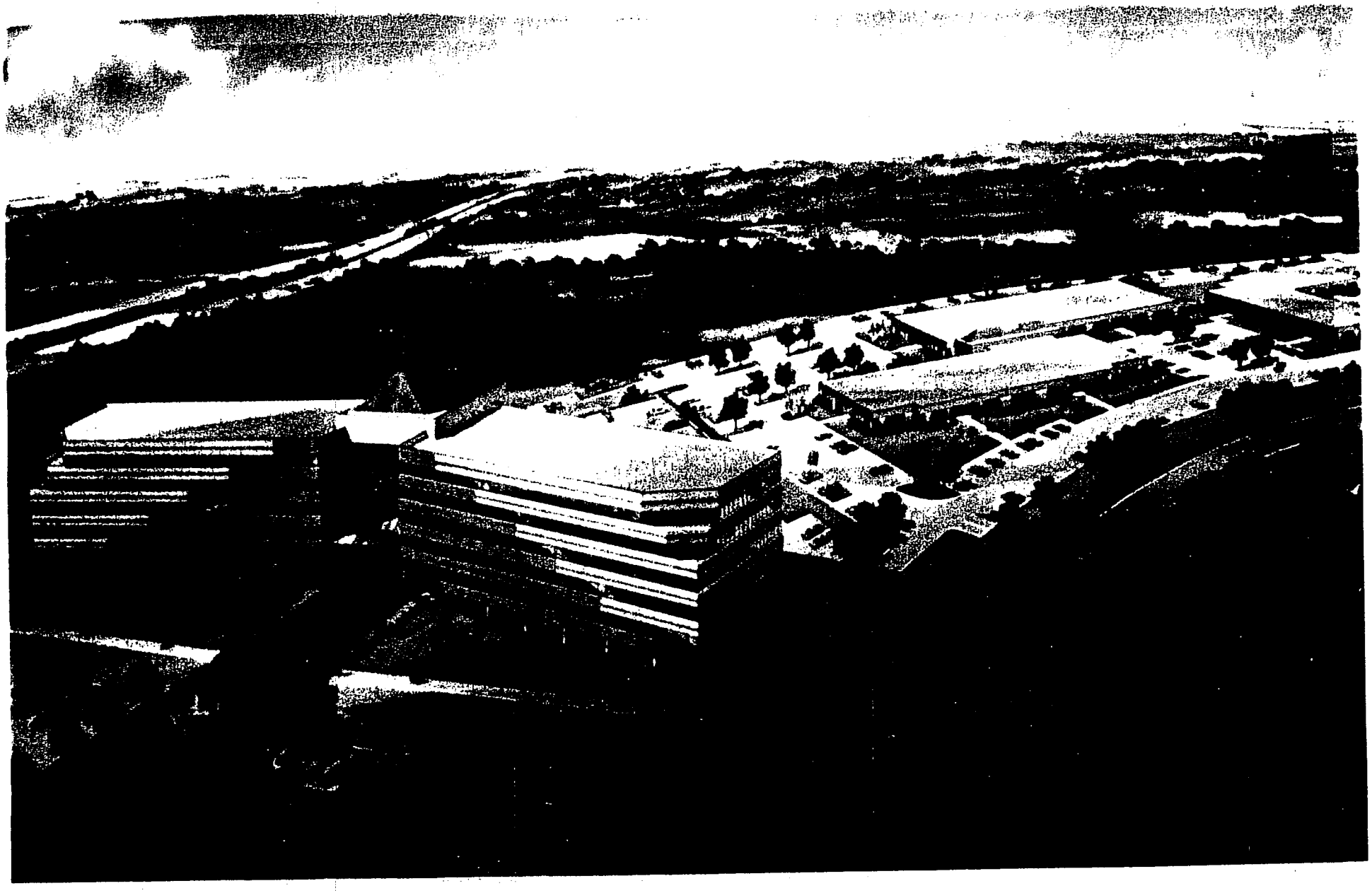
HUNTER'S HILL CORPORATE CAMPUS - PHASE I

HUNT VALLEY, MARYLAND

AKA Longview

Piedmont Realty Advisors
1150 Connecticut Avenue, N.W., Suite 705
Washington, D.C. 20036



HUNTER'S HILL CORPORATE CAMPUS - PHASE I

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I. INTRODUCTION

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

202-822-9000

October 3, 1986

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

Re: Hunter's Hill Corporate Campus -- Phase I
Hunt Valley, Maryland

Dear Sirs and Madam:

Enclosed for your review is an Investment Report on the Hunter's Hill Corporate Campus -- Phase I which is to be developed by Rouse & Associates on 14.2 acres in Hunt Valley, Maryland. Piedmont Realty Advisors reviewed the proposed Phase I participating mortgage for $27,000,000 with the Real Estate Investment Committee on September 24, 1986. This report documents the presentation, provides the detailed analysis, and includes our investment recommendations. Exhibit I-1 summarizes the economic terms of the proposed investment.

The Property -- Hunter's Hill Corporate Campus is a proposed two-phase 336,000 square foot office project on 25.11 acres along Interstate 83 at the intersection of Shawan Road. Phase I will contain 238,500 rentable square feet in two 1-story buildings and one 6-story office building. There are 620 parking spaces which include 330 spaces in a two-level parking facility. The site is one of the highest points in the area and will provide very attractive views as well as excellent exposure to I-83 and the entire Hunt Valley area. The site is within walking distance of the new Marriott Courtyard Hotel, the Embassy Suites Hotel, the Hunt Valley regional mall, and the Hunt Valley Inn, and it is one of the last developable land parcels in Hunt Valley.

At the northern end of the site will be an "L" shaped single story building containing 23,000 square feet, and another single story building of 36,500 square feet just to the south. The second building is two rectangles joined by a covered atrium. These buildings are surrounded by parking and will provide maximum leasing flexibility with multiple entry areas. The six-story building will contain 179,000 rentable square feet in two wings which are articulated at a 15-degree angle. This will orient the building toward the three-story atrium lobby entrance as well as the amphitheater and gathering place, fountain plaza, and landscaped entryway.

The Market -- The Hunt Valley office market is at the northern end of the Towson-Hunt Valley Corridor which contains over 7 million square feet of Class A office space with an occupancy rate of 84%. The office absorption in this area is at an historic high with 750,000 square feet expected to be leased by year end 1986, but the office construction is also at an historic high level with over 1,000,000 square feet currently under construction. Within Hunt Valley there is 1.3 million square feet of competitive Class A office space which is 82% occupied. Of the available space only 44,000 square feet is new, and it is poorly located. Consequently, the major competition will come from two properties which are currently under construction: 1) Center Point developed by McCormick Properties with 123,000 square feet available and 2) Berkshire Development's fifth building in North Park which has 125,000 square feet available. The quoted rental rates for these properties ranges from $18.00 to $18.50 per square foot with minimal rent concessions. This compares favorably with the subject's pro forma rates which can be as low as $17 with up to 10% rent concessions, e.g. 6 months free for a 60-month lease. At this time Rouse & Associates has quoted on 370,000 square feet of lease proposals for the project which reflects keen leasing interest.

The Borrower -- The Borrower will be a Pennsylvania limited partnership whose general partner will be the principals of Rouse & Associates, namely Willard G. Rouse, III, George F. Congdon, Menard Doswell, and Claiborn M. Carr, III who is the Maryland regional partner. Rouse & Associates has developed and manages over 9,000,000 square feet of space valued over $300,000,000, and employs a staff of over 335 in 12 regional and local offices. Rouse & Associates and regional partner "Clai" Carr have an impressive and successful track record of developing projects like the subject property.

The Risk and Return -- The proposed investment structure is very similar to the Ballston Corporate Center investment not only because it is an office project with Rouse & Associates but also because it shares two distinct features: a two-stage economic earnout and a forward commitment to purchase the land for Phase II. The primary economic holdback will be realized by the developer if the rental rates reach 1985 levels (i.e. $17.00 gross and $12.75 net) and the secondary economic holdback will be realized if the rental rates are at or above today's market rents. The two-stage holdback addresses the major risk in this investment which is the possibility of an over-supplied and soft office market. The developer has the incentive to aggressively market the property in anticipation of a robust market while the Lender has the comfort that the participating mortgage is justified even if the market remains flat or deteriorates slightly.

The forward contract to purchase Phase II land is provided to allow third party financing of the land until the appropriate time for development. While returns are difficult to quantify for this contract, the Lender will receive a 20% equity interest in the Phase II development if the contract is released and not exercised or an additional 20% interest in the sale proceeds of Phase I and 100% ownership of the land if the Lender must actually purchase the land.

Overall, this is a Class A property with an excellent location in a strong, expanding office market. The developer/borrower has extensive experience and substantial net worth. The projected yield on the proposed participating mortgage (excluding Phase II returns) is between 13.1 and 13.5% under 5% inflation depending on the rent levels. This yield is attractive in today's financial market and provides an adequate return for the risks involved.

Therefore, we recommend that USF&G issue a permanent loan commitment in the amount of $27,000,000 for Phase I of Hunter's Hill Corporate Campus under the terms and conditions discussed in this report. If you have any questions, please feel free to call me.

Sincerely,

Daniel B. Kohlhepp

Daniel B. Kohlhepp
Vice President

DBK:clg
Enclosure

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

202-822-9000

September 16, 1986

Mr. Elliot Kocen
Executive Vice President
Ivor B. Clark Co., Inc.
1000 Vermont Avenue, N.W.
Suite 700
Washington, D.C. 20005

Re: Hunter's Hill Corporate Campus -- Phase I
Hunt Valley, Maryland

Dear Elliot:

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

Property: **Hunter's Hill Corporate Campus -- Phase I**

Phase I of the planned two-phase development will consist of a total of 238,500 rentable square feet allocated as follows:

* One 1-story building containing 23,000 net rentable square feet
* One 1-story building containing 36,500 net rentable square feet
* One 6-story building containing 179,000 net rentable square feet.

Location: International Circle in Hunt Valley, Baltimore County, Maryland. The subject site is located between the east side of Interstate Highway 83 and the west side of International Circle immediately north of the Exit 20 interchange of I-83 at Shawan Road.

Land Area: Total gross land area is 25.11 acres with approximately 22 usable acres. Phase I will be developed on 14.2 acres, the majority of which is zoned O-1 which permits general office uses.

The remaining acreage (2.43 acres) zoned both DR and RC, will be used for road improvements and a water retention basin.

Borrower: A Pennsylvania limited partnership in which the general partners will be Willard G. Rouse, III, George F. Congdon, Menard Doswell, and Claiborn M. Carr, III.

Lender: USF&G Realty Company

Loan Amount: $27,000,000

Interest Rate: 9.50%

Term: 20 Years

Amortization: Not applicable, interest only.

Recourse: This will be a non-recourse loan.

Call Option: Lender has the right to call loan anytime after the 12th year. Lender will give Borrower 12 months written notice of intent to call the loan.

Prepayment:

* No prepayment through Year 7.
* Prepayment fee of 5% of the outstanding loan balance in Year 8, declining 1% per year to 1% in Year 12 and thereafter.
* No prepayment fee if Lender exercises its call option or the loan matures.

Additional Interest

A. Operations: Lender receives 50% of the project's annual Net Cash Flow. Net Cash Flow shall be defined as all collected gross revenue less all approved operating expenses and base debt service. Additional interest payments are payable monthly.

B. Sale or Refinancing: Lender receives 70% of the difference between the net sales price (selling expenses not to exceed 3%) and the outstanding loan balance if the property is sold, or 70% of the difference between the appraised value and the outstanding loan balance if the property is not sold before the loan is called, refinanced, or matures.

When and if the Lender's purchase contract on Phase II land is released within 36 months from the acceptance of this commitment, the Lender will reduce the additional interest in Phase I to 50%, and Lender will receive 20% equity interest in the Phase II development or 50% of the net sales proceeds if Phase II land is sold to an unrelated third party prior to its development.

Commitment Fee: $540,000; $270,000 in cash which is earned upon acceptance of the commitment, and $270,000 in an unconditional irrevocable letter of credit in a form acceptable to Lender which shall be refunded to Borrower at closing.

Initial Funding: $17,746,260; Actual project costs to date not to exceed $17,746,260. If actual costs are less than $17,746,260, the difference will be added to the holdback for interest, real estate taxes, and insurance. Initial funding will occur within 30 days after the earlier of (a) receipt of Certificate of Occupancy, or (b) the architect's statement of substantial completion provided that the architect states that there is no reason why the Certificate of Occupancy should not be forthcoming in the normal course of business. Initial funding must occur within 24 months of the acceptance of this commitment.

Holdbacks

A. Tenant Improvements: $3,696,000; disbursed for actual costs not to exceed an average of $20 per square foot of rentable one-story office space and $14 per square foot of rentable six-story office space as space is leased and tenant improvements are completed. Full disbursement will occur at 95% occupancy.

B. Leasing Commissions: $650,000; disbursed as commissions are paid not to exceed an average of $2.73 per square foot of rentable area. Full disbursement will occur at 95% occupancy.

C. Interest, Real Estate Taxes, Insurance and Approved Operating Expenses: $2,207,740 plus any excess funds at initial funding. These funds are to be disbursed for base interest payments on the first mortgage, real estate taxes, property insurance, and approved operating expenses. Full disbursement will occur at 95% occupancy. BBK 10/1/86

D. Primary Economic Holdback: $700,000; disbursed at a rate of ~~$1.16~~ $0.86 per $1.00 of annualized gross income collected in excess of $2,799,371. Borrower has 24 months after initial funding to earn out the economic holdback. Disbursement of the economic holdback may occur after the 24 month earn-out period if the leases were finalized during that period. CMcm 10/1/86

E. Secondary Economic Holdback: $2,000,000; disbursed at a rate of $5.43 per $1.00 of annualized gross income collected in excess of $3,611,544. Borrower has 24 months after initial funding to earn out the economic holdback. Disbursement of the economic holdback may occur after the 24-month earn out period if the leases were finalized during that period.

The primary and secondary 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 calculation of the disbursement of the economic holdbacks. Discounts which occur before the initial funding will be exempt from the 10% allowance. See Exhibit A for examples for the calculation of effective rents.

Purchase Contract for Phase II Land: Simultaneously with the issuance of the commitment, the Lender will issue a contract to purchase the Phase II land (approximately 7.8 acres) 36 months from the acceptance of the commitment for the lesser of (a) approved actual land costs, (i.e. land acquisition costs, settlement costs, and carrying costs) or (b) $3,910,000. The purchase contract will be assignable as collateral security for the land acquisition loan on Phase II and will provide that the Borrower has the option to extinguish the contract from the Lender and release it as security from the land loan during the 36-month period in return for (a) a 20% equity interest in the Phase II development or (b) 50% of the net cash proceeds (sales price less land costs) if the Phase II land is sold to an unrelated third party prior to its development.

Phase II Construction: Construction of Phase II will not begin unless Phase I is 50% leased at initial funding or 70% leased thereafter.

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.

B. Leases: Lender reserves the right to review and approve all leases subject to agreed-upon leasing standards.

C. Secondary Financing: Secondary financing is not permitted except with the Lender's prior written approval.

D. Market Value Appraisal: Lender will receive a market value estimate of the property from an approved MAI appraiser which is not less than $32,000,000.

E. Lender Approval: This application must be approved by the Lender's investment committee.

F. Tri-Party Agreement: The commitment is contingent upon the Lender, Borrower, and Interim Lender entering into an acceptable Tri-Party Agreement within 90 days after the acceptance of the commitment.

G. Right of First Offer: If the Borrower desires to sell the property, the Lender shall have the right of first offer to purchase the subject property.

H. Budget Approval: The Lender reserves the right to review and approve annual operating and capital budgets.

I. Economic Due Diligence: The issuance of a commitment is contingent upon Piedmont Realty Advisors satisfactorily completing its economic due diligence.

J. Syndication: Lender will allow a one-time syndication of the subject property provided that (a) the Borrowers retain at least 51% of the general partnership interests in the property, and (b) the syndication occurs within 42 months from the acceptance of the commitment. Lender reserves the right to approve the syndication.

K. Master Lease: Willard G. Rouse, III, Menard Doswell, George F. Congdon, and Claiborn M. Carr, III will personally master lease the project for 24 months or breakeven occupancy whichever comes first. The rental rate of the master lease must be sufficient to cover operating expenses and debt service. As third party leases are signed, the master lease will be reduced accordingly.

L. Phase II Financing: Lender reserves the first right of refusal to provide the permanent financing for Phase II under market terms and conditions.

M. General Contractor: The Lender reserves the right to approve the General Contractor.

If the terms outlined in this letter are acceptable to your client, please have the appropriate representative sign below and return this letter with an application fee of $75,000 by September 18, 1986. The application fee should be wired to a custodial account. Please call me for wiring instructions. The application fee will be returned to the Borrower if the Lender does not issue a commitment according to the terms of this letter. The application fee will be earned upon issuance of the commitment by the Lender in accordance with this letter. The application fee will be applied to the cash commitment fee when the commitment is signed by the Borrower.

Sincerely,

Daniel B. Kohlhepp

Daniel B. Kohlhepp
Vice President

Rouse & Associates - Landover

by Claborn M Lamar
SIGNED

General Partner
TITLE

September 18, 1986
DATE

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 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.

II. THE PROPERTY

II. THE PROPERTY

A. INTRODUCTION

The subject property will be situated in Hunt Valley which is located 13 miles north of downtown Baltimore, Maryland along Interstate 83 at the intersection of Shawan Road (see Exhibit II-1). This area has been developed over the past 20 years primarily by McCormick Properties, a division of McCormick Spice, and is now almost completely built out. The Hunt Valley has been a successful office/industrial park due to its convenient access, proximity to upscale residential neighborhoods, and support facilities such as a shopping mall, restaurants, and hotels. Tenants in the area include AT&T, MCI, Westinghouse, Allstate, Parke Davis and Martin Marietta (see Exhibit II-2).

The improvements for Phase I of Hunter's Hill Corporate Campus include three buildings with a total of 238,500 rentable square feet of space. Two 1-story buildings (23,000 and 36,500 rentable square feet) will be the first one-story office product offered in Hunt Valley. This space will be very attractive to users desiring individual identity and the convenience of grade level access. The six-story 179,000 net rentable square foot mid-rise building will offer office users a Class A office environment with views throughout the area (see Frontispiece).

B. LOCATION

1. Accessibility

The accessibility of Hunt Valley has been an important factor in the success of the park. Because of excellent access to Interstate 83 and rail service by a Conrail spur the park is very well located for distribution or sales oriented tenants. The central location between Washington, D.C. and Philadelphia, Pennsylvania allows convenient highway access throughout this major market corridor.

The access from Interstate 83 is excellent (see Exhibit II-3). The intersection of I-83 and Shawan Road provides a full cloverleaf for maximum traffic flow. Once travelling east on Shawan Road a left turn on either International Drive (without a traffic light) or McCormick Road (with a traffic light), and a final left turn onto International Circle will lead to the site. Egress back to I-83 involves only two right turns. There will be three driveway entrances to the site from International Circle.

