%	0
So. Johnson Co. (College Blvd.)	4,730	971	20.54%	211
TOTAL	20,722	3,946	19.04%	1,285
				- 237 preleased
				1,048 speculative

(1) Primarily space vacated by major tenants. Currently being rehabbed.

(2) 38% Preleased

(3) While South Kansas City, MO is a significant market in absolute numbers, it is essentially built out and dominated by single tenant users.

Source: Pledmont Realty Advisors;  
Coldwell Banker.

CONSTRUCTION AND ABSORPTION TRENDS  
COLLEGE BOULEVARD SUBMARKETS

SOURCES: Piedmont Realty Advisors;  
Coldwell Banker.



Exhibit III-3

VACANCY TRENDS<sup>(1)</sup>  
COLLEGE BOULEVARD OFFICE MARKET

<u>Year</u>	<u>Total S.F.</u>	<u>Vacant S.F.</u>	<u>Vacancy Rate</u>
1979	1,230,000	258,000	21.0%
1980	1,604,000	176,000	11.0
1981	2,006,000	233,000	11.6
1982	2,278,000	148,000	6.5
1983	2,904,000	267,000	9.2
1984	3,270,000	471,000	14.4
1985	3,895,000	682,000	17.5
1986	4,730,000	970,000	20.5

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(1) All figures end of the year.

SOURCES: Piedmont Realty Advisors;  
Cohen Company;  
Coldwell Banker.

## Exhibit III-4

COMPETITIVE PROPERTY SURVEY  
LIGHTON PLAZA II

<u>Map Number</u>	<u>Building Name</u>	<u>Floors/ Year Built</u>	<u>Total SF</u>	<u>Occupancy Rate/ Available SF</u>	<u>Lease Rates</u>
1	Renaissance I 7007 College Boulevard	7 1984	151,000	97% 4,000	\$18.00 rentable \$ 3.50 exp. stop 8 months free
2	Mast Publishing 7500 110th	5 1984	122,000	87% 16,000	\$17.50 usable (\$15.50 NRA) \$ 3.50 exp. stop Sublease
3	Financial Plaza I	5	115,000	96% 5,000	\$18.00 usable (\$15.84 NRA) \$ 3.50 exp. stop 6 months free
4	Corporate Woods 9225 Indian Creek	11 1985	209,000	96% 8,300	\$18.00 rentable \$ 4.00 exp. stop 6-8 months free
5	Lighton Plaza I 7300 College	6 1986	116,000	21% 91,640	\$18.50 rentable \$ 3.75 exp. stop 8 months free
6	Commerce Plaza I 1435 & Metcalf	9 1986	161,000	81% 30,000	\$18.50 rentable \$ 3.65 exp. stop 12 months free
7	Financial Plaza II 6800 College Blvd.	10 1987	160,000	39% 97,000	\$18.00 usable (\$15.84 NRA) \$ 3.50 exp. stop 12 months
8	Executive Hills SWC College & Metcalf	15 1987	240,000	20% 192,000	\$18.00 usable (\$15.84 NRA) \$ 3.50 exp. stop 15 months
9	Renaissance II 7008 College Blvd.	7 1987	145,000	17% 120,000	\$18.00 rentable \$ 3.50 exp. stop 8 months

Exhibit III-4 (cont'd.)

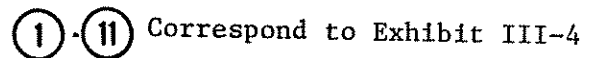
COMPETITIVE PROPERTY SURVEY  
LIGHTON PLAZA II

<u>Map</u> <u>Number</u>	<u>Building Name</u>	<u>Floors/</u> <u>Scheduled</u> <u>Completion</u>	<u>Total</u> <u>SF</u>	<u>Occupancy Rate/</u> <u>Available SF</u>	<u>Lease Rates</u>
Under Construction					
10	Corporate Woods Bldg. 70 9900 W. 109th Street	6 May 1987	106,000	0% 4,000	\$18.50 rentable \$ 4.00 exp. stop 6-8 months
11	Corporate Woods Bldg. 10975 Benson	5 May 1987	105,000	0% 105,000	\$18.50 rentable \$ 4.00 exp. stop 6-8 months

