OLD ORCHARD PLAZA

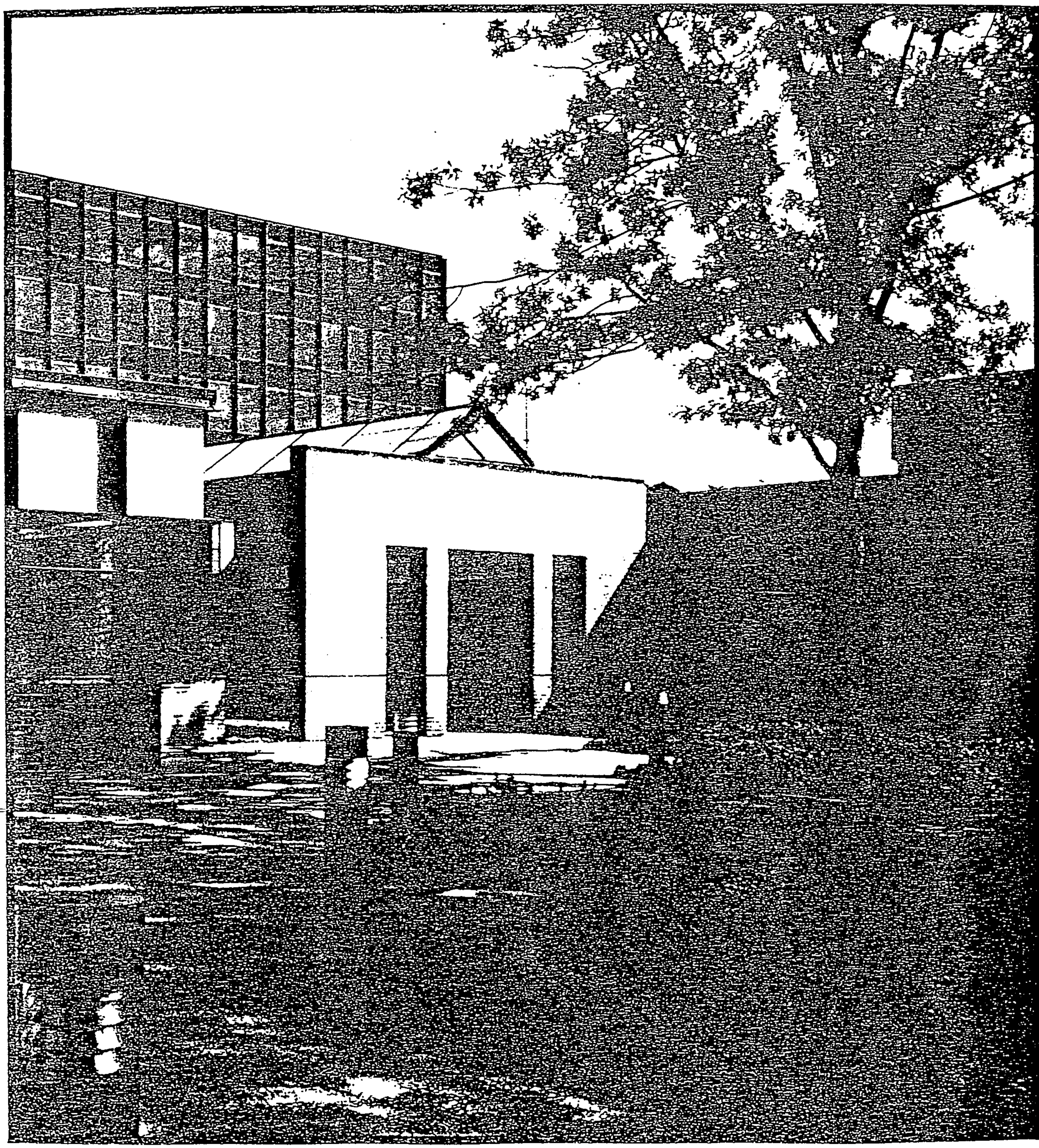
SKOKIE, ILLINOIS Loaned HB

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

August 10, 1988

Blue Book
- 210

OLD ORCHARD PLAZA



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I. INTRODUCTION

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

August 10, 1988

Real Estate Investment Committee Members
United States Fidelity & Guaranty Co.
100 Light Street
Baltimore, MD 21202