2. Adjacent Land Uses

The subject property is located in the northwest corner of Hunt Valley. Exhibits II-4A, II-4B, and II-4C are aerial photographs of the site and surrounding area. North and east of the subject is a large tract of land currently zoned for agricultural use and owned by the Masonic Home. There are no current plans to develop this parcel, and the resulting green belt will be an amenity for the property for the near to mid-term future. West of the subject and down a 100-foot incline lies I-83. This incline minimizes traffic noise for the subject, enhances the project's freeway

visibility, and provides scenic views of the surrounding countryside.

Immediately south of the subject is a build to suit 60,000 square foot office building currently under construction for Medical Mutual of Maryland. Further south is a 200-suite Marriott Courtyard Hotel, a build-to-suit office for Honeywell, a 224-suite Embassy Suites Hotel, and the Shawan Center I Office Building completed in 1983 at 201 International Circle.

Southeast of the site across International Circle McCormick owns 17.6 acres of vacant land (lots 8 and 9 on Exhibit II-3) upon which it plans to build office buildings beginning in 1987. Just south of this vacant ground, McCormick is building Center Pointe, a 128,000 square foot office building which will be ready for occupancy in January of 1987. East of the Center Pointe project is the Hunt Valley Shopping Mall, a 900,000 square foot mall anchored by Macy's and Sears. The mall offers a food court and a variety of restaurants. It is less than a 10 minute walk from the subject.

South of Shawan Road lies the older area of the Hunt Valley business community, a 430-acre mixed use office/industrial park. This area is predominantly single-user, build-to-suit buildings for Fortune 500 companies with uses ranging from manufacturing (Sherwin Williams, McCormick Spice) to R&D (Westinghouse, General Instrument) to 100% office use (Allstate, C&P Telephone). Speculative office space in the park totals approximately 1,300,000 square feet developed over the last 18 years with 230,000 square feet vacant, or 17%. Overall the Hunt Valley business community is an established market area with a large tenant base from which the subject property can draw. Additionally, the amenities provided by this established park (hotels, restaurants, etc.) will also benefit the subject.

C. THE SITE

The entire site for Hunter's Hill Corporate Campus has a gross land area of 25.11 acres of which 22 acres are usable for development. Phase I will be developed on the northern 14.2 acres of the parcel, with the remaining 7.8 acres being held for development of Phase II at a later date. (See Exhibits II-5 and II-6). The current plans for Phase II (designated as Southfield on Exhibit II-6) include two single-story buildings and one 3-story building with a total of approximately 85,000 square feet. The 7.8 acre parcel for Phase II is not a part of the security for this loan, although USF&G will have the right of first refusal for financing Phase II.

The site itself is irregular in shape, following the contours of International Circle and I-83. The usable acreage of the site has a gently rolling surface with a downslope to the southwest. The site is located on one of the highest points in the area, which will give tenants views of the surrounding countryside and improve the project's visibility throughout the area. All utilities are available at the site, and the proposed improvements fully conform with the current zoning.

D. THE IMPROVEMENTS

The site will be improved with three buildings totalling 238,500 net rentable square feet of space. The frontispiece is a rendering of the entire Phase I, and Exhibit II-7 is a rendering of the mid-rise office. Exhibits II-8 and II-9 are floor plans and elevations of the two 1-story and one mid-rise building respectively.

At the northern end of the site will be a single story building of 23,000 square feet. This building will have essentially an "L" shape with articulations at the corners for relief. Just south of this first building will be another single story building of 36,500 square feet. This building is comprised of two rectangles of approximately 18,500 square feet each joined by a covered atrium. The single story buildings are surrounded by parking and will allow maximum leasing flexibility with multiple entry areas. Suitable for tenants as small as 4,000 square feet or full building users, these buildings will provide tenants with identity and a ground level front door.

Both single story buildings will be constructed of masonry load-bearing walls with a masonry exterior facing. Ribbon vision glass will use insulated glazing material, and lobby entrances will receive a curtain wall glass treatment. HVAC will be provided by a constant volume mechanical system, and the roofing system will be a Carlisle-type single ply membrane. The single story buildings will have 268 surface parking spaces, providing a ratio of 4.50 spaces per 1,000 square feet.

The six story mid-rise building will contain 179,000 rentable square feet of office space. Construction will consist of a steel frame with composite metal decking and a masonry exterior veneer that will be similar to the single story buildings. An uninterrupted ribbon of tinted insulated vision glass will surround the building. The building will be laid out in two wings connected by a three-story atrium lobby which will provide four hydraulic passenger elevators that will serve all floors.

The wings will be articulated at a 15 degree angle and will orient the building towards the main lobby entrance as well as the amphitheater and gathering place, fountain plaza, and landscaped entryway. Exterior architectural accents will include a six-story glass curtain wall treatment on the atrium area capped by a standing seam metal roofed pyramid and recessed corner balconies on the fifth and sixth floors.

Parking for the mid-rise building will be provided by a 330-space two level parking deck (175 covered spaces) and 290 surface spaces for a total of 620 spaces and a parking ratio of 3.46 spaces per 1,000 square feet. Other planned site improvements include a fitness trail, picnic area, and a helicopter pad.

E. PROJECT BUDGET

Three scenarios are presented for the project budget in Exhibit II-10. The three budgets are identical through the costs to shell completion. Land acquisition and pre-development costs total $6,009,000 for the 14.2 acre site, or $25.12 per buildable foot. Shell construction costs are based

on $28 per square foot for the single story buildings and $38 per square foot for the mid-rise. Total costs to shell completion are $17,746,260 in each of the three cases, averaging $74.41 per net rentable square foot.

The differences in the three budgets stem from the economic holdback provisions of the loan that are designed to reflect the leasing performance of the property and varying costs of the tenant improvements necessary to achieve that leasing performance. Tenant finish costs may range from $20 to $22 per foot for the single story buildings, and $14 to $16 per foot for the mid-rise. The single story costs are $6 per foot higher due to HVAC, ducting, ceiling and lighting costs being included in the tenant improvement budget, whereas these costs are included in the shell costs for the mid-rise.

Leasing commissions increase in the three cases to reflect the same percentage commission on higher gross rents. Similarly, the operating cost reserve, interest reserve, and contingencies increase to reflect the longer leasing period necessary to achieve higher rents. The developer's fee also increases substantially as rents increase, providing Rouse & Associates with a significant incentive to lease the property aggressively.

Overall, total costs are projected to range from a low of $25,000,000 or $104.82 per net rentable square foot to a maximum of $27,000,000 or $113.21 per net rentable square foot. These costs are appropriate for this type of construction in the Hunt Valley area.

The projected Phase II land loan budget is presented in Exhibit II-11. This budget is conservative to the extent that the assumed interest rate for the land financing is 11%. Recent negotiations for the Phase II land loan for Ballston Corporate Center indicate that the actual rate could be as low as 8-1.2%. In any event, the purchase price will never exceed the budgeted amount of $3,910,000.

F. CONCLUSIONS

The subject property will be located in the established and essentially built-out Hunt Valley business community. This successful business park offers the subject a wide variety of amenities (hotels, restaurants, shopping) as well as a large Fortune 500 tenant base from which to draw. The park and the subject enjoy excellent freeway accessibility to Interstate 83, and the location 13 miles north of Baltimore allows service/distribution oriented tenants convenient access throughout the Washington/Philadelphia corridor.

By combining mid-rise and single story space the project will offer leasing flexibility that should attract a wide range of tenants. The quality of the improvements represents an upgrade for the area, and the project will enhance this image with effective siting of the building which provides all of the buildings with excellent views and exposures. Rouse & Associates has selected an excellent site in terms of location and visibility, and the improvements are designed to meet the needs of the market.

Exhibit II-1
REGIONAL LOCATION MAP

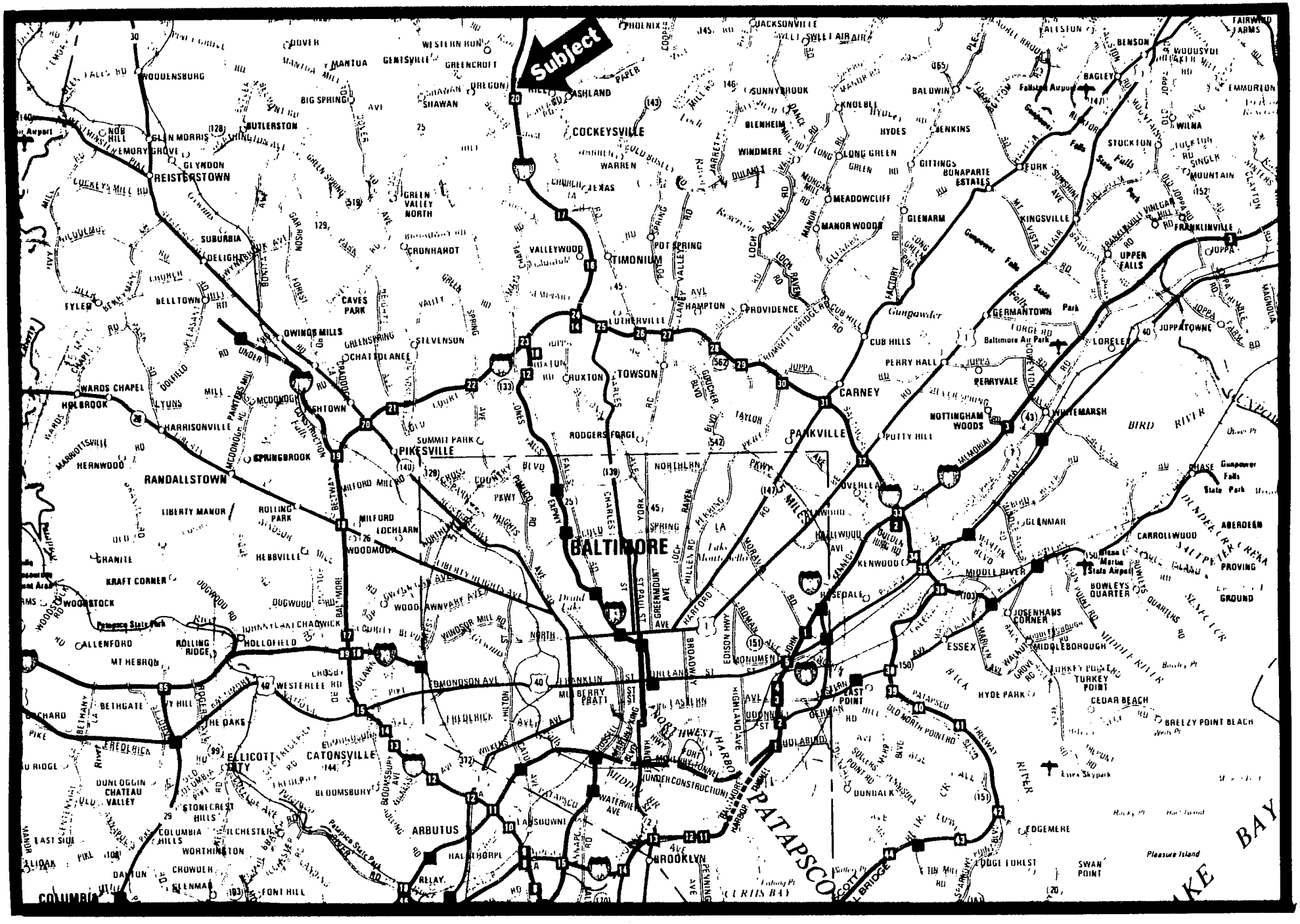
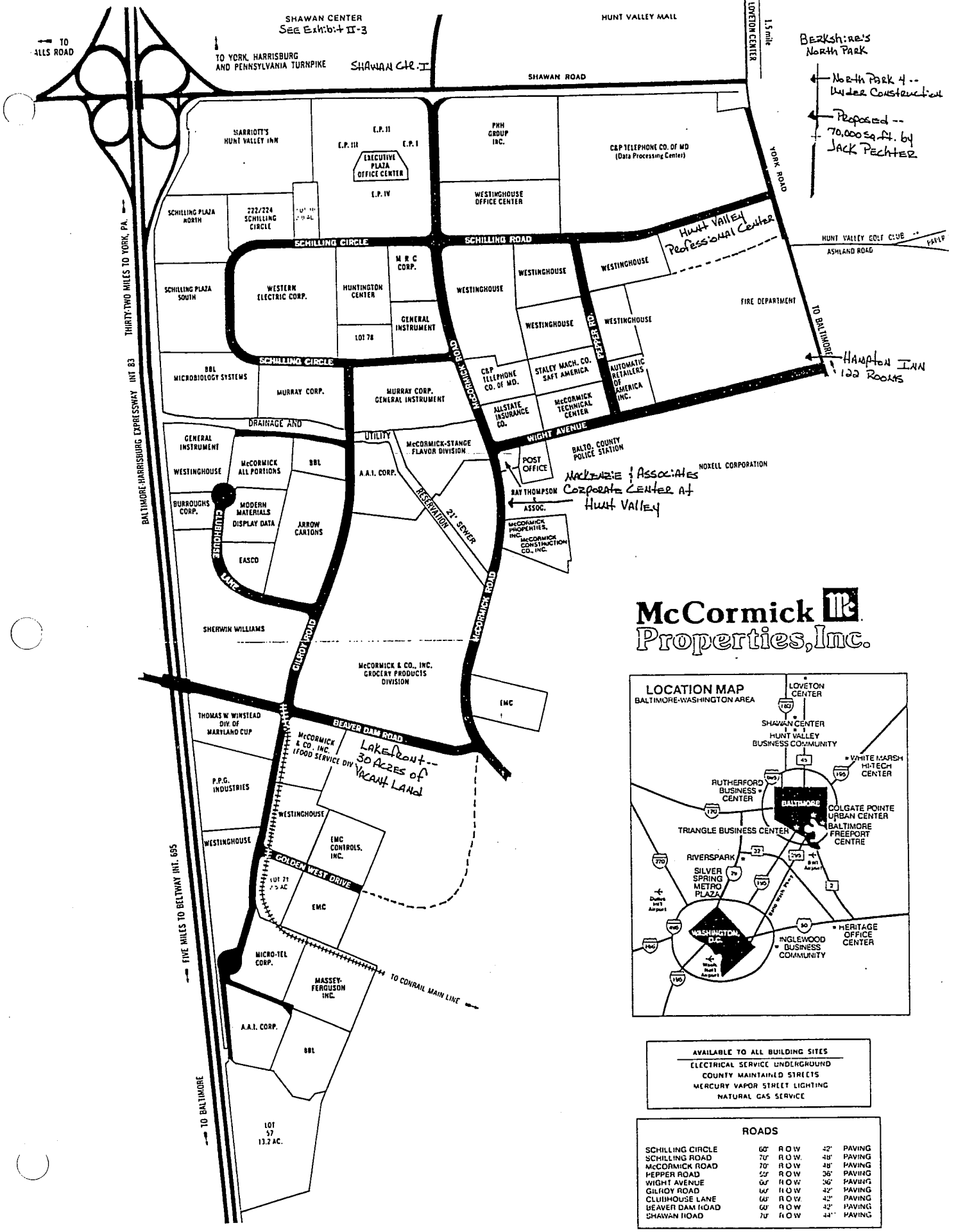


Exhibit II-2
SITE VICINITY MAP



AVAILABLE TO ALL BUILDING SITES
ELECTRICAL SERVICE UNDERGROUND
COUNTY MAINTAINED STREETS
MERCURY VAPOR STREET LIGHTING
NATURAL GAS SERVICE

ROADS

SCHILLING CIRCLE	60'	R O W	42'	PAVING
SCHILLING ROAD	70'	R O W	48'	PAVING
McCORMICK ROAD	70'	R O W	48'	PAVING
PEPPER ROAD	50'	R O W	36'	PAVING
WIGHT AVENUE	60'	R O W	36'	PAVING
GILROY ROAD	60'	R O W	42'	PAVING
CLUBHOUSE LANE	60'	R O W	42'	PAVING
BEAVER DAM ROAD	60'	R O W	42'	PAVING
SHAWAN ROAD	70'	R O W	44'	PAVING