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Source: Piedmont Realty Advisors

## COMPETITIVE PROPERTY MAP LIGHTON PLAZA II



#### **IV. BORROWER/DEVELOPER**

## **IV. BORROWER/DEVELOPER**

### **A. INTRODUCTION**

The borrower/developer is the Trammell Crow Company, one of the country's largest developers of office and warehouse space. The Trammell Crow Company has over 50 offices throughout the United States and controls assets with a gross value in excess of \$6 billion. In June, 1986 Trammell Crow reorganized to increase the integration between the Company's three major units - Commercial Residential and Special Use (hotels, markets, etc.) - and to increase the local control over the development process (see Exhibit IV-1). From USF&G's perspective, the financial security of the master lease has been reduced to the regional and local levels; Trammell Crow, Harlan Crow, Don Williams and Joel Peterson will no longer appear as general partners in the development partnerships. USF&G's primary security will come from the balance sheets of Bob Kresko and Tuck Spaulding.

### **B. THE PARTNERS**

The Trammell Crow Company's partner for Kansas City is C.A. "Tuck" Spaulding. He has been with Trammell Crow for 16 years and has been the Kansas City partner for 15 years. Over those years he has developed over 2 million square feet of office and warehouse space in the area. (see Exhibit IV-2).

Mr. Robert Kresko is the Trammell Crow regional partner for the Midwest with offices in St. Louis. Mr. Kresko has been with the company since 1967 and was promoted to head the commercial division when Trammell Crow reorganized.

### **C. DEVELOPMENT TEAM**

#### **1. Developer**

C.A. "Tuck" Spaulding has developed over 2 million square feet of space in Kansas City including Lighton Plaza I and the Registry, a 40,000 square foot office building less than 1/2-mile from the subject site. The leasing representative for the Kansas City office is Donald C. Thompson. Mr. Thompson has been with Trammell Crow for six years and formerly handled the leasing activity at Corporate Woods.

#### **2. General Contractor**

The general contractor will be the R.W. Murray Company of St. Louis, Missouri. R.W. Murray has been contracting since 1959 and since 1980 has completed projects that total 4.0 million square feet. Over 950,000 square feet of these projects have been for the Kansas City office of Trammell Crow. Exhibit IV-3 is a partial list of projects completed by the R.W. Murray Company.

### **3. Architect**

The architect for the project is the Urban Design Group. Urban is headquartered in Denver and has a regional office in Kansas City. They have been the architect for many award winning properties. Recent projects include the Tabor Center in Denver, a 1.8 million square foot mixed use development; Independence Center, a 1.8 million square foot mixed use facility in Charlotte, North Carolina; and La Plaza Del Rio, a 2.3 million square foot mixed use complex in San Antonio, Texas. Clients include Williams Realty, Prudential Insurance, and La Salle Partners.

### **4. Leasing Agents**

Leasing and management of the subject property will be provided by the Trammell Crow Company. The office currently manages over 2 million square feet of office and warehouse space in the area.

### **D. CONCLUSION**

Tuck Spaulding's Kansas City operation did an excellent job bringing Lighton Plaza I in on time and under budget for the shell completion phase of the development process. The leasing program is ahead of schedule and the rent levels are consistent with Piedmont's original interpretation of the market. Piedmont Realty Advisors concludes that Tuck Spaulding will be able to successfully develop Phase II in a manner similar to Phase I and that the performance of the assets will mitigate the slight decrease in financial security resulting from the Trammell Crow reorganization.

## TRAMMELL CROW CHART

TRAMMELL CROW COMPANY	
Chairman - Trammell Crow	
Managing Partners	Williams Petersen
Chief Financial Officer	Clossey Teague Golden

TC-COMMERCIAL COMPANY	
Managing Partner	Kresko
Operating Partners	Childress Shafer Simmons
Partner-Finance	Clossey†
Partner-Administration	Clossey†

TC-RESIDENTIAL COMPANY	
Managing Partner	Terwilliger
Partner-Finance	Teague
Partner-Administration	Leppert

TC-INTERESTS COMPANY	
Managing Partner	H. Crow
Partner-Finance	
Partner-Administration	Nolen

NATIONAL MARKETING	YOUNG
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CHICAGO/CANADA	HAMILTON
Chicago, all Canadian Cities	

NO. CENTRAL	WOODHOUSE
Cleveland, Columbus, Pittsburgh, Ia., Minn., Neb.	