Re: **Old Orchard Plaza**
Skokie, Illinois

Dear Committee Members:

Enclosed for your review is an Investment Report on Old Orchard Plaza. The proposed immediate fund participating mortgage will allow Equity Associate to refinance an existing 329,936 square foot office project and substantially improve a 6.2 acre office development parcel in Skokie, Illinois. A summary of the proposed investment structure is shown as Exhibit I-1.

The Property

Old Orchard Plaza is an existing eight building office complex encompassing the northernmost 19.3 acres of a 30-acre site located in the northern suburbs of Chicago. A 150 room Marriott Hotel is planned for 1990 completion on a 4.5 acre development parcel to the south of the existing property and the remaining 6.2 acres of vacant land is zoned for 272,000 square feet of office space with planned commencement date in the 1990/1991 time frame. The existing property is currently 100 percent leased to national credit tenants. The eight buildings were constructed between 1949 and 1972, but were substantially rehabilitated from 1983 through 1987. Both the buildings and their operating systems are in excellent condition. The existing property will benefit from the road and site improvements associated with the construction of the Marriott Hotel. In addition, the hotel will provide the project with a significant amenity and should increase the probability of a successful office development on the 6.2 acre site which will be included in the security of the proposed loan.

The property benefits from its location within the southwest quadrant of the Old Orchard Road/Edens Expressway four-way freeway interchange. This locational factor is significant because the northern suburbs are generally characterized by a lack of freeway intersections and generally poor transportation infrastructure. In addition, Old Orchard Plaza is located near Chicago's largest concentration of executive housing. Therefore, it benefits from the demand generated from an abundance of corporate headquarters in the area and ultimately benefits from the development supply restrictions resulting from a no-growth movement which has been successfully implemented by the same "northshore" residential communities.

The Market

The subject property is located in the northern suburban office submarket of Chicago. The market is currently recovering from a six quarter long period of oversupply and exhibits a vacancy rate of 15.4 percent; significantly below the Chicago suburban average of 20.7 percent. The competitive market area, which is the southernmost office concentration within the submarket, is even healthier at an 8.7 percent vacancy rate. The relative health of the competitive market area is primarily due to a lack of developable office land and a stable tenant base.

100 percent of Old Orchard Plaza's office space is currently leased to tenants on relatively long leases. The first significant operating year for the property is 1991 when Kraft's lease expires and 1991 is the anticipated development start date for the new office tower. Although Piedmont does not expect Kraft to move, 1991 should be a relatively healthy market based on our analysis of historical absorption and development trends in the north suburban office submarket. Overall, the subject property will be exposed to minimal market risk in the short-run and has significant upside due to a lack of potential office development in the competitive market area.

The Borrower

The Borrower is LP Equity Associates Limited (LPEAL). LPEAL is a successor entity to Equity Associates which was formed in 1973 to plan and construct the 1.0 million square foot Gould Center in Rolling Meadows, Illinois. Since 1973 Equity Associates has successfully developed a total of ten office projects containing over 4.2 million square feet of space; 1.3 million square feet of which is located in the northern suburbs of Chicago. LPEAL has contracted with LaSalle Partners for development and property management services. The relationship between LPEAL and LaSalle has been structured to be an arms length relationship. LPEAL depends on third party institutional partners for its survival and it is very sensitive to its relationship with LaSalle Partners.