HUNT VALLEY BUSINESS COMMUNI
BALTIMORE COUNTY, MARYLAND

Exhibit II-3

SITE ACCESS MAP

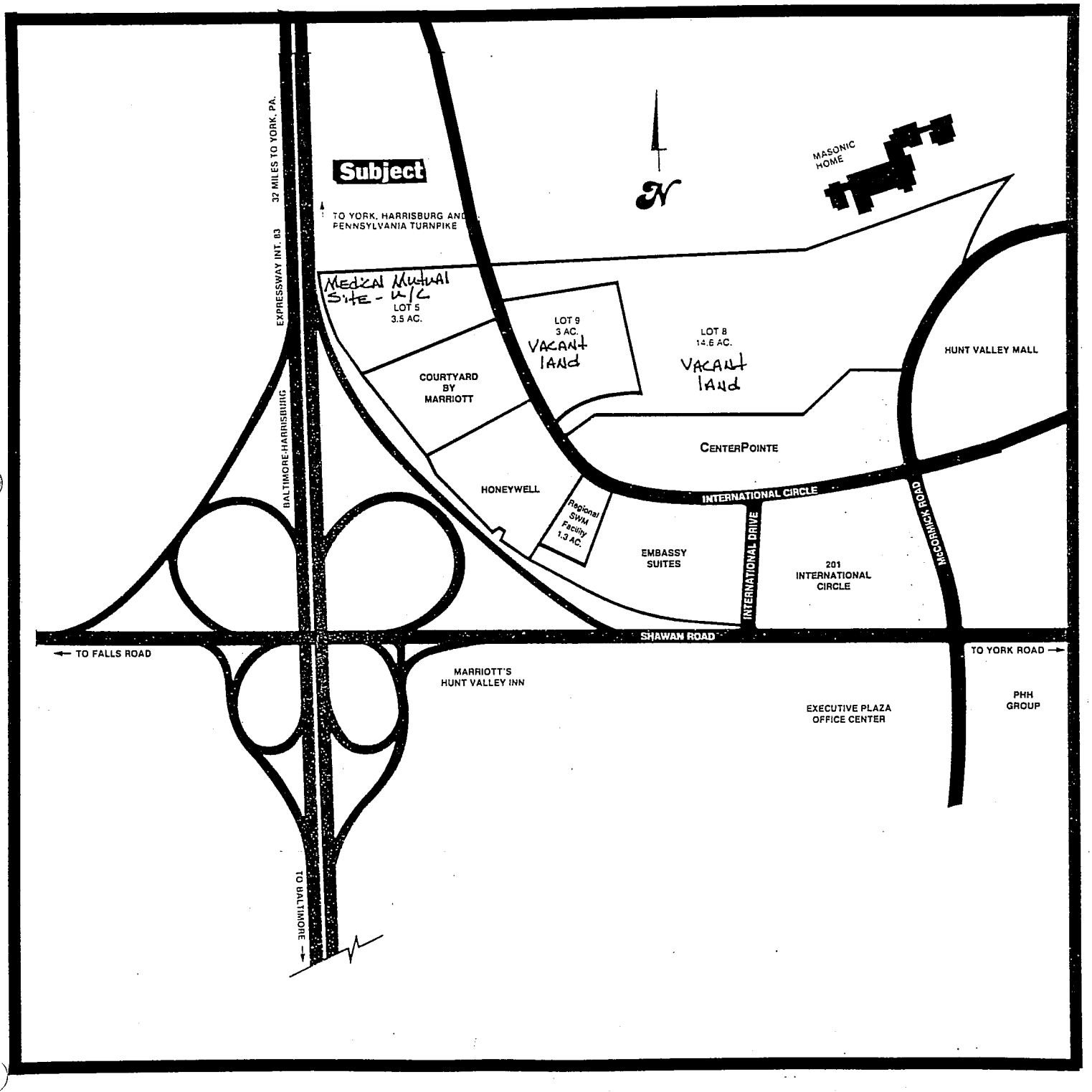
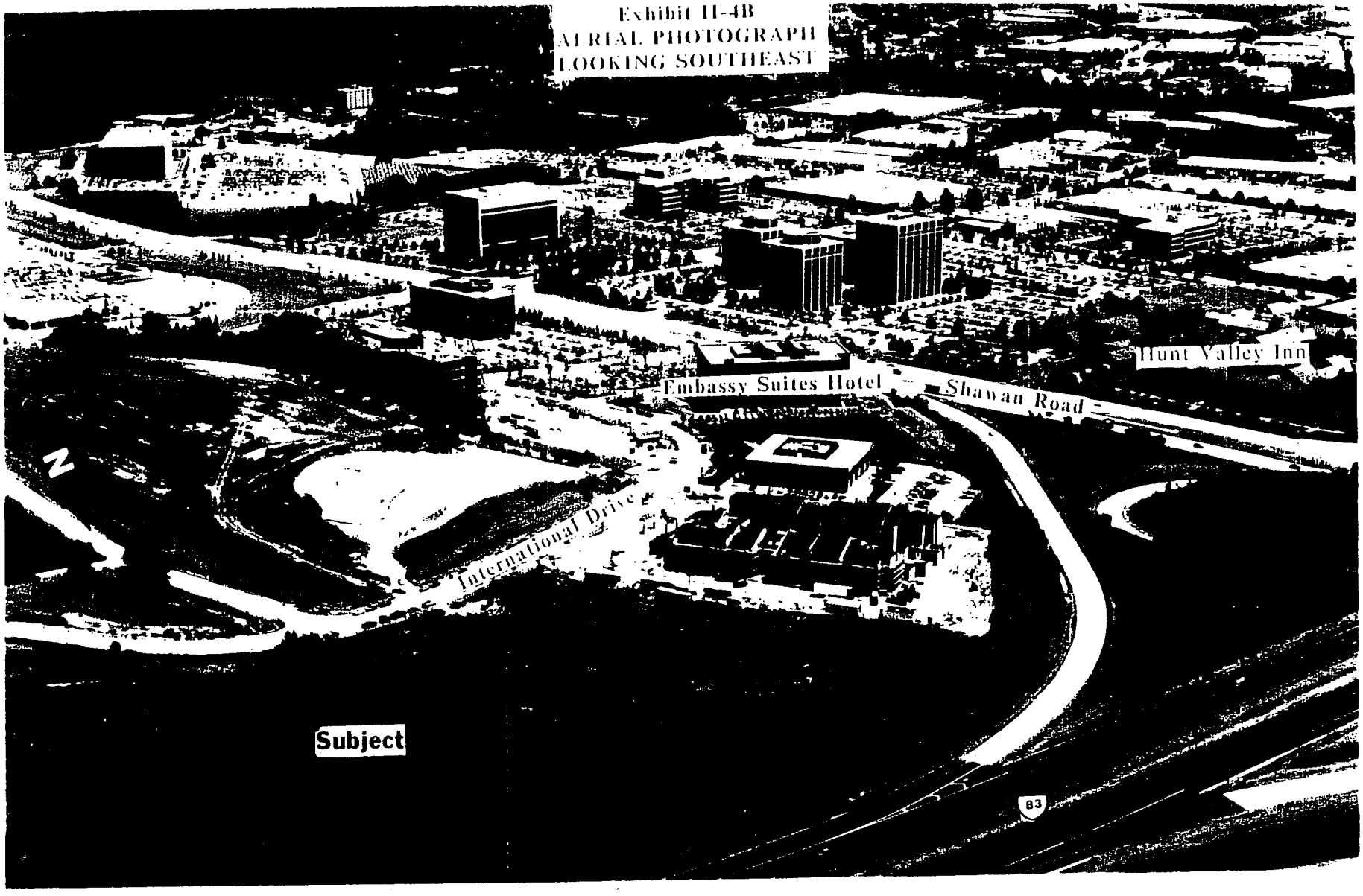


Exhibit II-4A
AERIAL PHOTOGRAPH
LOOKING NORTH

Exhibit II-4B
AERIAL PHOTOGRAPH
LOOKING SOUTHEAST



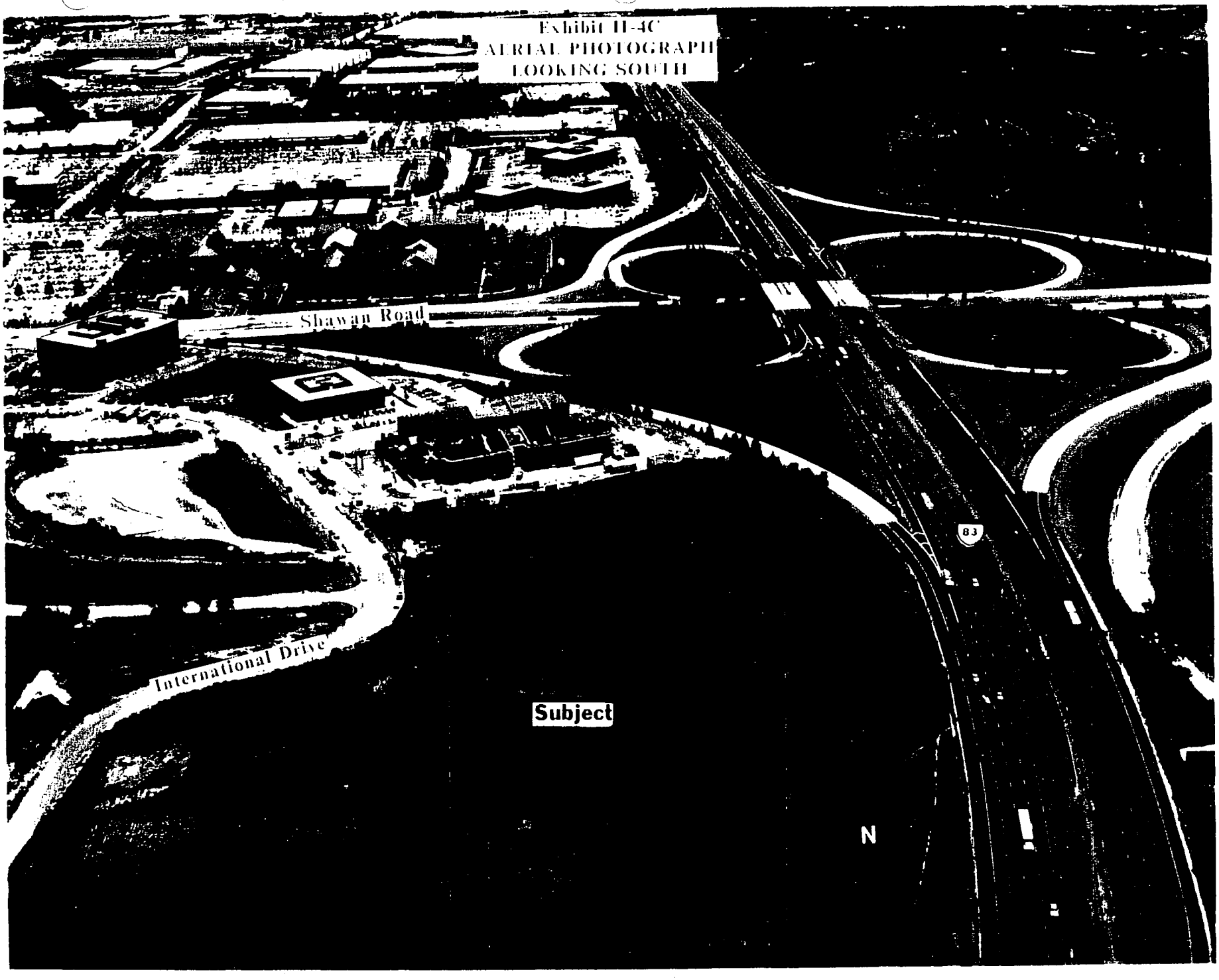
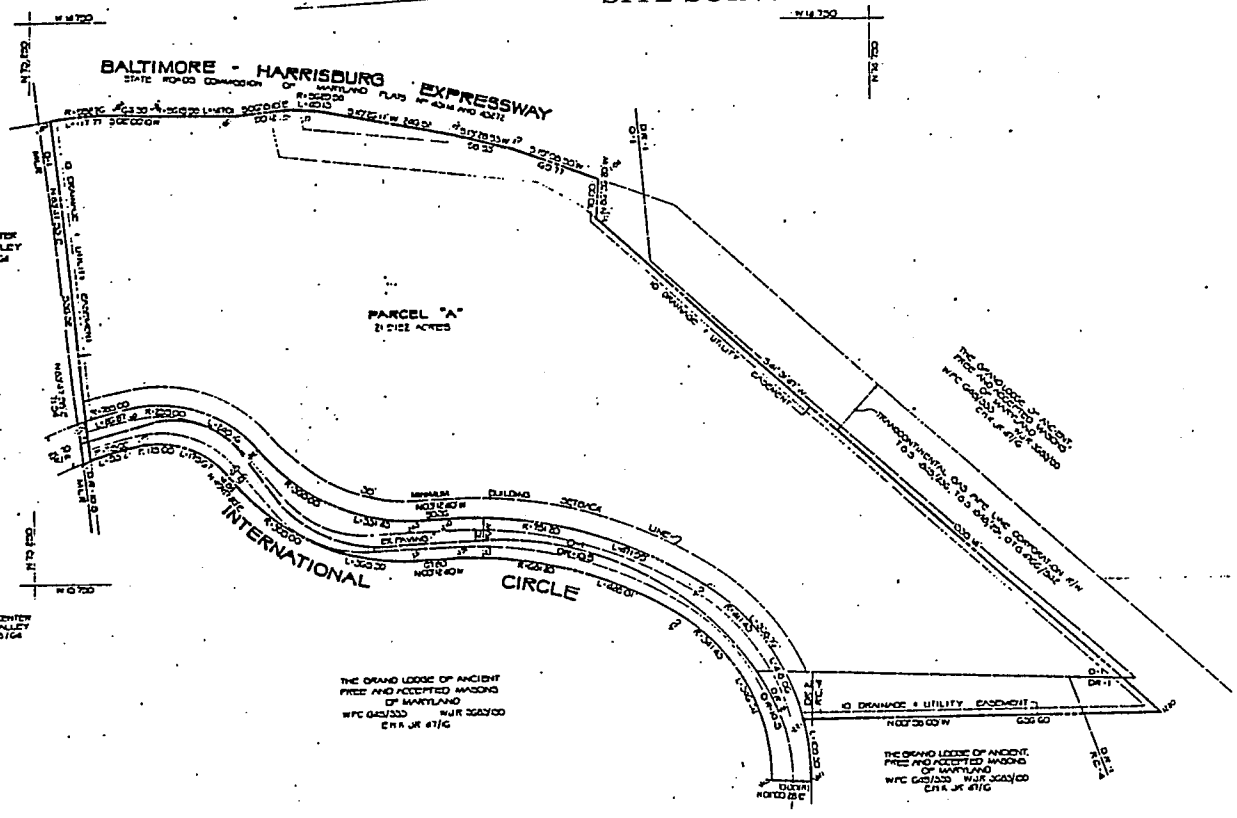


Exhibit II-4C
AERIAL PHOTOGRAPH
LOOKING SOUTH



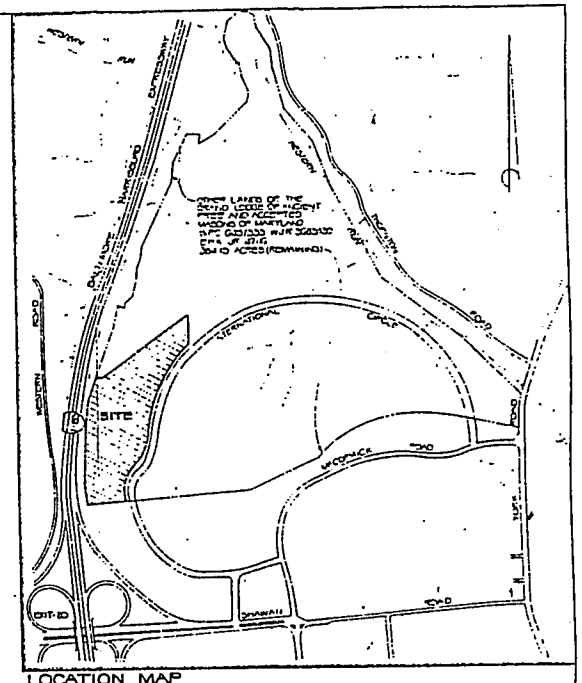
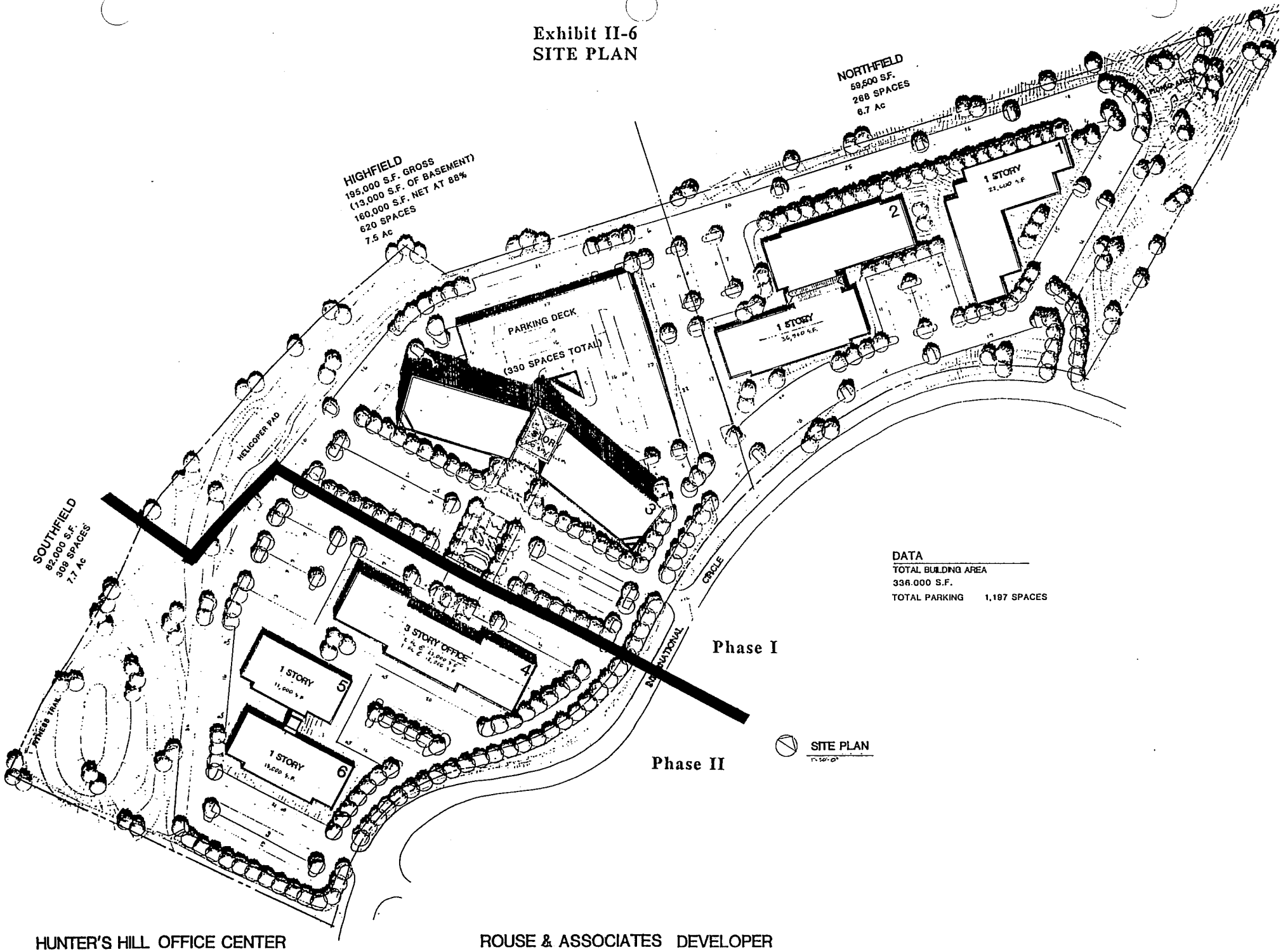