GREAT LAKES	HAMMES
Cincinnati, Louisville, Ind., Mich., Wis.	

EAST TEXAS	MYERS
DFW Ind., Houston, Shreveport	

CENTRAL TEXAS	GOTTESMAN
Austin, San Antonio, La.	

NORTH TEXAS	HENRY
DFW Office, DFW Retail	

PLAINS	LIPPE
Kan., Mo., Okla.	

NORTHWEST	SPIEKER
Reno, N. Cal., Id., Ore., Wash.	

NORTHEAST	SIMMONS†
Boston, Hartford, Metro, NYC	

MID ATLANTIC	VEDDER
Philadelphia, Wash., D.C., Del., Md., S. N.J., N. Va.	

SOUTHEAST	KLEIN
Ga., NC., SC., S. Va.	

MID SOUTH	BRINDELL
Ark., Ala., Miss., Tenn.	

SOUTHWEST	WATSON
El Paso, Las Vegas, Ariz., Col. (Comm. and Resid.), N.M., Ut. (Comm. only)	

PROPERTY MANAGEMENT	
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MIDWEST	CARLEY†
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Chicago, Kansas City, Milwaukee, Minneapolis	
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SOUTH CENTRAL	LEPPERT†
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DFW, Houston	
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TEXAS LAND/LOT DEVELOPMENT	BAGWELL
N. Tex., Okla.	

OTHER	
Stanford Homes, Elderly Housing, Cadence General Contractors	

NORTHWEST	CARMICHAEL
Reno, N. Cal., Wash.	

EAST	MICHAUX
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Wash., D.C., Del., Md., Pa., NJ, New England, NY, Va.	
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SOUTHEAST	WOOD
Ala., Ga., Ky., Miss., NC, Ohio, SC, Tenn.	

SOUTHWEST	LEWIS
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Las Vegas, Ariz., N. Mexico	
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PUBLIC DISTRIBUTION	WELLMAN
Assets:	3.5 million square feet of facilities
Locations:	Atlanta, Baltimore, Chicago, Dallas, Denver, Houston, Los Angeles, Minneapolis, Oklahoma City, Orlando

HOTELS	
Assets:	26 hotels, 11,000 rooms
Locations:	Atlanta; Austin; Chicago; Dallas; Detroit; Houston; Kingston, Jamaica; Milwaukee; Montego Bay, Jamaica; Nassau, Bahamas; Orlando; Palm Springs; Philadelphia; St. Thomas, VI; San Antonio; Washington

MEDICAL	WRIGHT
Assets:	Psychiatric centers (20); Hospitals (800 beds); Medical Ctr. Bldgs. (500,000 sq. ft.); Health Parks (763 acres)
Locations:	Ark., Cal., Fla., Ky., Mich., Mont., Neb., Tenn., Tex., Ut.

FOREIGN OPERATIONS	T.S. CROW
Assets:	Various
Locations:	Belgium, Brazil, Germany

OTHER	
Assets:	Farms Other real estate-related businesses
Locations:	Various

SOUTHERN CALIFORNIA	BAILEY
LA, San Diego, Orange County	

FLORIDA	SPEICHER
Fla.	



Exhibit IV-2

TRAMMELL CROW COMPANY  
KANSAS CITY PROJECTS

OFFICE

Brookhollow Office Building	45,000 S.F.
The Registry	40,000 S.F.
8245 Nieman Road	20,000 S.F.
Lighton Plaza I	<u>116,000 S.F.</u>
Total Square Footage	221,000 S.F.

OFFICE/SERVICE CENTER BUILDINGS

CONGLETON PARK	
Eight Buildings Ranging From	
12,804 S.F. to 45,676 S.F.	
Total Square Footage	200,884 S.F.
BROOKHOLLOW PARK	
Seventeen Building Ranging From	
12,960 S.F. to 81,555 S.F.	
Total Square Footage	463,312 S.F.

WAREHOUSE BUILDINGS

Fourteen Buildings	
Total Square Footage	1,125,348 S.F.