Equity Associates is the developer of choice for joint ventures in the northern suburbs of Chicago. They have over 1.3 million square feet of existing office inventory. They have excellent relationships with all major submarket tenants and they have demonstrated their ability to efficiently operate a property in Cook County. Piedmont has interviewed all key development and property management employees associated with Old Orchard Plaza and concludes that the Borrower is staffed to effectively implement their investment plan for the subject property.

The Risk/Return

The proposed immediate fund mortgage is structured to allow the property's existing income stream to "carry" the development parcel until an anchor tenant can be secured for the construction of a 272,000 square foot office tower. The resulting structure is one with (1) a low level of default risk due its existing credit income stream, (2) no interest rate risk due to its immediate funding characteristics, (3) minimal market rate risk due to the timing characteristics of lease expirations and the development time frame of the new construction and (4) very low loan to value ratio - 70.1 to 72.3 percent.

The projected internal rates of return vary between 12.1 and 12.5 percent and are excellent relative to the identified risks. In addition, Piedmont expects the actual yields to be higher because the additional interest from the land portion of the investment should increase if the vacant land is developed by LPEAL and USF&G receives a 25 percent ownership interest in the completed office tower.

Role In USF&G's Portfolio

Old Orchard is currently 100 percent leased and should continue to operate at 100 percent occupancy until at least 1991. This existing income stream should balance the lease-up risk associated with the Parkview forward commitment in OakBrook Terrace, Illinois. In addition, the income stream is based exclusively on credit tenancies. This characteristic will increase the integrity of the portfolio's income stream. The development phase of the property represents potential upside as soon as loan year 2 of the investment holding period. Any cash return from the development phase will increase the portfolio's cash flow in the early stages of portfolio's life cycle.

Piedmont Realty Advisors, therefore, recommends that USF&G issue commitment for a participating mortgage for $23,500,000 secured by the Old Orchard Plaza property.

Sincerely,

Stephen L. Grant

Stephen L. Grant
Principal

EXHIBIT I-1
APPLICATION LETTER
OLD ORCHARD PLAZA

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

July 22, 1988

Ms. Allison A. Golz
LaSalle Partners
11 South LaSalle Street
Chicago, Illinois 60603

Re: **Old Orchard Plaza**
Skokie, Illinois

Dear Ally:

This letter summarizes the terms on which Piedmont Realty Advisors is prepared to recommend to its client's Investment Committee that it authorize the issuance of a Commitment for a participating first mortgage loan on the Property described below:

Property:	**Old Orchard Plaza**
	Buildings - an existing, eight building office project containing approximately 343,155 square feet of net rentable office and basement space on 19.3 acres of land.
	Vacant Land - the Property also includes a 6.5-acre development parcel which can accommodate an office building of approximately 272,000 square feet of net rentable area.
Location:	Skokie, Illinois
Real Property:	Fee simple interest in 25.8 acres of land and approximately 343,155 square feet of existing office buildings.

Personal Property: All personal property owned by Borrower and used in connection with the Real Property.

Borrower: LP Equity Associates Limited (LPEAL).

Lender: United States Fidelity and Guaranty Company (USF&G).

Loan Amount; $23,500,000.

Base Interest Rate: The Base Interest Rate shall be 10.00 percent and shall be paid or accrued monthly and compounded quarterly as set forth below, on the Outstanding Loan Balance. The term "Outstanding Loan Balance" shall mean the amount Lender has disbursed and which remains outstanding, plus any accrued and unpaid interest. The Borrower shall make payments on the Outstanding Loan Balance each year in accordance with the pay rate listed in the following table:

Loan Years	Pay Rate	Base Interest Rate
Initial Funding to date of Land Release (reconveyance)	8.00%	10.00%
Date of Land Release to Maturity of Loan	10.00%	10.00%

Amortization: Not applicable, interest only.

Term: 20 Years

Call Option: Lender may call the entire Loan or the Vacant Land portion thereof anytime after the 6th anniversary of initial funding upon 12 month's written notice.