Exhibit II-5
SITE SURVEY

Exhibit II-6
SITE PLAN

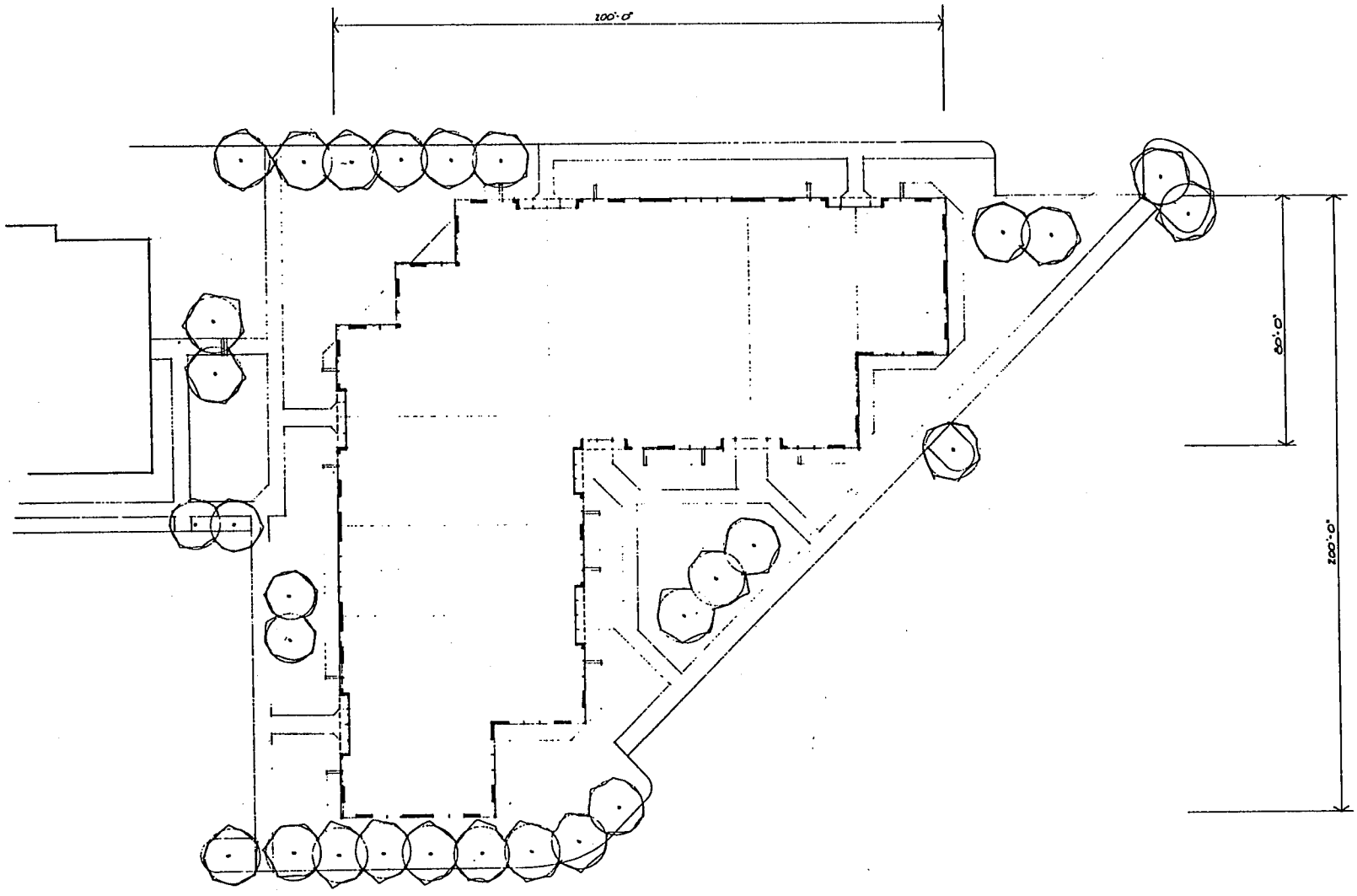


HUNTER'S HILL OFFICE CENTER

ROUSE & ASSOCIATES DEVELOPER

Exhibit II-7
MID-RISE OFFICE RENDERING

Exhibit II-8A
SINGLE-STORY OFFICE FLOOR PLAN



PLAN

robert t. hofmann and associates, inc.

architects

414 severn building
towson, maryland 21204

8600 loisette road
(301) 825-0993

HUNTERS HILL OFFICE CENTER

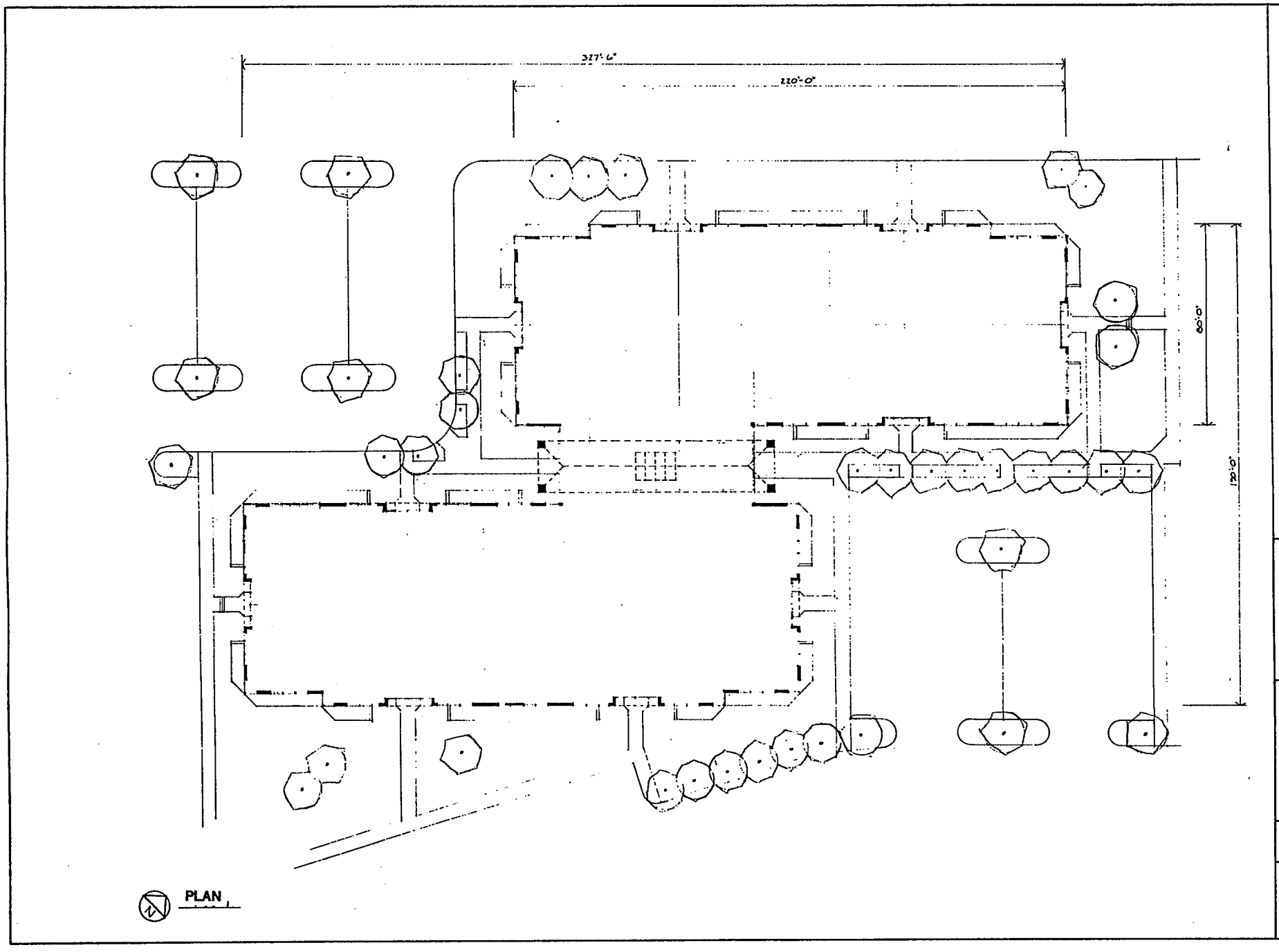
HUNT VALLEY, MARYLAND

ROUSE & ASSOCIATES DEVELOPER

BUILDING NO. 1 PLAN

A-1

Exhibit 8B
SINGLE-STORY OFFICE FLOOR PLAN



robert t. hofmann and associates, inc.

ha architects

414 seven building 8400 loisville road
towson, maryland 21204 p. (301) 825-0993

HUNTERS HILL OFFICE CENTER

HUNT VALLEY, MARYLAND

ROUSE & ASSOCIATES DEVELOPER

BUILDING NO. 2 PLAN

1/16"=1'-0"
06-26
9/11/26

A-2

Exhibit II-8C
SINGLE-STORY OFFICE ELEVATIONS

BUILDING 2 NORTH

BUILDING 2 WEST

BUILDING 1 SOUTH

BUILDING 1 EAST

robert t. hofmann
and associates, inc.
architects

HUNTERS HILL
OFFICE CENTER

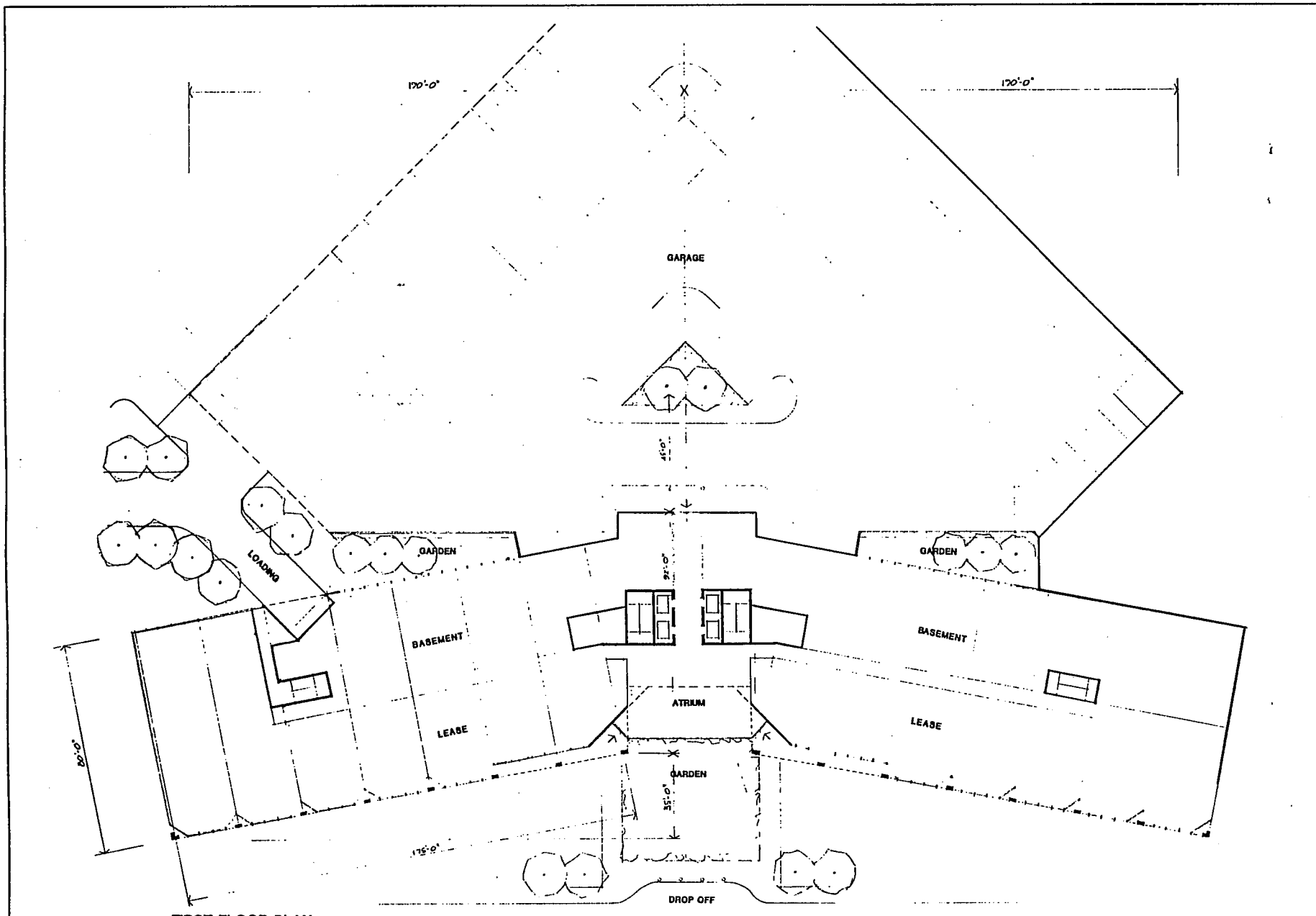
HUNT VALLEY, MARYLAND

ROUSE & ASSOCIATES
DEVELOPER

BUILDINGS 1 & 2
ELEVATIONS

A-3

Exhibit [illegible]9A
MID-RISE OFFICE [illegible]OOR PLANS



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HUNTERS HILL OFFICE CENTER

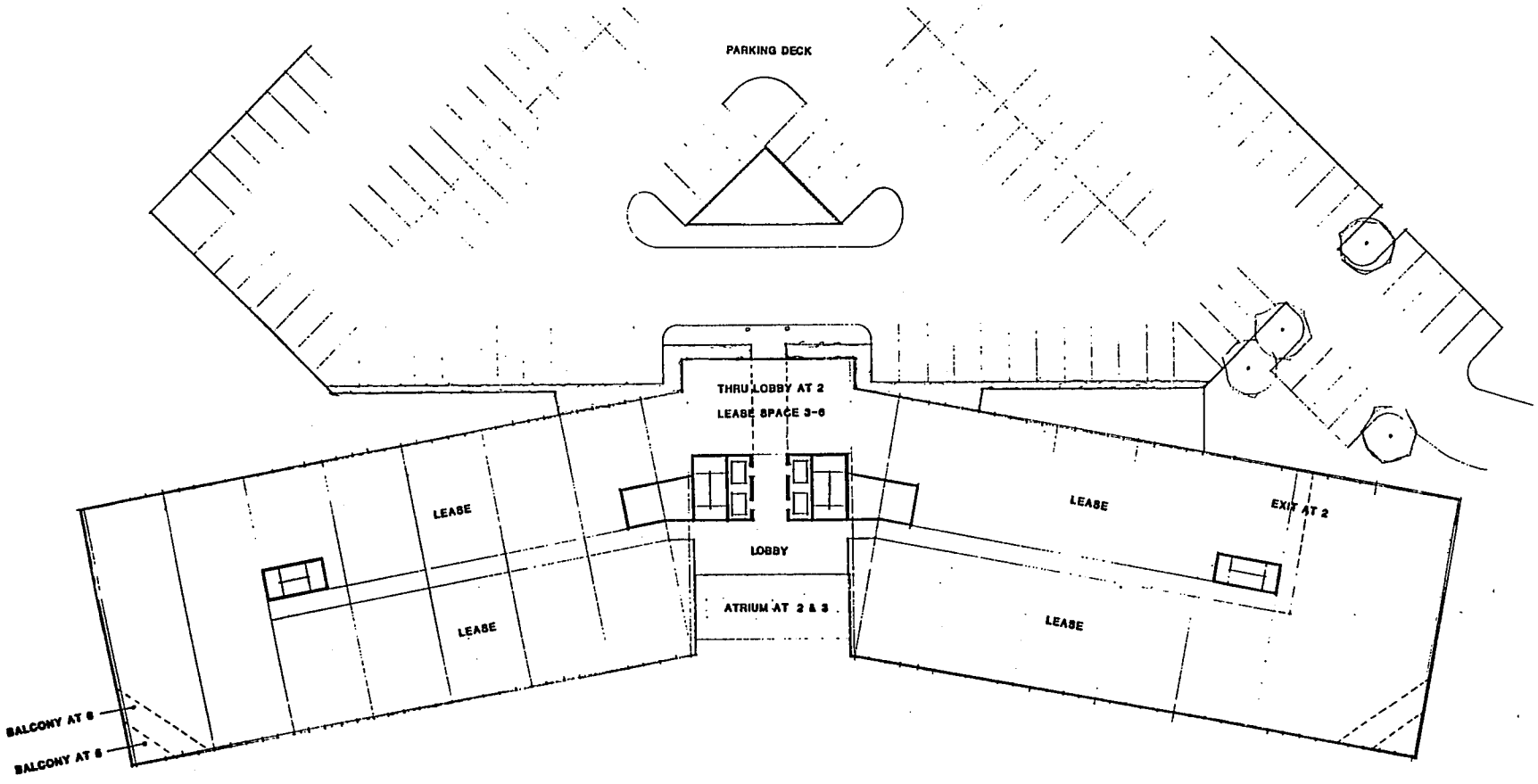
HUNT VALLEY, MARYLAND

ROUSE & ASSOCIATES DEVELOPER

BUILDING NO. 3 PLAN

A-4

Exhibit I-9B
MID-RISE OFFICE FLOOR PLANS



UPPER FLOOR PLAN LEVEL 2 THRU 6

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HUNTERS HILL
OFFICE CENTER

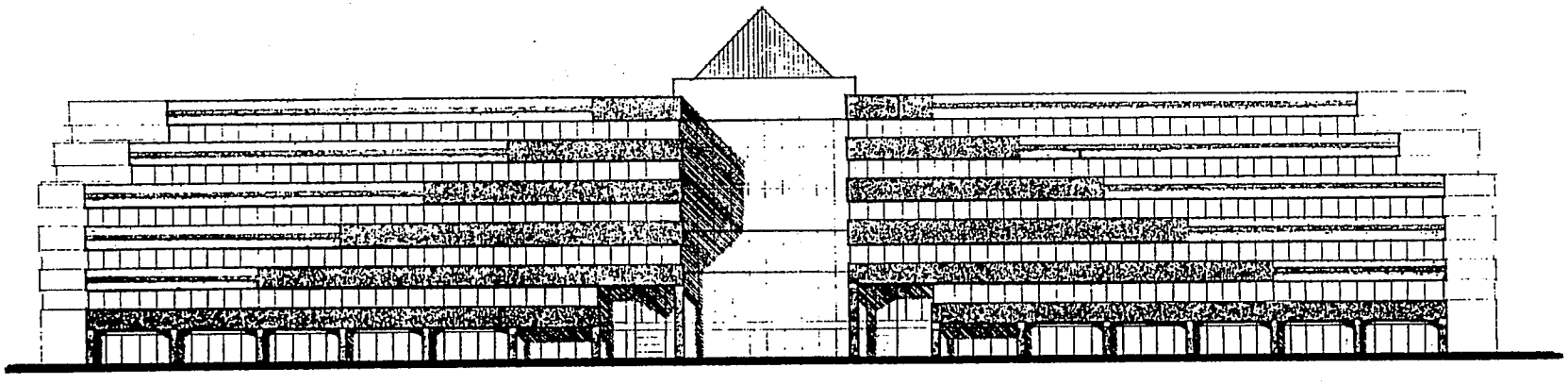
HUNT VALLEY, MARYLAN

ROUSE & ASSOCIATES
DEVELOPER

BUILDING NO. 3 PLAN

A-5

Exhibit II
MID-RISE OFFICE ELEVATIONS



SOUTH ELEVATION

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lawson, maryland 21204

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(301) 825-0993

HUNTERS HILL
OFFICE CENTER

HUNT VALLEY, MARYLAND

ROUSE & ASSOCIATES
DEVELOPER

BUILDING NO. 3
ELEVATION

A-6

Exhibit II - 10

DEVELOPMENT BUDGET

Land Acquisition and Pre - Development Costs :		Conservative		Most Likely		Optimistic
Land - 14.2 Acres @ $345,000 per acre		$4,899,000		$4,899,000		$4,899,000
Closing Costs		100,000		100,000		100,000
Survey and Testing		40,000		40,000		40,000
Legal and Appraisal		70,000		70,000		70,000
Architects and Engineering		300,000		300,000		300,000
Permits and Fees		125,000		125,000		125,000
Loan and Broker Fees		475,000		475,000		475,000
Total Land Acquisition and Pre - Development Costs :		$6,009,000		$6,009,000		$6,009,000
Shell Construction :						
Site Improvements		500,000		500,000		500,000
Shell Building Construction						
59,500 S.F. - 1 Story @ $28 P.S.F.		1,666,000		1,666,000		1,666,000
179,000 S.F. - Mid - Rise @ $38 P.S.F.		6,802,000		6,802,000		6,802,000
Parking Garage - 320 Spaces (2 levels)		700,000		700,000		700,000
Real Estate Taxes and Property Insurance		55,000		55,000		55,000
Marketing and Advertising		79,000		79,000		79,000
Developer's Management and Overhead		504,000		504,000		504,000
Contingency		200,000		200,000		200,000
Total Shell Construction :		10,506,000		10,506,000		10,506,000
Interest on Construction Loan :						
Land Acquisition and Pre - Development		600,900		600,900		600,900
Shell Construction		630,360		630,360		630,360
TOTAL COSTS TO SHELL COMPLETION :		17,746,260		17,746,260		17,746,260
Tenant Finish Costs :						
59,500 S.F.	@ $20/s.f.	1,190,000	@ $21/s.f.	1,249,500	@ $22/s.f	1,309,000
179,000 S.F.	@ $14/s.f.	2,506,000	@ $15/s.f.	2,685,000	@ $16/s.f	2,864,000
Developer's Management & Overhead		160,000		205,500		932,000
Leasing Commissions (4.25% x 4 Yr.Avg.)		650,000		680,000		715,000
Real Estate Taxes & Operating Costs Prior to Breakeven		570,000		685,000		685,000
Marketing & Advertising		20,000		20,000		20,000
Contingency		50,000		200,000		200,000
Interest Reserve @ 9.5%	15 months	2,107,740	18 months	2,528,740	18 months	2,528,740
TOTAL COSTS AFTER SHELL COMPLETION :		7,253,740		8,253,740		9,253,740
TOTAL PROJECT BUDGET :		25,000,000		26,000,000		27,000,000

Exhibit II - 11

PROJECTED PHASE II LAND LOAN BUDGET

Land Acquisition Cost	$2,691,000
Settlement Cost	80,000
Real Estate Taxes and Property Insurance 3 Yrs. @ $40,000 / Yr.	120,000
Interest @ 11.0%	1,019,000
TOTAL	$3,910,000

* The Purchase Price of the phase II land is the lessor of the actual costs (including carrying costs) or $3,910,000 .