TOTAL KANSAS CITY	2,010,544 S.F.
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SOURCE: Piedmont Realty Advisors.

Exhibit IV-3  
R.W. MURRAY TRACK RECORD

<u>Project</u>	<u>Owner</u>	<u>Contract Amount</u>	<u>Date Completed</u>
Hollander Building Renovation 600 McDonnell Boulevard St. Louis, MO	McDonnell Douglas Corporation	\$6,640,000	U/C
117,150 SF One Story Office Building Circle Drive North Piscataway, NJ	American Standard Corporation	2,750,000	U/C
67,625 SF Three Story Office Building 10220 Alliance Road Blue Ash, OH	Trammell Crow Company	3,125,000	U/C
83,660 SF Two Story High Tech Building 14 Oak Park Drive Bedford, MA	Trammell Crow Company	4,200,000	U/C
123,850 SF Distribution Center Johnson County Industrial Airpark Olathe, KS	Trammell Crow Company	2,300,000	11/83
40,450 SF Two Story Office Building 110th Street and Lowell Street Lenexa, KS	Trammell Crow Company	1,650,000	11/81
304,000 SF Fire Warehouse Building Interstate Industrial Park Lenexa, KS	Trammell Crow Company	4,000,000	12/79
135,700 SF Warehouse Building Brookhollow Business Park Lenexa, KS	Trammell Crow Company	1,500,000	12/80

SOURCE: Piedmont Realty Advisors.

## **V. RISK AND RETURN**

## **V. RISK AND RETURN**

### **A. INTRODUCTION**

The participating loan has some of the upside advantages of an equity investment, as well as the guaranteed return and the senior security position of a traditional mortgage debt investment. The participating mortgage on the subject property will be fully collateralized by a first lien on the land and improvements. Additional security is provided by the general partner of the borrowing entity master leasing the property for a period of up to 36 months.

### **B. VALUATION**

#### **1. Pro forma Income and Expenses**

Pro forma income and expenses for Lighton Plaza II are presented in Exhibit V-1. The estimated pro forma gross rental rate is \$18.75 per net rentable square foot with a \$4.00 expense stop. Piedmont Realty Advisors estimates that the average effective gross rental rate for the building, resulting from rent concessions, will be \$16.00 per net rentable square foot with a \$4.00 expense stop. Valuation, cash flow and yield analyses will be based on the effective rental rate estimate. A loan balance of \$14,350,000 is used for analysis purposes and is based on the same average effective rent.

The pro forma net operating income for the property with a 5% vacancy allowance is \$1,602,250. When the mortgage payment of \$1,219,750 is deducted from the net operating income, the cash flow is 382,500 providing a debt coverage ratio of 1.31.

#### **2. Valuation Methodology**

The forward commitment aspect of the participating mortgage enables the lender to invest at wholesale levels (i.e. cost) and immediately participate in 50% of the spread between cost and value upon the lease-up of the building. An accurate estimation of the building value is, therefore, an important part of the investment consideration. Piedmont Realty Advisors evaluated Lighton Plaza II using the three methods of value accepted by the American Institute of Real Estate Appraisers and are presented in Exhibit V-2. Piedmont Realty Advisors estimates the Market Value of the subject property when completed and leased to be \$16,000,000. USF&G's commitment (as shown in the Application Letter Exhibit I-1) is contingent upon a minimum independent MAI appraisal of \$16,000,000. The indicated loan to value ratio is 89.7%.

### **C. RETURN**

The projected income and expenses for the property over a 10-year period are based on 50% of the signed leases having three-year terms and 50% having five-year terms with an \$18.75 contract rental rate and a \$4.00 expense stop. Piedmont Realty Advisors anticipates a 24-month lease-up period for the project. All leases are expected to contain an average of a 17% discount in the form of free rent. During the lease up period contract and effective rents are projected to increase to \$19.50 by the end of the third loan year.

Thereafter, the contract rent is expected to increase 5% annually. Tenant refit expenditures and leasing commissions on first generation lease expirations are estimated to be \$4.00 per square foot while refits and leasing commissions on second generation lease expirations are estimated to total \$8.00 per square foot in 1988 dollars. Both estimates will increase at 5% annually. The cash flows which contribute to the loan yield include: base debt service, accrued interest, additional interest from operations and additional interest from sale (see Exhibit V-3). The estimated yield over a 10-year holding period is 12.42% (see Exhibit V-4).