III. THE MARKET OVERVIEW

III. THE MARKET OVERVIEW

A. INTRODUCTION

The Baltimore Metropolitan Area has maintained a fairly constant population base of 2,226,000 experiencing only a 2.4% increase from 1980 to 1985. However, several of Baltimore's surrounding suburbs, most notably Baltimore County have experienced much higher growth patterns.

Baltimore County which excludes the City of Baltimore has 12,000 businesses, 700 industrial firms, and eight national headquarters. Within Baltimore County, there are several distinct suburban office markets: Pikesville, Owings Mills, Towson, Lutherville, Timonium, Cockeysville, and Hunt Valley. Additionally, Baltimore County has established two planned growth areas in Owings Mills and White Marsh. Although Towson is not one of the planned growth areas, it has continued to out-perform other submarkets in nearly every respect due to its locational advantages. Several national headquarters and many regional headquarters have located in Towson which is also the Baltimore County seat.

Generally, the Baltimore County office market has experienced good absorption and occupancy levels over the last four years. However, a large amount of new construction has increased the supply of space and has decreased overall occupancy to 85% even as absorption has reached record levels. For example, absorption in Baltimore County was 245,000 square feet in 1983 and increased to 690,373 square feet in 1985. This growth in absorption has accelerated rapidly in 1986 with 567,000 square feet leased in the first six months of 1986. If absorption remains at this level, existing vacant space will be readily absorbed over the next year. However, if absorption rates decline, a substantial over-supply of office space could decrease occupancy levels and market rates (see Exhibits III-1 and III-2).

B. THE TOWSON-HUNT VALLEY CORRIDOR

The Towson-Hunt Valley Corridor is roughly one mile wide and extends north from Towson along I-83 five miles to Hunt Valley (see Exhibit II-1). Also included in this corridor are the office concentrations at Lutherville, Timonium, and Cockeysville. This corridor contains over 6.5 million square feet of Class A office space which is currently 84.3% occupied. Major corporations such as AT&T, C&P Telephone, General Instrument, Westinghouse, Black & Decker, and PHH are represented in this area. The following is a brief review of the office concentrations in this corridor.

1. Towson

Towson is one of the oldest and most successful suburban office markets in the greater Baltimore Metropolitan area. Towson began as a retail center as an alternative to downtown Baltimore. With the completion of Interstate 695 (The Baltimore Beltway) Towson became a competitive office market with its excellent access throughout the metropolitan area. Currently, Towson has over 3 million square feet of Class A office space

with an occupancy rate in excess of 89% and rental rates ranging from $10.25 to $20.00 per square foot on a gross basis. In addition to Towson's existing inventory, there are 460,000 square feet under construction and another 140,000 square feet planned for 1987.

2. Lutherville

Lutherville is located just outside the Baltimore Beltway adjacent to I-83. The completion of I-83 was crucial to the success of Lutherville as well as all office markets north of the Beltway. Lutherville currently contains over 900,000 square feet of office space with an occupancy rate of 89.5%, and rental rates range from $12.50 to $18.00 per square foot on a gross basis. There is currently one 43,000 square foot building under construction, and two buildings totalling 310,000 square feet are planned for construction in 1987.

3. Timonium

Timonium is located northeast of Lutherville at two of the key intersections with I-83, Timonium Road and Padonia Road. These two intersections will experience heavy traffic congestion problems in the near future as office development continues. Timonium currently supports over 900,000 square feet with an occupancy rate of 74% and rental rate from $11.00 to $18.00 per square foot on a net basis. The low occupancy rate is due primarily to recently completed buildings that are still in the lease-up stage. Currently, 250,000 square feet is under construction, and another 260,000 square feet is in the planning stage.

4. Cockeysville

Cockeysville is located north of Timonium at the intersection of York Road and Cockeysville Road just east of I-83. Cockeysville is an inferior office location due to its lack of direct access to and from I-83. As a result, Cockeysville has a much smaller Class A office base with only one building containing 125,000 square feet which has just been completed and is completely vacant. Rental rates for this building range from $16.50 to $18.50 per square foot on a gross basis. No office construction is underway or planned.

6. Hunt Valley

Hunt Valley was begun over twenty years ago by the McCormick Spice Company (d.b.a. McCormick Properties), and it has been predominantly a warehouse/distribution center. A strong office market has emerged in this area over the last five years. In 1968, McCormick first developed office space in Hunt Valley, a four-building complex known as Executive Plaza. In the late 1970's and early 1980's McCormick built more speculative office space around Schilling Circle and it was during that time that the Hunt Valley Inn and the Hunt Valley Mall were also developed.

In 1983, McCormick built Shawan Center I and the first non-McCormick development began in the area. Since 1983, Berkshire Development has built four speculative office buildings at the east edge of Hunt Valley,

and McKenzie and Associates have built two office buildings in the area.

At this time, Hunt Valley has an office inventory of 1.3 million square feet with an occupancy rate of 82.3%. Two buildings containing 253,000 square feet are under construction. Besides the 238,500 square foot subject property, two other projects are planned for 1987. McCormick anticipates building 210,000 square feet southeast of the subject, and Jack Pechter expects to start a 70,000 square foot building on York Road.

As this review indicates, the Towson-Hunt Valley Corridor is an active and competitive office market. With over 900,000 square feet vacant, 1,000,000 square feet under construction, and another million square feet in the planning stage, this market could be over supplied in the near future especially if the current absorption rate decreases. The next section focuses on the properties that will be most competitive with the subject property.

C. COMPETITIVE OFFICE SPACE

Piedmont surveyed 16 existing competitive office buildings containing 1.3 million square feet and two buildings under construction containing 253,000 square feet in the Hunt Valley area. The rents range from a low of $15.25 to a high of $18.50 on a gross basis, and the current occupancy is 82%. Exhibit III-3 and the corresponding map in Exhibit III-4 summarize the existing properties while Exhibit III-5 and the corresponding map in Exhibit III-6 summarize the properties under construction.

Executive Plaza was developed by McCormick in 1968 and then sold to Prudential in 1983 who is in the process of refurbishing the four building complex. The buildings are 81.4% occupied and the rental rate is $15.25 per square foot. Although well located, this project appears dated and will set the floor of the Class A rent range. McCormick has a five-building complex around Schilling Circle which is 87.1% occupied with rental rates between $16 and $17 on a gross basis. The most recent building in this complex was completed in fall 1985 and was fully leased within one year at $17 per square foot.

McCormick has just finished leasing Shawan Center I over the last 24 months at $17.00 per square foot. At this time McCormick is actively leasing Center Point, a 128,000 square foot building which is under construction, and the Hunt Valley Professional Center, a 37,000 square foot building initially developed by McKenzie and Associates in 1983. Center Point is asking $18.00 per square foot on a gross basis and has 123,100 square feet available. The property will be in direct competition with the subject. On the other hand the Hunt Valley Professional Center is quoting $13.50 on a net basis and has 32,986 square feet available since its largest tenant, General Instrument, just relocated within the park. This building has a bright orange brick exterior, and two floors above grade and one floor below.

Berkshire Development began North Park on the eastern edge of Hunt Valley in 1983, and the fifth building in this complex is currently under construction. There is only 3,000 square feet available in the existing

buildings, and the new building has 125,000 square feet available. The rental rates are $15.75 to $18.50 on a gross basis. Three of the four existing buildings are leased to single tenants. The most recently completed building was entirely leased to Black & Decker.

McKenzie and Associates have just completed Corporate Center at Hunt Valley. Asking $16.00 per square foot, the building has 44,000 out of 49,500 square feet available. The building's unique design and poor location within the park will make this building difficult to lease.

D. CONCLUSION

The Baltimore County office market in general and the Towson-Hunt Valley Corridor in particular is very active and competitive. Absorption levels are at historic highs, but the rate of new construction is also at an historic high and the possibility of serious overbuilding is very real. Within the Hunt Valley market the overall occupancy is low (82%), but there is very little new Class A space. Of the 232,258 square feet of existing space, only 44,000 square feet is new, and this space is in a uniquely designed building with poor accessibility and inharmonious adjacent land uses. The office space under construction will have accessibility equal to the subject, but the views, building quality, and amenities package of the subject are superior. Furthermore, the subject property will have the only one-story office space in Hunt Valley.

The subject property should compete well in this market since its conservative rental rates are below the quoted rates for well-located new space. Furthermore, the subject's rental rates can be discounted up to 10% so that the effective rental rate could be as low as a very competitive $15.30 per gross square foot.

Exhibit III - 1

COMPETITIVE PROPERTY SURVEY

Market Study of Existing Class A Office Space in Baltimore County

	TOTAL EXISTING SQ.FT.	TOTAL AVAILABLE SQ.FT.	PERCENT VACANT	RENTAL RANGE
Timonium	927,100	244,075	26.3%	$11.00 - $18.00 Net
Lutherville	912,594	96,090	10.5%	$12.50 - $18.00 Gross
Cockeysville	125,000	125,000	100.0%	$16.50 - $18.50 Gross
Pikesville	500,350	75,800	15.1%	$11.00 - $19.00 Gross
Owings Mills	137,000	8,600	6.3%	$10.50 - $16.00 Net
Towson	3,281,055	336,437	10.3%	$10.25 - $20.00 Gross
Sub Total	5,883,099	886,002	15.1%	
Hunt Valley	1,310,389	232,158	17.7%	$15.25 - $18.50 Gross
TOTAL	7,193,488	1,118,160	15.5%	

Source : Black's Development and Availability Report
Casey , Miller , Borris , and Burns
W.C. Pinkard and Co.
Piedmont Realty Advisors

Exhibit III - 2

HISTORIC ABSORPTION TRENDS

Baltimore Metropolitan Statistical Area

	1983	1984	1985	1st 6 Months 1986
Suburban Baltimore				
Suburban North	245,000	287,000	276,396	375,146
Suburban West	Incl.	85,000	75,711	111,712
Suburban South	Incl.	84,000	338,266	80,775
Sub Total	245,000	456,000	690,373	567,633
Howard County	300,000	184,000	372,838	135,272
TOTAL SUBURBAN	545,000	640,000	1,063,211	702,905
Downtown				
Downtown A	In Total	89,000	405,155	159,943
Downtown B & C	In Total	280,000	114,230	(81,494)
TOTAL DOWNTOWN	389,500	369,000	519,385	78,449
GRAND TOTAL	934,500	1,009,000	1,582,596	781,354

Source: W.C. Pinkard
Piedmont Realty Advisors

Exhibit III - 3

COMPETITIVE PROPERTY SURVEY

Existing Class A Office Space in Hunt Valley , Md.

Multi - Tenant Office Space

	PROJECT NAME AND ADDRESS	DEVELOPER	TOTAL RENTABLE (GROSS SF)	TOTAL AVAILABLE (GROSS SF)	PERCENT VACANT	RENTAL RATE	LEASE TYPE	YEAR COMPLETED	NO. OF FLOORS	CONTACT
1.	Executive Plaza I McCormick Road Hunt Valley , Md.	Prudential/ McCormick	109,251	13,397	12.26%	$15.25 + 12.6% CAM	Gross	1968	10	Richie Blue Casey,Miller,Borris,Burns (301)828-0446
2.	Executive Plaza II McCormick Road Hunt Valley , Md.	Prudential/ McCormick	117,667	39,127	33.25%	$15.25 + 12.6% CAM	Gross	1970	10	Richie Blue Casey,Miller,Borris,Burns (301)828-0446
3.	Executive Plaza III McCormick Road Hunt Valley , Md.	Prudential/ McCormick	165,000	43,382	26.29%	$15.25 + 12.6% CAM	Gross	1973	13	Richie Blue Casey,Miller,Borris,Burns (301)828-0446
4.	Executive Plaza IV McCormick Road Hunt Valley , Md.	Prudential/ McCormick	125,000	0	0.00%	$15.25 + 12.6% CAM	Gross	1975	7	Richie Blue Casey,Miller,Borris,Burns (301)828-0446
5.	Hunt Valley Professional Ctr. 9 Schilling Road Hunt Valley , Md.	Huntington Realty	37,000	32,986	89.15%	$13.50 + CAM,Utilities, & Janitorial	Net	1983	3	Chuck Randall McCormick Properties (301)667-7029
6.	Huntington Center 211 Schilling Circle Hunt Valley , Md.	McCormick Properties	110,000	0	0.00%	$17.00 + 12.0% CAM	Gross	1985	4	Chuck Randall McCormick Properties (301)667-7029
7.	222-224 Schilling Circle Hunt Valley , Md.	McCormick Properties	55,000	0	0.00%	$16.00 + 10.0% CAM	Gross	1979	2	Chuck Randall McCormick Properties (301)667-7029
8.	Schilling Plaza North 226 Schilling Circle Hunt Valley , Md.	McCormick Properties	96,000	38,207	39.80%	$16.00 + 12.0% CAM	Gross	1980	3	Chuck Randall McCormick Properties (301)667-7029

Exhibit III - 3

COMPETITIVE PROPERTY SURVEY

Existing Class A Office Space in Hunt Valley , Md.

Multi - Tenant Office Space

	PROJECT NAME AND ADDRESS	DEVELOPER	TOTAL RENTABLE (GROSS SF)	TOTAL AVAILABLE (GROSS SF)	PERCENT VACANT	RENTAL RATE	LEASE TYPE	YEAR COMPLETED	NO. OF FLOORS	CONTACT
9.	Schilling Plaza South 230 Schilling Circle Hunt Valley , Md.	McCormick Properties	107,000	17,959	16.78%	$16.00 + 12.0% CAM	Gross	1982	3	Chuck Randall McCormick Properti (301)667-7029
10.	271 Schilling Circle Hunt Valley , Md.	McCormick Properties	68,584	0	0.00%	$16.00 + 12.0% CAM	Gross	1981	3	Chuck Randall McCormick Properti (301)667-7029
11.	Shawan Center I 201 International Circle Hunt Valley , Md.	McCormick Properties	80,000	0	0.00%	$17.00 + 12.0% CAM	Gross	1983	5	Chuck Randall McCormick Properti (301)667-7029
12.	The Gatehouse 1 North Park Drive Hunt Valley , Md.	Berkshire	12,000	0	0.00%	$13.50 + 12.6% CAM + Utilities,Janitorial	Net	1983	2	Sally McCabe W.C.Pinkard & Co. (301)752-4285
13.	Stump,Harvey,& Cook Bldg. 5 North Park Drive Hunt Valley , Md.	Berkshire	16,200	0	0.00%	$17.00 + 12.6% CAM	Gross	1985	3	Sally McCabe W.C.Pinkard & Co. (301)752-4285
14.	Park Center 6 North Park Drive Hunt Valley , Md.	Berkshire	78,000	3,100	3.97%	$15.75 + 12.6% CAM	Gross	1983	4	Sally McCabe W.C.Pinkard & Co. (301)752-4285
15.	Park Terrace 10 North Park Drive Hunt Valley , Md.	Berkshire	84,130	0	0.00%	$16.50 - $18.50 + 12.6% CAM	Gross	1986	4	Sally McCabe W.C.Pinkard & Co. (301)752-4285
16.	Corporate Ctr.at Hunt Valley 11019 McCormick Road Hunt Valley , Md.	Mackenzie & Associates	49,557	44,000	88.79%	$16.00 + 12.0% CAM	Gross	September 1986	4	Clark Mackenzie Mackenzie & Assoc (301)821-8585
	TOTAL SQUARE FEET		1,310,389	232,158	17.7%					

Source: Piedmont Realty Advisors

Exhibit III-4
COMPETITIVE PROPERTY SURVEY MAP

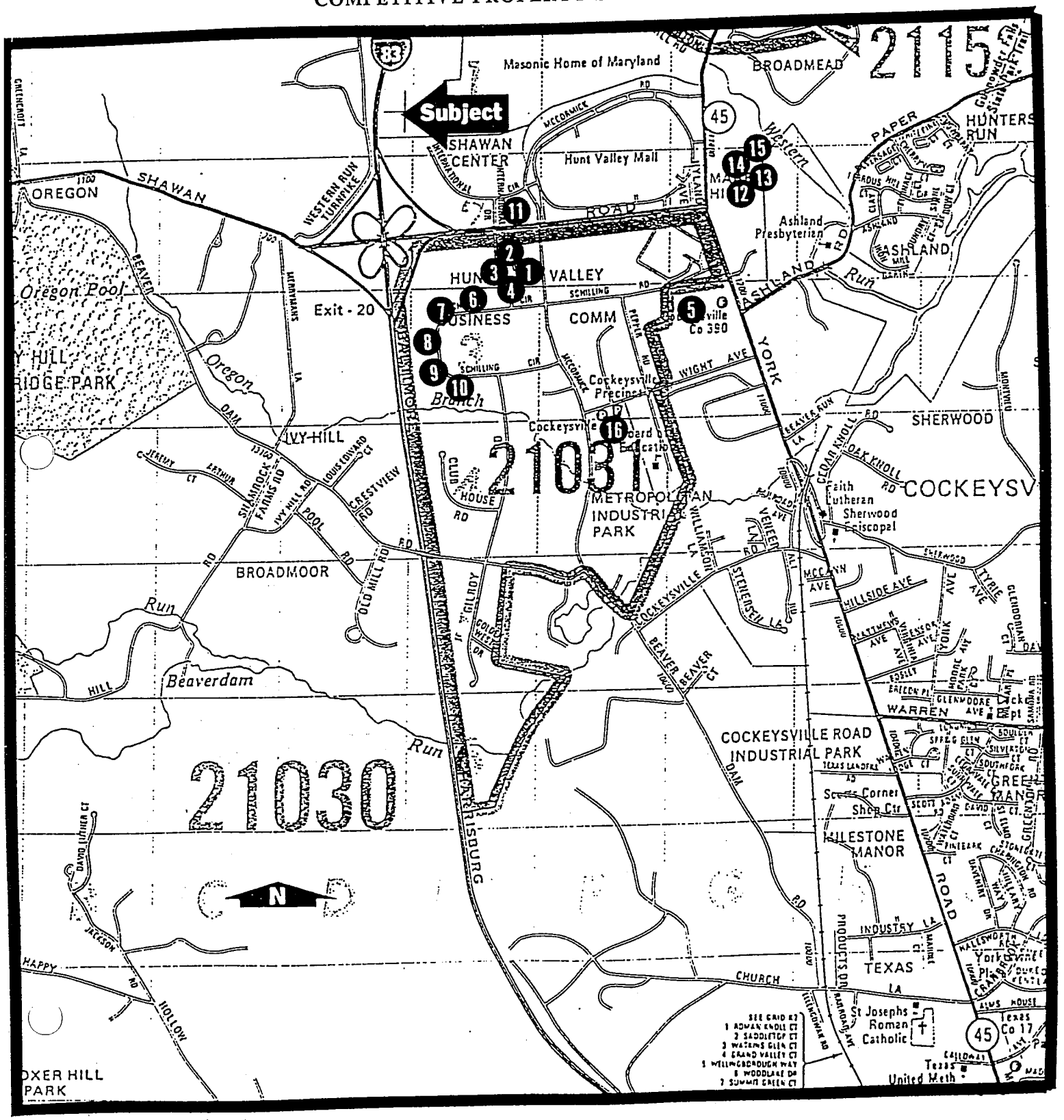


Exhibit III - 5

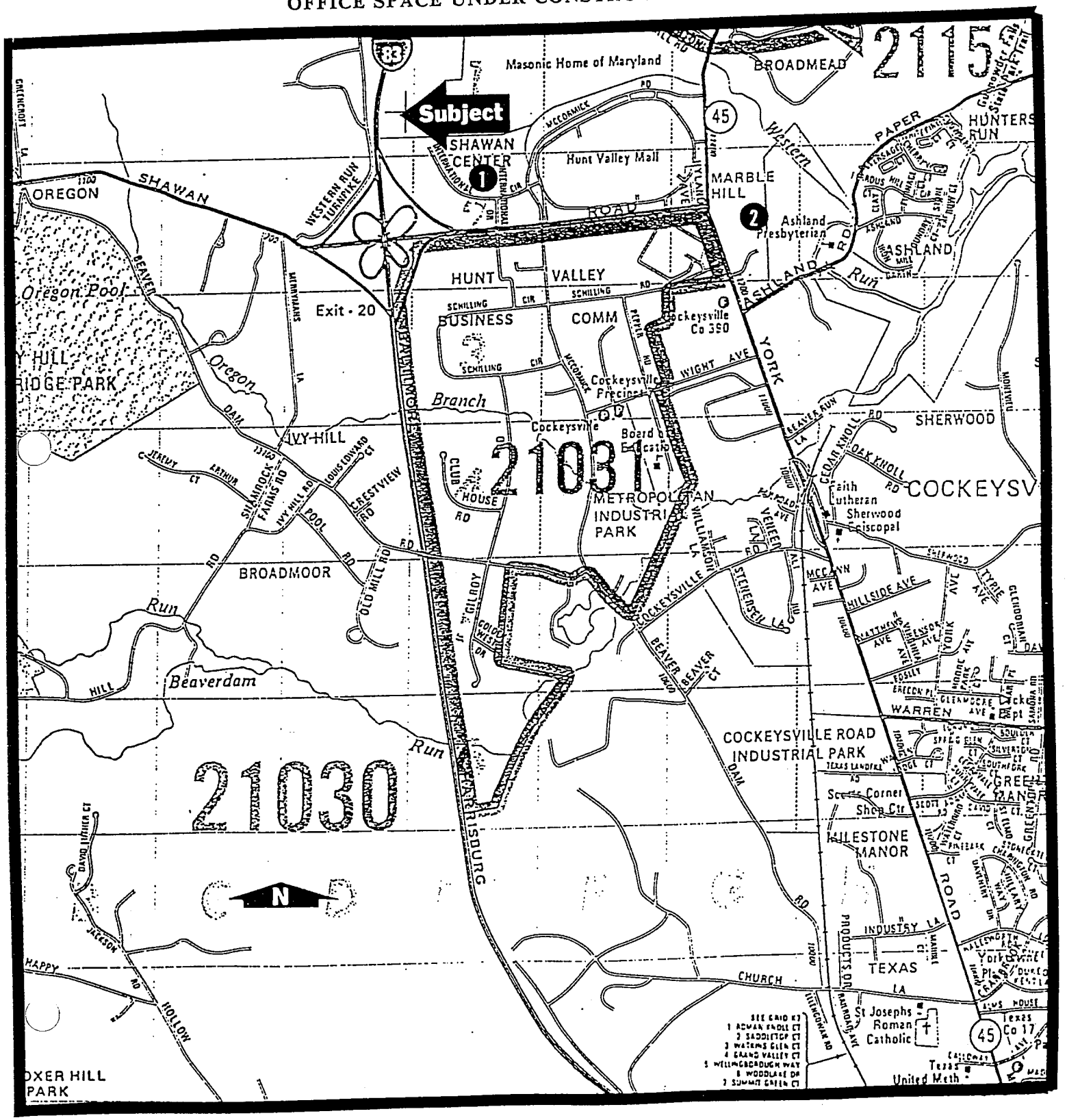
COMPETITIVE PROPERTY SURVEY

Office Space Under Construction in Hunt Valley , Md.

Multi - Tenant Office Space

	PROJECT NAME AND ADDRESS	DEVELOPER	TOTAL RENTABLE (GROSS SF)	TOTAL AVAILABLE (GROSS SF)	PERCENT VACANT	RENTAL RATE	LEASE TYPE	Delivery Date	CONTACT
1.	Center Point Shawan Center 206 International Circle Hunt Valley , Md.	McCormick Properties	128,000	123,100	96.17%	$18.00 + 12.6% CAM	Gross	1/87	Chuck Randall McCormick Properties (301)667-7029
2.	4 North Park Drive Hunt Valley , Md.	Berkshire	125,000	125,000	100.00%	$18.50 - $20.00 + 12.6% CAM	Gross	7/87	Salley McCabe W.C.Pinkert & Co. (301)752-4285
	TOTAL SQUARE FEET		253,000	248,100	98.09%				

Exhibit III-6
OFFICE SPACE UNDER CONSTRUCTION MAP



IV. THE BORROWER/DEVELOPER

IV. THE BORROWER/DEVELOPER

A. INTRODUCTION

The borrowing entity for this transaction will be a Pennsylvania limited partnership in which the general partners will be Willard G. Rouse, III, George F. Congdon, Menard Doswell, and Claiborn M. Carr, III. The combined net worth of the general partners is in excess of $15 million. The resumes of the partners are included as Exhibits IV-1A, IV-1B, and IV-1C.

B. ROUSE & ASSOCIATES

1. Company Overview

Rouse & Associates was formed in 1972 with Willard Rouse, Menard Doswell, Dave Hammers, and George Congdon as the four founding partners. All four remain active in the company on a full-time basis, serving as the executive committee and overseeing all of the development activity of Rouse & Associates. Initially focused on industrial and business park development in the Philadelphia area, Rouse & Associates has expanded to twelve offices in six states and the District of Columbia. The Company's headquarters are located in Malvern, Pennsylvania with local offices as follows:

California	San Francisco
Florida	Jacksonville
	St. Petersburg
Maryland	Landover
	Columbia
New Jersey	Cherry Hill
Pennsylvania	Allentown
	King of Prussia
	Philadelphia
Virginia	Fairfax
	Tysons Corner
Washington, D.C.	

Rouse & Associates currently has over 334 employees in these various offices, managing real estate valued in excess of $300 million. Additionally, Rouse has formed affiliations with regional contractors and architects to create an effective real estate team that is knowledgeable and responsive on the local level.

During the past decade Rouse & Associates has completed over 120 projects with over 9,000,000 square feet predominantly on the east coast of the United States. The company has developed a number of major corporate office parks, including:

- Great Valley Corporate Center - Malvern, Pennsylvania
- Executive Center and Corporate Plaza at Deerwood - Jacksonville, Florida
- West Bay Corporate Center - St. Petersburg, Florida
- Metro East Business Community - Landover, Maryland
- Fairfax Executive Park - Fairfax, Virginia
- Rivers Technology Park - Columbia, Maryland

Rouse & Associates projects currently under development in the Washington/Baltimore region include:

* 8280 Greensboro Drive - Tysons Corner, Virginia - This 197,500 square foot, nine-story office building was completed in August 1985 and is currently over 80% leased. Construction of a second building of similar size, 1660 International Drive, is scheduled to begin in late 1986.

* Rivers Technology Park - Columbia, Maryland - A research and development project with seven buildings totalling 136,860 square feet. Phase I, completed in mid-1984 is fully leased. Phase II with 51,225 square feet was completed in mid-1985.

* Metro Business Center - Landover, Maryland - This group of six office buildings totalling over 500,000 square feet has been developed since 1977. Metro Executive Terrace, the final phase of this center, was completed in the summer of 1985. This 148,000 square foot, five-story building is currently 70% leased.

* Ammendale Technology Park - Beltsville, Maryland - Construction commenced in March 1985 on Phase I, a three-building, office/warehouse complex totalling 167,000 square feet. The project was 50% leased by March 1986. Construction of Phase II, three office/warehouse buildings totalling 133,000 square feet began in May 1986. Arbitron Company has pre-leased 25% of Phase II. A third phase containing 180,000 square feet is also planned.

* Fair Oaks Corporate Center - Fairfax, Virginia - Phase I, with 160,000 square feet in six single-story office buildings, was completed in mid-1985 and is almost fully leased. Phase II, two single-story structures will be developed in 1986.

One Liberty Place, a major Philadelphia project is under construction with 1,200,000 square feet of office space, a 350-room hotel, 6 stories of residential condominiums, and a two-level shopping mall. Construction of the first phase commenced in 1985 with completion scheduled for 1987.

The Southeast Bank Building, a 200,000 square foot, 10-story office building, is currently under construction in Jacksonville, Florida.

2. Rouse & Associates - Maryland

Rouse & Associates' Maryland region has developed 1,600,000 square feet of office and industrial space since 1975, with over 1,000,000 square feet still held for its own account. In 1985 the company leased 317,000 square feet of office and industrial space and began construction on an additional 336,000 square feet of space. Currently the Maryland region has 140,000 square feet under construction in the multi-phased Ammendale Technology Park, and has over 500,000 square feet in the planning stage for a variety of projects. The Maryland region has leased approximately 400,000 square feet of space during the first nine months of 1986, with total leasing for the year projected to be 550,000 square feet.

Claiborn Carr is the general partner of the Maryland region of Rouse & Associates, acting as the local partner for development in the area. The Maryland region is divided into four subregions with the Baltimore/Baltimore County subregion being responsible for the development of the subject property. The project manager for the Baltimore/Baltimore County area is William R. Bone who has been with Rouse & Associates for two years in a marketing capacity. While the subject property is Mr. Bone's first assignment in project management, his long association with The Rouse Company and Rouse & Associates give him credibility in this position. Mr. Bones' resume appears as Exhibit IV-2.

C. DEVELOPMENT TEAM

The members of the development team are presented in Exhibit IV-3. The property will be marketed directly by Rouse & Associates which will hire a full-time marketing manager for the Baltimore/Baltimore County area in the near future. The property will be offered to leasing brokers on an "open listing" basis which has proven very effective on Rouse's other projects in the market area over the past two years. Management will be performed by the Maryland region's in-house management company which is currently responsible for over 1 million square feet of space. Hoffman & Associates is the architect for the project, having designed ten projects totalling over 750,000 square feet for Rouse & Associates and whose other credits include several projects for the Trammell Crow Company, Berkshire Development, and Creany & Smith. The general contractor for the property is still under consideration.

D. CONCLUSION

Rouse & Associates has an established presence in the Maryland region with projects similar to the subject property. The entire development team is very familiar with the design and development of this type of project, and the Maryland region in particular has enjoyed an excellent record of absorption and leasing over the past two years. The partners are financially capable and the financial risks to the organization have been addressed by the extensive use of joint venture formats. The demonstrated abilities of Rouse & Associates in this market with this product type should continue,making Hunter's Hill a successful project.

Exhibit IV-1A
BIOGRAPHICAL SKETCHES

Willard G. Rouse, III

Willard G. Rouse, III is a native of Baltimore, where he received his primary and secondary education. He was graduated from the University of Virginia in 1966, after which he became associated with the Great Southwest Corporation in Dallas, Texas from 1966 to 1968.

In 1968 he joined the Bernguil Company, the developer of Mid-Atlantic Park in Southern New Jersey, until he formed Rouse & Associates in 1972.

As a partner in Rouse & Associates, he has helped direct the expansion of the company into a major East Coast real estate development organization, including affiliations with F. Daniel Cathers & Associates, architects and engineers; Rouse/Chamberlain, residential developers; and RealProp building management.

Mr. Rouse serves on the Board of Directors and the Executive Committee of the Greater Philadelphia International Network, is a member of the Council for Labor & Industry, is on the Policy Advisory Board of Advanced Technology Center of Southeastern Pennsylvania, is Chairman of the Board of the Foundation for Architecture. He is a member of the Greater Philadelphia Economic Coalition's Marketing Advisory Board, a member of the Mayor's Economic Roundtable, a Board member of the Lykoff Cardiovascular Institute of Hahneman Hospital, on the Board of Overseers for the Graduate School of Fine Arts of the University of Pennsylvania, a Board member of the Department of Architecture of Temple University, and is a Trustee of the Urban Land Institute. He formerly served on the boards of the National Association of Industrial and Office Parks, St. Peter's School, and the Philadelphia Partnership.

He is married and lives in Phoenixville, Pennsylvania.

Exhibit IV-1B
BIOGRAPHICAL SKETCHES

Menard Doswell

Menard Doswell, one of the four partners who formed Rouse & Associates, was responsible for marketing of various speculative industrial buildings in suburban Philadelphia until 1974, when he moved to Maryland to start the Baltimore office. Since then, Menard, along with Clai Carr, (Maryland) has been responsible for the financing, development, leasing, and management of over 2,500,000 square feet of office and R&D space now completed and the more than 1,000,000 square feet in various stages of development by the Maryland and Virginia regional offices.

Menard was graduated from the Episcopal High School in Alexandria, Virginia, was granted a degree of Bachelor of Science in Economics by the University of Virginia, and was associated with Bethlehem Steel prior to joining Rouse & Associates.

A past president of the Real Estate Group and an active member of the Virginia chapter of the NAIOP, Menard is currently located at the Virginia regional office in Tyson's Corner, where he is directing Rouse & Associates' in the Northern Virginia market.

Exhibit IV-1C
BIOGRAPHICAL SKETCHES

Claiborn M. Carr, III

"Clai" Carr is currently Regional Managing Partner for Rouse & Associates. Based in Columbia, Maryland, he is responsible for managing all activities of the Company in Maryland. He has supervised the development and leasing of over 1 million square feet of office and industrial space during the last seven years.

Prior to joining Rouse & Associates in 1978, Mr. Carr worked with the Rouse Company in Columbia, Maryland for nine years. Between 1975 and 1978, he was Director of Marketing and responsible for all marketing related items during that period.

He is a past president of the Baltimore/Washington chapter of the National Association of Industrial and Office Parks (NAIOP) and is a Council Member of the Urban Land Institute.

Raised in New England, Mr. Carr was graduated in 1969 from Middlebury College, Vermont with a B.A. degree in history. He spent two years as an infantry officer between 1970 and 1972.

He is married with three children and resides in Columbia, Maryland.

Exhibit IV-2
BIOGRAPHICAL SKETCHES

William R. Bone

Mr. Bone has been responsible for structuring the overall marketing program for Rouse & Associates. He is currently in charge of development activities in the Baltimore region.

Mr. Bone joined Rouse & Associates two years ago following a seven year association with Richardson, Myers & Douglass. At this Baltimore marketing and communication firm he served as a Senior Vice President and member of the Board of Directors. As Marketing Director for the Rouse Company beginning in 1971, he guided promotional efforts for the city of Columbia, Maryland, as well as for commercial and residential properties in Baltimore and Philadelphia.

Mr. Bone is a graduate of Princeton University and the Harvard Business School. A native of Pennsylvania, he now lives in Baltimore where he is an Elder of Brown Memorial Church, a member of the Advisory Board for the Arts at the University of Maryland, a former trustee of the Boys Latin School and the Family and Children's Society. He has also taught at the Loyola College Executive MBA Program.

Mr. Bone is married, has three children, and resides in Baltimore.

Exhibit IV-3

DEVELOPMENT TEAM

Hunter's Hill Corporate Campus - Phase I

Owner/Developer

Rouse & Associates-Maryland
5950 Symphony Woods Road
Suite 300
Columbia, Maryland 21044
(301) 740-0200
Claiborn M. Carr, III
William R. Bone

Site Engineer

Daft-McCune-Walker, Inc.
200 E. Pennsylvania Ave.
Towson, Maryland 21204

(301) 296-3333
Robert Galvin
Robert Bradley

Structural Engineer

Morabito Consultants
2519 N. Calvert Street
Baltimore, Maryland 21218
(301) 467-2377
Frank Morabito

Contractor

To Be Determined

Architect

Hofmann & Associates, Inc.
414 Severn Building
Towson, Maryland 21204

(301) 825-0993
Robert T. Hofmann
Robert Gorman

Soils Engineer

Hardin Group
P.O. Box 163
Governor Ritchie Highway
Pasadena, Maryland 21122
(301) 647-0707
Jack Hardin

Landscape Architects

Greenspace, Inc.
19110 Montgomery Village Ave.
Gaithersburg, Maryland 20879
(301) 840-5455
James Wheeler

Attorney

Frank, Bernstein, Conaway & Goldman
10227 Wincopin Circle,
Suite 700
Columbia, Maryland 21044
(301) 730-9477
Gregory L. Reed, Esq.