## **D. RISK**

### **1. Market Risk**

The main market risk for the project is the risk that the property will not achieve pro forma rental rates. This risk would stem from a decreased demand for office space or from an oversupply of office space in the College Boulevard market. Decreased future demand is unlikely as demand has increased steadily over the past three years, creating a large tenant base that should fuel continued absorption as these firms continue to grow. Supply in the area is currently 18 months ahead of demand, 6 months more than the traditional level for this market with a limited amount of space planned for 1987. The subject property's location in relation to major traffic arteries and amenities will be a strong advantage over most of its existing and future competition. The projected 24-month lease up and an average of a 17% discount for free rent are consistent with the current office market. Overland Park, when compared with other office markets nationally, is relatively healthy with good prospects for the future. Overland Park's relatively low rental rates, diversified and expanding tenant base and well planned office development will serve to mitigate market risk.

USF&G's position has been structured to address market risk associated with initial lease up and capitalize on the long-term appreciation of the asset. Trammell Crow will master lease the project for the most critical first 36 months after completion of shell and core protecting against lease-up risk. Additionally, \$1,000,000 in the form of an economic holdback provides protection against severely discounted rentals during this period. A 50% participation in cash flow as well as 50% of residual value provides USF&G the means to share in the long-term upside potential of Lighton Plaza II.

### **2. Operating Risks**

The major operating risks are that the property will not be effectively managed and effectively marketed. Trammell Crow Kansas City currently manages over 1.8 million square feet of space in the area, including two office buildings in the immediate College Boulevard office market Corridor. In addition to the Kansas City partner's 15 years of experience in the area, the vast resources of the Trammell Crow organization combine to give the borrowing partnership substantial management expertise. Marketing risk is reduced with a leasing representative with ten years of experience leasing space in the College Corridor.

### **3. Default Risk**

Default risk is minimized during the critical lease-up period by having the general partners master lease the property for 36 months. After 36 months the collateral for the loan will be a well built, well located property at a unit cost of \$123.70 per rentable square foot.

### **4. Interest Rate Risk**

Due to the forward commitment nature of the loan, possible fluctuations in interest rates present a risk to the lender. If rates go up due to inflationary expectations, the participating features of the loan will compensate the lender for being unable to re-invest at higher rates. If interest rates decrease during the approval period, there is a risk that the borrower will terminate the application obligation and forfeit the \$75,000 application fee or attempt to renegotiate the terms. If rates decrease after a commitment is issued, the borrower will be locked in through a tri-party agreement with the construction lender and the real return to USF&G will increase accordingly. If market conditions result in demands to restructure the loan terms, USF&G will be in the strongest possible position.

## **E. CONCLUSIONS AND RECOMMENDATIONS**

The proposed Lighton Plaza II office building in Overland Park, Kansas represents an excellent opportunity to invest in the enhancement of the Lighton Plaza Development. Phase I is now open and ahead of its projected lease-up schedule. Phase II completes the development and provides Lighton with a significant presence within the College Boulevard office market. The project has a superior location with excellent access in an established and growing suburban office market. Overland Park is a strong office market relative to other national office markets with good prospects of continued strength.

The building's emphasis on quality in design and construction should create a long term investment grade asset which is capable of capturing tenant demand in the College Boulevard office market. The borrower has an impressive 15 year track record in the area and has access to resources of the Trammell Crow Company. The loan structure addresses the above-mentioned risks and yields and a projected return of 12.42%. Therefore, Piedmont Realty Advisors recommends that the Real Estate Investment Committee of the United States Fidelity and Guaranty Company approve the issuance of the commitment for a first mortgage of \$14,350,000 for the Lighton Plaza II Office Building in Overland Park as outlined in this report.

Exhibit V-1

PRO FORMA INCOME AND EXPENSES  
LIGHTON PLAZA II

Gross Income (116,000 x \$18.75)	\$2,175,000	
Less: Vacancy @ 5%	<u>108,750</u>	17% 369,750
Effective Gross Income	\$ 2,066,250	1805,250
Less Expenses (116,000 x \$4.00)	<u>464,000</u>	
Net Operation Income	\$ 1,602,250	1341,250
Less: Mortgage Payment		
\$14,350,000 loan @ 8.50% interest <sup>(1)</sup>	<u>\$1,219,750</u>	
Cash Flow	\$ 382,500	
Indicated Debt Coverage Ratio	1.31	

(1) Base debt service only. Does not include accrued interest or additional interest from operations.

SOURCE: Piedmont Realty Advisors.

Exhibit V-2

VALUATION ANALYSIS  
LIGHTON PLAZA II

COST APPROACH

Improvements (See Exhibit II-7)	\$12,029,000
Land value @ 20.00 PSF N.R.A.	2,320,000
Developer Profit @ 10% of improvements	<u>1,202,900</u>
ESTIMATED VALUE	\$15,551,900
Say	\$15,500,000

DIRECT SALES COMPARISON APPROACH

116,000 X \$142 (See Exhibit V-2A)	\$16,500,000
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CAPITALIZED INCOME APPROACH

\$1,602,250 (see Exhibit V-1) - 9.25%	\$17,321,622	1341,250 % 9.25
Less Free Rent Deduction		"
(10 months/12 months X \$1,602,250)	<u>1,335,208</u>	14,500,000
Adjusted Amount	\$15,986,208	
Say	\$16,000,000	

CORRELATION OF VALUE ESTIMATES

The three approaches to value indicate a range of values from \$15.5 million to \$16.5 million. The average of the three value estimates is \$16.0 million which suggests that the value of the subject property when it is built and fully leased should be estimated to be:

\$16,000,000  
Indicated Loan to Value Ratio: 89.7%



**Exhibit V-2A**

**DIRECT SALES COMPARISON APPROACH  
LIGHTON PLAZA II**

<u>Sale</u>	<u>Date</u>	<u>Sales Price (000's)</u>	<u>Area SF</u>	<u>Price/ SF</u>	<u>Adjustment</u> <sup>(1)</sup>	<u>Adj./Price SF</u>	<u>Cap Rate</u>
Executive Hills	5/84	\$14,431	108,500	\$133.00	\$13.70 <sup>(1)</sup>	\$146.70	9.20%
Glenwood Place	6/85	13,244	109,450	121.00	17.35 <sup>(2)</sup>	138.35	9.20
Linclay Building	12/84	11,140	94,410	118.00	19.60 <sup>(3)</sup>	137.60	9.80
6600 College	5/84	8,280	78,071	106.05	30.90 <sup>(4)</sup>	136.95	9.55
Exec. Hills Bldg.	3/87	14,720	115,000	128.00	17.00 <sup>(5)</sup>	145.00	9.12
SUBJECT	6/87	16,472	116,000			\$142.00	9.25%

VALUE BY MARKET COMPARISON: \$16,472,000  
Say \$16,500,000

- (1) Time adjustment based on actual change in CPI.  
 (2) Adjustment of \$7.50 for an inferior location, \$2.50 for large tenancy.  
 (Control Data) and \$7.35 time adjustment.  
 (3) Adjustment of \$10.00 for inferior location and \$9.60 for time of sale.  
 (4) Adjustment of \$20.00 for construction quality  
 (brick on block) and \$10.90 for time of sale.  
 (5) Adjustment of \$17.00 for anticipated lease-up carry.  
 SOURCE: Piedmont Realty Advisors.



Exhibit V-4

INVESTOR'S YIELD SENSITIVITY  
LIGHTON PLAZA II

The variables that most affect the return of this project are the rate of inflation and the rate of lease-up. Piedmont Realty Advisors performed a sensitivity analysis on the pro forma returns to judge the effects of these variables. The results are presented below.

The results range from a low of 11.52% internal rate of return to a high of 13.70%. An increase of 12 months in lease-up will decrease the project's yield from 20-25 basis points while a 2% change of inflation in either direction will vary the yield by approximately 100 basis points in a correspondingly direction.

<u>Months to Lease-Up</u>			
<u>CPI</u>	<u>12 Months</u>	<u>18 Months</u>	<u>24 Months</u>
3%	11.72%	11.63%	11.52%
5%	12.68	12.59	12.42
7%	13.70	13.63	13.45

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SOURCE: Piedmont Realty Advisors.