V. THE RISK AND RETURN

V. RISK AND RETURN

A. INTRODUCTION

As a form of investment, the participating mortgage has some of the advantages of equity investment as well as the guaranteed return and senior security position of a traditional mortgage debt. The participating mortgage for Phase I of the Hunter's Hill Corporate Campus will be fully collateralized by a first lien on the land and improvements. As additional security, the general partners of the borrowing entity will master lease the project for 24 months or breakeven occupancy whichever occurs first. The rental rate of the master lease will be sufficient to cover operating expenses and debt service. As third party leases are signed, the master lease will be reduced correspondingly.

The proposed investment structure is very similar to the participating mortgage for the Ballston Corporate Center in Arlington County, Virginia. Both of these investments have two distinct features: 1) a two-staged economic holdback and 2) a land purchase contract on the Phase II land. The economic holdback has been divided into a primary economic holdback of $700,000 and a secondary economic holdback of $2,000,000 which together provide a 10% economic holdback. The disbursement rate for the primary economic holdback will provide that the loan will be $25,000,000 when the property is 95% leased at the conservative rental rates. The disbursement rate for the secondary economic holdback provides that the loan will be increased to $26,000,000 or $27,000,000 if the property is 95% leased at the most likely or optimistic rental projections respectively. This two-stage economic disbursement addresses the uncertain nature of the Hunt Valley office market during the next 48 months. The Lender can be comfortable that the participating mortgage at $25,000,000 is justified and supported at 1985 market rental rates, and a participating mortgage of $26,000,000 is justified and supported at today's market rental rates. However, the Borrower has the incentive to aggressively develop and lease the property in anticipation of a strong and expanding office market.

The other distinct feature of this application is the land purchase contract on the Phase II land. As in the Ballston Corporate Center investment, the purpose of this land contract is to provide the developer with the means to finance the Phase II land through a third party lender during the construction and lease-up of the Phase I property to purchase the land in 36 months. The contract will be pledged as additional collateral to the land loan. The Lender will receive a 20% equity interest in the Phase II development if the developer builds Phase II or 50% of the cash proceeds from sale if the developer sells the Phase II land to a third party when and if the Lender is released from the land contract. Until the purchase contract is released, the Lender will receive as additional interest 70% of the net proceeds from the sale or refinancing of Phase I. Consequently, if the Lender must purchase the land at the end of 36 months, it will continue to receive as additional interest 70% of the sales proceeds of Phase I, and it will buy the Phase II land at today's acquisition costs plus carrying charges. The Lender would then own 100% of the Phase II land at that time and be able to either sell the land or develop it itself.

B. VALUATION

1. Pro Forma Income and Expenses

The pro forma income and expenses are presented in Exhibit V-1 for conservative, most likely, and optimistic scenarios. The conservative estimates are based on a net rental rate of $12.75 per square foot for the two one-story buildings and a gross rental rate of $17.00 per square foot for the mid-rise building. This is considered conservative because these rental rates were obtained in the marketplace in 1984 and 1985. The most likely scenario is based on 1986 rental rates of $13.00 net for the one-story building and $18.00 gross for the mid-rise. The optimistic rental rates are $13.25 net for the one-story space and $19.00 gross for the mid-rise space. The Borrowers feel there is good chance of achieving the optimistic rates because of the building quality, the amenity package, exceptional views, and above-standard tenant allowances.

In all cases a 5% vacancy allowance is used, and the operating expenses are $4.50 for the mid-rise and 3% of gross income for the one-story buildings. While the interest rate remains 9-1/2%, the loan amount changes for each scenario (conservative - $25,000,000, most-likely- $26,000,000, and optimistic - $27,000,000) so the base debt payment also changes accordingly.

As the loan increases, the debt coverage ratio increases as does the additional interest. Therefore as more loan dollars are funded, the risk decreases as the debt coverage increases, and the annual return increases.

2. Valuation Methodology

The forward commitment aspect of the participating mortgage enables the Lender to invest at a wholesale level, i.e. cost of the development, and to immediately participate in 50% of the spread between the cost and the value when the property is built and leased. The estimation of value is therefore an important part of the investment consideration. Using the three approaches to value accepted by the American Institute of Real Estate Appraisers, Piedmont evaluated Phase I of the Hunter's Hill Corporate Campus. These value estimates are based on the most likely rental rates and are presented in Exhibit V-2. Correlating the three value estimates, Piedmont estimates the market value of the project to be $31,100,000 when it is built and leased. This value represents a loan to value ratio of 83.6%.

C. RETURN

The projected income from the property is presented in Exhibits V-3A, V-3B, and V-3C for the conservative, most-likely, and optimistic economic scenarios. In all cases the following assumptions were made:

* 50% of the leases have a three-year term;
* 50% of the leases have a five-year term;
* All of the office leases are flat then are adjusted to the market rates when they roll over;

* The market rental rate increases at the rate of inflation;
* The sales price in the twelfth year is based upon capitalizing the net operating income in year 1 at 9-1/2% then increasing that value annually at the rate of inflation;
* The annual rate of inflation is 5%.

The cash flows which contribute to the loan's yield are base debt service, additional interest from operations, and additional interest due at sale or refinancing. These figures are summarized in Exhibit V-4A, V-4B, and V-4C for the conservative, most likely, and optimistic economic scenarios, respectively.

1. **Base Debt Service**

The base debt service is 9-1/2% of the outstanding loan balance. Consequently, the following base debt payments are appropriate:

Case	Loan Amount	Base Debt Service
Conservative	$25,000,000	$2,375,000
Most Likely	$26,000,000	$2,470,000
Optimistic	$27,000,000	$2,565,000

2. **Additional Interest from Operations**

The additional interest from operations, due monthly, is 50% of the annual net cash flow, and it is expected to increase significantly over the term of the loan. The additional interest for years 1, 6, and 12 for each economic scenario is shown below:

	Year 1	Year 6	Year 12
Conservative	$ 204,711	$ 348,367	$ 1,026,271
Most Likely	$ 249,090	$ 408,967	$ 1,124,869
Optimistic	$ 293,469	$ 469,565	$ 1,223,466

The additional interest projected in year one is justified by two simplifying assumptions: 1) that the loan is fully funded at closing and 2) that the pro forma rents and expenses are achieved in year one. In fact, the loan can only be fully funded if and when pro forma rents are achieved. Most likely the loan will not be fully funded at closing because the property will not be completely leased at that time. Consequently, the actual loan is less because of the various holdbacks, and of course the additional interest in year one would not be recognized. The reduction of the loan amount offsets the effect of not additional interest so that the anticipated yield remains fairly stable. Thus for the purposes of yield calculation and presentation, the simplifying assumptions are made.

By participating in the net cash flow instead of the increases over an effective gross income, the additional interest is paid as soon as the property achieves breakeven cash flow. Consequently, additional interest

is recognized earlier which enhances the Lender's yield. However, by participating in that cash flow the Lender bears some of the management and operational risk of the property. The Lender will review and approve annual operating budget which will provide for expected operating expenses as well as adequate reserves for the replacement of wasting parts, and tenant improvements and leasing commissions for second and subsequent generation tenants.

3. Additional Interest from Sale or Refinancing

This portion of the return assumes that the property will be sold or refinanced after a 12 year holding period and that the property's value at that time will be based on a 9-1/2% capitalization rate. Assuming that the Lender is released from the Phase II land purchase contract, the participation rate in the net sales proceeds is 50%. Consequently, this participation is projected to be $11,812,836 for the conservative case, $12,917,356 for the most likely case, and $14,021,876 for the optimistic case.

4. Equity Interest in Phase II

As consideration to the Lender for providing a forward commitment to purchase the Phase II land, the Lender will receive a 20% equity interest in Phase II if Rouse & Associates develops the property or a 50% interest in the cash proceeds if the Phase II land is sold to a third party provided that the Lender is first released from its purchase contract. On the other hand, it is possible, although unlikely, that the Lender may purchase the Phase II land in which case it would have sole ownership of the land would be able to either develop it or sell the land to a third party, and the additional interest in the sales proceeds of Phase I would be 70% instead of 50%. If the Phase I development is successful and Phase II is developed as anticipated, the returns to the Lender in absolute dollars will be significant and the relative returns will be infinite since no capital will be at risk. If the property is purchased by USF&G, the additional 20% of the cash sales proceeds in Phase I has a present value discounted at 13% annually of approximately $1.2 million. The possible returns from the Phase II development are not included in the yield calculations for the Phase I participating mortgage.

5. Yield Analysis

The expected nominal yields on the participating mortgage under a 5% inflation assumption are 13.1% under the conservative case, 13.3% under the most likely case, and 13.5% under the optimistic case. Adjusted for inflation, these yields would be 7.1%, 7.3%, and 7.5%.

Exhibit V-5 presents a sensitivity analysis of the yields in this investment for each economic scenario which demonstrates the inverse relationship between capitalization rates and yield and the positive relationship between the inflationary environment and the nominal yields. In the conservative case the yield could be as low as 11.9% in a 3% inflationary environment and a 10% capitalization rate to as high as 14.3% with a 9% capitalization rate and a 7% inflationary environment. In the most likely case the yield could vary from a low of 12.1% to a high of 14.6%, and in

the optimistic case the yield could vary from 12.3% to 14.8%. Adjusted for inflation, these yields range from a low of 7.0% to a high of 9.1%.

D. RISK

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

The market risk occurs if the property cannot achieve its pro forma rental rates during a 24-month lease-up period following shell completion. This could be caused either by decreased demand or an oversupply of office space in the Hunt Valley market (the latter being the more likely). However, the conservative rental rates were achieved in 1984 and 1985 and the most-likely rental rates have been achieved in 1986. Consequently, it appears that even with increased competition that the subject property should be very competitive in 1987 especially with allowable rent concessions up to 10%. Also at this time there are no one-story office buildings in Hunt Valley. This space should be the first space leased, and occupancy can occur as soon as the second quarter 1987. While the market risk is the most significant risk in this investment, the competitive advantages of the property along with the economic earnout provisions have reduced this risk to an acceptable level.

The operational risk occurs when the property is not efficiently managed or marketed. RealProp, an affiliated company of Rouse & Associates, will manage the property along with over 9 million square feet of office, commercial, and industrial space which it manages in a variety of markets. This firm's extensive experience in marketing and managing the one-story and mid-rise office space in Maryland in particular is very impressive, and Piedmont believes that this risk is also reduced to a minimum acceptable level.

The risk of default is addressed by a personal master lease for 24 months by the principals of Rouse & Associates, and collateralization of the loan by a well-located, well-designed property in a very strong office market. The debt coverage ratio of 1.17 in the conservative economic scenario is considered adequate and further reduces the default risk.

The interest rate risk occurs due to the forward commitment nature of the loan. This risk is addressed by the participating nature of the loan which allows the nominal yield to increase with inflation (and therefore interest rates) increases. In the event that interest rates decline the Borrower will be locked in through a Tri-Party Agreement with the construction lender and the real return to the Lender will increase accordingly.

This transaction presents one additional risk due to the forward commitment to purchase Phase II land. The forward price of the land is equal to the present cost plus carrying charges for 36 months to a maximum of $3,910,000. A risk arises if the future market value of the land is less than the forward price at the time the contract comes due. While the worst possible case would be that the future market value of the land is zero when the Lender must purchase it for $3,910,000, the actual capital at risk is the difference between the purchase price and

the market value of the land. However, the Lender will be compensated in three ways for taking this risk: 1) Lender will receive 50% of any net proceeds if the land is sold to a third party at a profit, 2) Lender will receive a 20% interest in any project Rouse develops on the parcel, and 3) if Lender must perform on the contract and actually purchase the Phase II land, Lender will receive an additional 20% (for a total of 70%) of the net sales proceeds of the Phase I project. This compensation is adequate in return for the risks involved.

E. CONCLUSIONS AND RECOMMENDATIONS

The proposed Hunter's Hill Corporate Campus Phase I represents an excellent investment opportunity. The project has a superior location with excellent exposure and views to Hunt Valley and ready access to I-83 in an established and growing office market. Historically, the Hunt Valley office market has been dominated by McCormick Properties. However, the entrance of outside developers has seen a rapid increase in the rate of absorption and the overall rate of economic growth in this area.

Rouse & Associates has extensive development and property management experience, and all of the principals are financially capable. The investment has been structured to allow for a great deal of flexibility and to provide the developer with adequate incentives while preserving and enhancing the Lender's yield. We therefore recommend that the Real Estate Investment Committee of the United States Fidelity and Guaranty Company approve the issuance of a commitment in the amount of $27,000,000 for the Hunter's Hill Corporate Campus Phase I as outlined in this report.

Exhibit V - 1

PROFORMA INCOME AND EXPENSES

				Conservative	Most Likely	Optimistic
	Rental Rate -- 1 Story Office			$12.75	$13.00	$13.25
	Rental Rate -- Mid - Rise Office			$17.00	$18.00	$19.00
	Loan Amount			25,000,000	26,000,000	27,000,000
	Office Rental Income -- 1 Story --		59,500 Sq.Ft.	758,625	773,500	788,375
plus:	Office Rental Income -- Mid - Rise --		179,000 Sq.Ft.	3,043,000	3,222,000	3,401,000
equals:	GROSS POTENTIAL INCOME			3,801,625	3,995,500	4,189,375
less:	Vacancy Allowance @	5.00%		190,081	199,775	209,469
equals:	EFFECTIVE GROSS INCOME			3,611,544	3,795,725	3,979,906
less:	Operating Expenses (Mid - Rise Office Space)					
	Management	$0.65				
	Taxes	$1.20				
	Utilities	$1.56				
	Insurance	$0.18				
	Maintenance	$0.91				
	Total	$4.50 PSF		805,500	805,500	805,500
less:	Management & Structural Reserves @ (1 Story Office Space)		3.00%	21,621	22,045	22,469
equals:	NET OPERATING INCOME			2,784,423	2,968,180	3,151,938
less:	Base Debt Payment			2,375,000	2,470,000	2,565,000
equals:	CASH FLOW TO SPLIT 50 / 50 WITH LENDER			409,423	498,180	586,938
less:	Additional Interest			204,711	249,090	293,469
equals:	CASH FLOW TO BORROWER			204,711	249,090	293,469
	Indicated Debt Covrage Ratio			1.17	1.20	1.23

Exhibit V-2A
VALUATION ANALYSIS

Cost Approach

Improvements Cost (Exhibit II-10 Most Likely)	$19,991,000
+ Land Value @ $8 per useable foot (Exhibit -2B)	8,385,000
+ Developer Profit @ 10%	1,991,000
Estimated Value	$30,367,000
Rounded to	$30,400,000

Direct Sales Comparison Approach

Unit Sales Price Method 238,500 S.F. @ $132.50 (Exhibit V-2D)	$31,601,250
Direct Conversion Method (Exhibit V-2D) (Net Operating Income/Overall Capitalization Rate) $2,968,180/9.0	$32,979,777
Estimated Value	$32,300,000

Capitalized Income Approach

Present Value of Cash Flows @ 14%	$ 2,418,577
+ Present Value of Equity Reversion @ 14%	2,681,115
Estimated Equity Value	$ 5,099,691
+ Original Loan Amount	26,000,000
Estimated Value	$31,099,691
Rounded to	$31,100,000

Correlation of Value Estimates

The three approaches to value indicate a range of values from $30,400,000 to $32,300,000. In the correlation of value estimates little weight is given to the cost approach because it reflects primarily historic costs. The direct sales comparison approach is a good indication of value since it reflects current market activity in terms of unit sales prices and direct conversion ratios. The capitalized income or discounted cash flow approach is considered the best indication of value because it reflects a reasonable estimate of the property's earning power on an annual cash basis over the next 12 years. Therefore, the value of the subject property when it is build and leased at the most likely rental rates is estimated to be:

$31,100,000
Indicated Loan to Value Ratio: 83.6%

Exhibit V-2B

LAND SALES

Sale Number 1

Address:	Shawan Center Lot 5 Hunt Valley, Maryland	
Grantor:	McCormick Properties	
Grantee:	Maryland Medical Mutual	
Date:	August 1986	
Area:	3.469 Acres	
Zoning:	M-L-R (Manufacturing, Light, Restricted). Permits office with up to 2.0 FAR.	
Improvements:	Planned construction of 60,000 square foot office building beginning September, 1986.	
Price:	Total:	$1,734,500
	Per Acre:	$ 500,000
	Per Square Foot:	$11.48
	Per FAR Foot:	$28.91

Sale Number 2

Address:	Shawan Center Lot 4 Hunt Valley, Maryland	
Grantor:	McCormick Properties	
Grantee:	Marriott (Essex Associates of Japan)	
Date:	November 27, 1985	
Area:	3.4 Acres	
Zoning:	M-L-R	
Improvements:	200-suite hotel	
Price:	Total:	$1,193,725
	Per Acre:	$ 351,000
	Per Square Foot:	$ 8.06

Sale Number 3

Address:	Shawan Center Lot 2 Hunt Valley, Maryland	
Grantor:	McCormick Properties	
Grantee:	Embassy Suites (A.V. Associates Limited Partnership)	
Date:	March 29, 1984	
Area:	5.7 Acres	
Zoning:	M-L-R	
Improvements:	224-suite hotel	
Price:	Total:	$1,643,000
	Per Acre:	$ 483,000
	Per Square Foot:	$11.09

Sale Number 4

Address:	Shawan Center	
Grantor:	McCormick Properties	
Grantee:	Honeywell	
Date:	April 1982	
Area:	Unknown	
Zoning:	M-L-R	
Improvements:	An owner-occupied office building containing 20,000 square feet.	
Price:	Total:	$ 648,225
	Per Acre:	$ 225,000
	Per Square Foot:	$ 5.07

Sale Number 5 (Under Contract)

Address:	Shawan Center International Circle Hunt Valley, MD
Grantor:	Masonic Lodge
Grantee:	Rouse & Associates
Date:	Closing Scheduled for October 31, 1986
Area:	25.11 Acres (22 Acres Usable)
Zoning:	O-1
Improvements:	Two-phase office development containing 336,000 square feet.
Price:	Total: $7,590,000 Per Acre: $ 345,000 (Useable) Per Square Foot: $ 7.92 (Useable) Per FAR Foot: $22.59

Summary

Land Sale	Date	Per S.F.	Per FAR
1	9/86	$11.48	$28.91
2	11/85	8.06	
3	3/84	11.09	
4	4/82	5.17	
5 (Subject)	10/86	7.92	22.59

Mean$ 8.74

Conclusion: Market Value of Subject Property is estimated to be $8.75 per usable square foot or a total of $8,385,000.

Exhibit V-2C
LAND SALES MAP

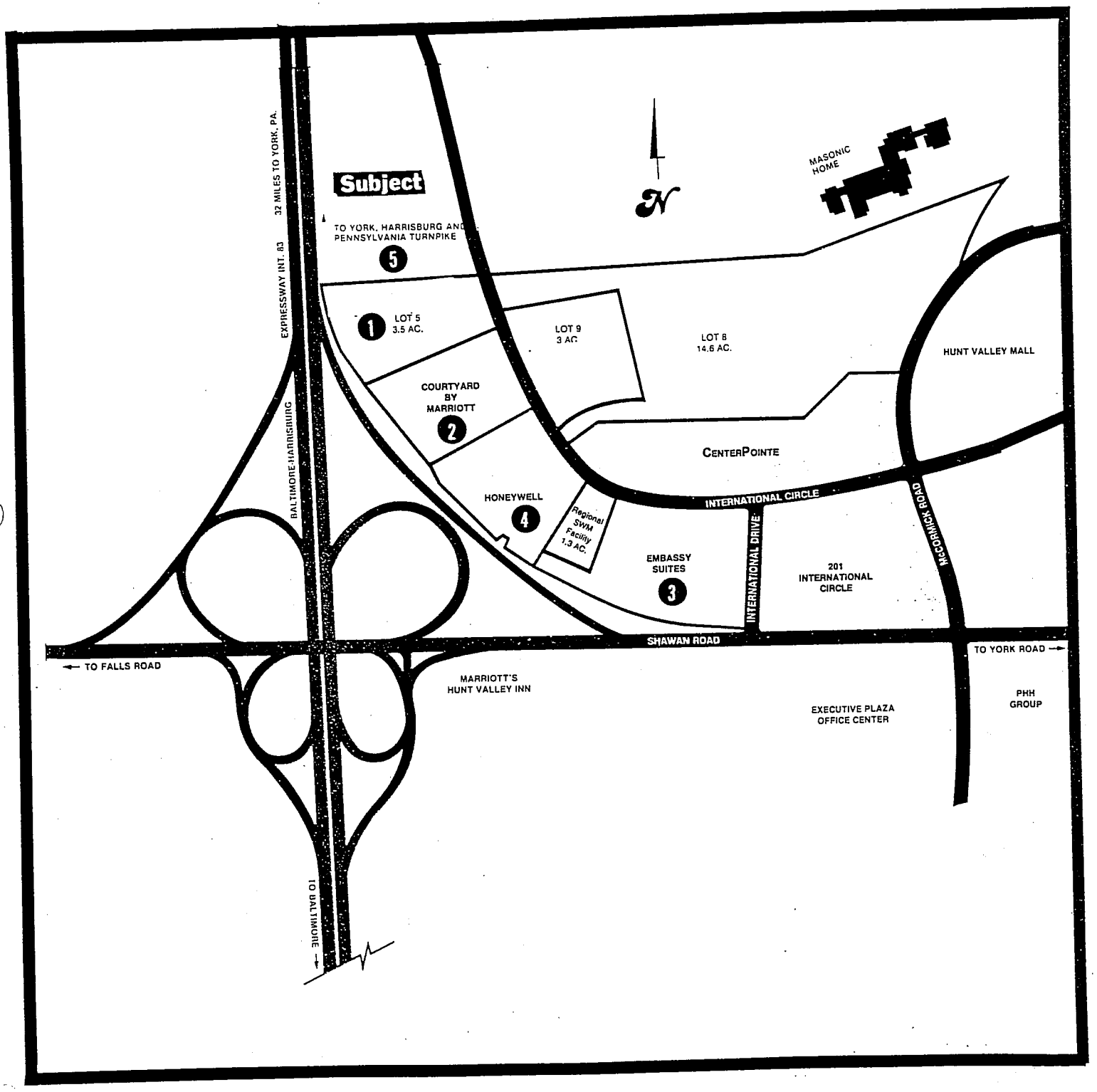


Exhibit V-2D
BUILDING SALES

Sale #	Address	Building Size	Built	Land Area	Sale Date	Total Sales Price	Price P.S.F.	Effective Gross Rent Multiplier E.G.R.M.	Overall Capitalization Rate
1	100 Lake Forest Blvd. Gaithersburg, MD	130,457 Gross 127,247 Net	1983	5.295 Acres	May 1985	$19,500,000	$149.48 Gross $153.24 Net	9.53	8.65%
2	4 Taft Court Rockville, MD	50,984 Gross	1983	1.93 Acres	April 1985	$4,750,000	$ 93.17	9.53	8.78%
3	8181 Professional Place Lanham, MD	60,264 Gross 52,200 Net	1982	3.2055 Acres	Feb 1984	$6,000,000	$ 99.56 Gross $114.94 Net	7.96	9.10%
4	1451 Templeton Place Rockville, MD	105,000 Gross 101,500 Net	1983	2.4952 Acres	March 1984	$17,804,657	$169.57 Gross $175.42 Net	9.87	9.10%
5	6101 Executive Blvd. Rockville, MD	85,000 Gross 80,260 Net	1981	3.03 Acres	Feb 1984	$9,000,000 Nominal $7,900,000 Cash Equivalent	$ 92.24 Gross $ 98.42 Net	NA	NA
6	1300 Quice Orchard Blvd. Gaithersburg, MD	161,160 Net	1980	10.2 Acres	Feb 1986	$21,350,000	$132.47 Net	NA	9.03
7	9 Schilling Road Hunt Valley, MD	41,039 Gross 38,011 Net	1983	1.743 Acres	May 1985	$4,100,000	$ 99.90 Gross $107.86 Net	8.08	10.67%
8	7000-7008 Security Blvd. Woodlawn, MD	99,681 Net	1980	5.863 Acres	Jan 1985	$8,240,000	$ 82.66 Net	NA	10.00%
9	6395 Dobbin Road Columbia, MD	16,121 Gross 12,342 Net	NA	1.538 Acres	Dec 1984	$1,600,000	$ 99.25 Gross $129.64 Net	6.62	9.70%
10	McCormick Road Hunt Valley. MD	655,000 Gross 513,595 Net	1968-1977	24.19 Acres	Dec 1983	$46,500,000	$ 70.99 Gross $ 90.54 Net	NA	6.90%
11	Pepper Rd @ Schilling Rd. Hunt Valley, MD	58,600 Gross	NA	9.249 Acres	Nov 1982	$3,745,802	$ 63.92 Gross	NA	NA
12	222-224 Schilling Circle Hunt Valley, MD	54,830 Acres	1979	3.896 Acres	Nov 1984	$4,800,000	$ 87.54 Gross	NA	NA
						Mean	$110.82	8.60	9.10%

Note: Sale #6 is considered the most comparable to the subject. Thus the appropriate unit value is $132.50 per net rentable square foot and the appropriate capitalization rate is 9.0%.

Exhibit V - 3A

Conservative Financial Projections

SUMMARY OF CASH FLOWS

ASSUMPTIONS :

Loan Amount	25,000,000
Rental Rate -- 1 Story Office (Net Lease)	$12.75
Rental Rate -- Mid - Rise Office (Gross Lease)	$17.00
Operating Expense Stop (Mid - Rise Office)	$4.50
Management & Structural Repairs (1 Story Office)	3.00%
Inflation Rate	5.00%
Initial Property Value based on Cap Rate of --	9.50%
Future Property Value based on increasing the Initial Value at the Inflation Rate	

LOAN YEAR	1	2	3	4	5	6	7	8	9	10	11	12
Gross Potential Income	3,801,625	3,801,625	3,801,625	4,101,241	4,101,241	4,626,400	4,973,242	4,973,242	4,973,242	5,374,756	6,045,007	6,045,007
Less : Vacancy	190,081	190,081	190,081	205,062	205,062	231,320	248,662	248,662	248,662	268,738	302,250	302,250
Effective Gross Income	3,611,544	3,611,544	3,611,544	3,896,179	3,896,179	4,395,080	4,724,580	4,724,580	4,724,580	5,106,018	5,742,757	5,742,757
Less : Operating Expenses	805,500	805,500	805,500	868,983	868,983	980,256	1,053,746	1,053,746	1,053,746	1,138,820	1,280,835	1,280,835
Less : Mngt.& Repairs	21,621	21,621	21,621	23,325	23,325	26,312	28,284	28,284	28,284	30,568	34,380	34,380
Net Operating Income	2,784,423	2,784,423	2,784,423	3,003,870	3,003,870	3,388,513	3,642,550	3,642,550	3,642,550	3,936,631	4,427,543	4,427,543
Less : Base Debt Payment	2,375,000	2,375,000	2,375,000	2,375,000	2,375,000	2,375,000	2,375,000	2,375,000	2,375,000	2,375,000	2,375,000	2,375,000
Less : Additional Interest	204,711	204,711	204,711	314,435	314,435	506,756	633,775	633,775	633,775	780,815	1,026,271	1,026,271
Borrower's Cash Flow	204,711	204,711	204,711	314,435	314,435	506,756	633,775	633,775	633,775	780,815	1,026,271	1,026,271

Summary of Sales Proceeds in Loan Year 12

Sales Price		50,129,559
Less : Selling Expenses @	3.00%	1,503,887
Less : Outstanding Mortgage Balance		25,000,000
Less : Additional Interest at Sale		11,812,836
Borrower's Cash Proceeds at Sale		11,812,836

Exhibit V - 3B

Most Likely Financial Projections

SUMMARY OF CASH FLOWS

ASSUMPTIONS :

Loan Amount	26,000,000
Rental Rate -- 1 Story Office (Net Lease)	$13.00
Rental Rate -- Mid - Rise Office (Gross Lease)	$18.00
Operating Expense Stop (Mid - Rise Office)	$4.50
Management & Structural Repairs (1 Story Office)	3.00%
Inflation Rate	5.00%
Initial Property Value based on Cap Rate of --	9.50%
Future Property Value based on increasing the Initial Value at the Inflation Rate	

LOAN YEAR	1	2	3	4	5	6	7	8	9	10	11	12
Gross Potential Income	3,995,500	3,995,500	3,995,500	4,310,395	4,310,395	4,862,337	5,226,868	5,226,868	5,226,868	5,648,857	6,353,290	6,353,290
Less : Vacancy	199,775	199,775	199,775	215,520	215,520	243,117	261,343	261,343	261,343	282,443	317,665	317,665
Effective Gross Income	3,795,725	3,795,725	3,795,725	4,094,876	4,094,876	4,619,220	4,965,524	4,965,524	4,965,524	5,366,415	6,035,626	6,035,626
Less : Operating Expenses	805,500	805,500	805,500	868,983	868,983	980,256	1,053,746	1,053,746	1,053,746	1,138,820	1,280,835	1,280,835
Less : Mngt.& Repairs	22,045	22,045	22,045	23,782	23,782	26,827	28,839	28,839	28,839	31,167	35,054	35,054
Net Operating Income	2,968,180	2,968,180	2,968,180	3,202,110	3,202,110	3,612,137	3,882,940	3,882,940	3,882,940	4,196,428	4,719,737	4,719,737
Less : Base Debt Payment	2,470,000	2,470,000	2,470,000	2,470,000	2,470,000	2,470,000	2,470,000	2,470,000	2,470,000	2,470,000	2,470,000	2,470,000
Less : Additional Interest	249,090	249,090	249,090	366,055	366,055	571,068	706,470	706,470	706,470	863,214	1,124,869	1,124,869
Borrower's Cash Flow	249,090	249,090	249,090	366,055	366,055	571,068	706,470	706,470	706,470	863,214	1,124,869	1,124,869

Summary of Sales Proceeds in Loan Year 12

Sales Price		53,437,847
Less : Selling Expenses @	3.00%	1,603,135
Less : Outstanding Mortgage Balance		26,000,000
Less : Additional Interest at Sale		12,917,356
Borrower's Cash Proceeds at Sale		12,917,356

Exhibit V - 3C

Optimistic Financial Projections

SUMMARY OF CASH FLOWS

ASSUMPTIONS :

Loan Amount	27,000,000
Rental Rate -- 1 Story Office (Net Lease)	$13.25
Rental Rate -- Mid - Rise Office (Gross Lease)	$19.00
Operating Expense Stop (Mid - Rise Office)	$4.50
Management & Structural Repairs (1 Story Office)	3.00%
Inflation Rate	5.00%
Initial Property Value based on Cap Rate of --	9.50%
Future Property Value based on increasing the Initial Value at the Inflation Rate	

LOAN YEAR	1	2	3	4	5	6	7	8	9	10	11	12
Gross Potential Income	4,189,375	4,189,375	4,189,375	4,519,550	4,519,550	5,098,274	5,480,493	5,480,493	5,480,493	5,922,959	6,661,573	6,661,573
Less : Vacancy	209,469	209,469	209,469	225,978	225,978	254,914	274,025	274,025	274,025	296,148	333,079	333,079
Effective Gross Income	3,979,906	3,979,906	3,979,906	4,293,573	4,293,573	4,843,360	5,206,468	5,206,468	5,206,468	5,626,811	6,328,494	6,328,494
Less : Operating Expenses	805,500	805,500	805,500	868,983	868,983	980,256	1,053,746	1,053,746	1,053,746	1,138,820	1,280,835	1,280,835
Less : Mngt.& Repairs	22,469	22,469	22,469	24,240	24,240	27,343	29,393	29,393	29,393	31,766	35,728	35,728
Net Operating Income	3,151,938	3,151,938	3,151,938	3,400,350	3,400,350	3,835,761	4,123,329	4,123,329	4,123,329	4,456,225	5,011,932	5,011,932
Less : Base Debt Payment	2,565,000	2,565,000	2,565,000	2,565,000	2,565,000	2,565,000	2,565,000	2,565,000	2,565,000	2,565,000	2,565,000	2,565,000
Less : Additional Interest	293,469	293,469	293,469	417,675	417,675	635,380	779,164	779,164	779,164	945,612	1,223,466	1,223,466
Borrower's Cash Flow	293,469	293,469	293,469	417,675	417,675	635,380	779,164	779,164	779,164	945,612	1,223,466	1,223,466

Summary of Sales Proceeds in Loan Year 12

Sales Price		56,746,135
Less : Selling Expenses @	3.00%	1,702,384
Less : Outstanding Mortgage Balance		27,000,000
Less : Additional Interest at Sale		14,021,876
Borrower's Cash Proceeds at Sale		14,021,876

Exhibit V - 4A

INVESTOR'S YIELD SUMMARY

Conservative Financial Projections

Year	Annual Debt Service	Additional Interest - Operations	Loan Balance	Additional Interest - Sale (1)	Total
1	$2,375,000	$204,711			$2,579,711
2	2,375,000	204,711			2,579,711
3	2,375,000	204,711			2,579,711
4	2,375,000	187,274			2,562,274
5	2,375,000	314,435			2,689,435
6	2,375,000	348,367			2,723,367
7	2,375,000	486,570			2,861,570
8	2,375,000	633,775			3,008,775
9	2,375,000	633,775			3,008,775
10	2,375,000	610,408			2,985,408
11	2,375,000	824,121			3,199,121
12	$2,375,000	$1,026,271	$25,000,000	$11,812,836	$40,214,108

Estimated Yield -- 13.1% (2)

(1) Net Sales Price of $48,625,672 less the outstanding loan balance of $25,000,000 equals a Residual of $23,625,672 which is split 50 - 50 with the borrower .

(2) Internal Rate of Return calculated using an initial investment of $25,000,000 .

Exhibit V - 4B

INVESTOR'S YIELD SUMMARY

Most Likely Financial Projections

Year	Annual Debt Service	Additional Interest - Operations	Loan Balance	Additional Interest - Sale (1)	Total
1	$2,470,000	$249,090			$2,719,090
2	2,470,000	249,090			2,719,090
3	2,470,000	249,090			2,719,090
4	2,470,000	236,369			2,706,369
5	2,470,000	366,055			2,836,055
6	2,470,000	408,967			2,878,967
7	2,470,000	556,342			3,026,342
8	2,470,000	706,470			3,176,470
9	2,470,000	706,470			3,176,470
10	2,470,000	689,422			3,159,422
11	2,470,000	917,982			3,387,982
12	$2,470,000	$1,124,869	$26,000,000	$12,917,356	$42,512,225

Estimated Yield -- 13.3% (2)

(1) Net Sales Price of $51,834,712 less the outstanding loan balance of $26,000,000 equals a Residual of $25,834,712 which is split 50 - 50 with the borrower .

(2) Internal Rate of Return calculated using an initial investment of $26,000,000 .

Exhibit V - 4C

INVESTOR'S YIELD SUMMARY

Optimistic Financial Projections

Year	Annual Debt Service	Additional Interest - Operations	Loan Balance	Additional Interest - Sale (1)	Total
1	$2,565,000	$293,469			$2,858,469
2	2,565,000	293,469			2,858,469
3	2,565,000	293,469			2,858,469
4	2,565,000	285,464			2,850,464
5	2,565,000	417,675			2,982,675
6	2,565,000	469,567			3,034,567
7	2,565,000	626,114			3,191,114
8	2,565,000	779,164			3,344,164
9	2,565,000	779,164			3,344,164
10	2,565,000	768,437			3,333,437
11	2,565,000	1,011,842			3,576,842
12	$2,565,000	$1,223,466	$27,000,000	$14,021,876	$44,810,342

Estimated Yield -- 13.5% (2)

(1) Net Sales Price of $55,043,751 less the outstanding loan balance of $27,000,000 equals a Residual of $28,043,751 which is split 50 - 50 with the borrower .

(2) Internal Rate of Return calculated using an initial investment of $27,000,000 .

Exhibit V - 5

SENSITIVITY ANALYSIS

Conservative Case

Rental Rate (1 Story) :	$12.75 (Net)
Rental Rate (Mid - Rise) :	$17.00 (Gross)
Loan Amount :	25,000,000
Debt Coverage Ratio :	1.17

Inflation Rate

Cap Rate	3.00%	5.00%	7.00%
10.00%	11.9%	12.9%	14.0%
9.50%	12.0%	13.1%	14.1%
9.00%	12.2%	13.2%	14.3%

Most Likely Case

Rental Rate (1 Story) :	$13.00 (Net)
Rental Rate (Mid - Rise) :	$18.00 (Gross)
Loan Amount :	26,000,000
Debt Coverage Ratio :	1.20

Inflation Rate

Cap Rate	3.00%	5.00%	7.00%
10.00%	12.1%	13.1%	14.2%
9.50%	12.3%	13.3%	14.4%
9.00%	12.4%	13.5%	14.6%

Optimistic Case

Rental Rate (1 Story) :	$13.25 (Net)
Rental Rate (Mid - Rise) :	$19.00 (Gross)
Loan Amount :	27,000,000
Debt Coverage Ratio :	1.23

Inflation Rate

Cap Rate	3.00%	5.00%	7.00%
10.00%	12.3%	13.3%	14.4%
9.50%	12.4%	13.5%	14.6%
9.00%	12.6%	13.7%	14.8%