Ms. Allison A. Golz
July 22, 1988
Page 3

Prepayment:

- o No prepayment before the 6th anniversary of initial funding.
- o No prepayment penalty associated with vacant land release described in **Additional Interest C. Vacant Land**
- o If a prepayment occurs due to a default by Borrower, Borrower shall pay Lender a prepayment fee which will be the greater of (a) 10 percent of the Outstanding Loan Balance or (b) a yield maintenance fee based on the 10.00 percent interest rate and a maximum six year investment period.
- o Prepayment fee of actual out-of-pocket costs incurred by Lender in the reconveyance of the Loan after the 6th anniversary of initial funding.

  why NO fee unless we get compensate if there's No fee.

  NOTE: There will be no additional prepayment penalty (other than Lender's actual out-of-pocket costs) charged to Borrower after the 6th anniversary of initial funding.
- o No prepayment penalty if Lender exercises its option to call the entire Loan or the Vacant Land portion thereof.

Recourse: The Loan will be non-recourse to the Borrower and its Partners.

Additional Interest

A. Operations: Borrower shall pay Lender 50 percent of the annual Net Cash Flow from the Property. The term "Net Cash Flow" shall mean the excess of (a) collected gross revenue less (b) the sum of (i) approved capital expenses and actual operating expenses for the Property and (ii) actual scheduled interest paid.

B. Sale, Refinancing or Maturity:

If Borrower sells the Property in a bona fide sale, Borrower shall pay Lender 50 percent of the excess of (a) the net sales price for the Property (i.e. the gross sales price less third party sales expenses not to exceed 2 percent of the gross sales price) less (b) the Outstanding Loan Balance.

If Lender calls the Loan, Borrower refinances the Property, or the 20th anniversary of the initial funding occurs, Borrower shall pay Lender 50 percent of the excess of (a) the fair market value (which will include a deduction of 2 percent of the gross appraised value for selling expenses) of the Property as determined by appraisal less (b) the Outstanding Loan Balance.

C. Vacant Land:

Base Release Price - Borrower may sell the Property's vacant land to a third party or transfer the parcel to a development partnership which the Borrower controls. The Base Release Price payable to the Lender will be sufficient to reduce the Outstanding Principal Balance of the Loan to an amount which results in a 1.13 debt coverage ratio using a 10.00 interest only percentage rate and the net operating income from the approved budget which is in effect at the time of the land release.

Additional Interest Third Party Sale - Lender will receive (in addition to the Base Release Price) an additional interest payment equal to 25 percent of the difference between the net sales price of the Land and the Base Release Price referenced above, if the Land is sold in a bona fide sale to a third party.

Additional Interest Related Party Development/ Refinancing - Lender will receive (in addition to the Base Release Price) an additional interest payment equal to 25 percent of the ownership of the development partnership. The partnership agreement will contain, among other things, the following terms and conditions:

- Lender will have limited rights relative to major property decisions.

- Lender would have no obligation to fund property operating and capital deficits.

- Borrower would receive a first priority cumulative preferred return on its invested capital from operating cash flow prior to payment of Lender's 25 percent share of such operating cash flow.

  NOTE: The cumulative preferred return rate will be established based on a review of cumulative preferred returns on similar transactions in the Chicago metropolitan area at the time of the development.

- Borrower would receive a first priority distribution of sales or refinance proceeds for (a) any earned, but unpaid cumulative preferred return and (b) a return of invested capital prior to payment of Lender's 25 percent share of such sales or refinance proceeds.

NOTE: If third party joint venture financing is utilized by the development partnership, Lender's percent ownership interest will be reduced proportionately with Borrower's percent ownership interest.

Commitment Fee: $176,250; to be paid upon acceptance of the Commitment.

why is the fee structure like this

Initial Funding: $23,000,000.

Holdbacks

A. Reserve Account:	A reserve account of $500,000 will be held back and disbursed to Borrower for approved tenant improvements, leasing commissions and capital improvements. Disbursements will be made following Lender's reasonable approval of written requests submitted to Lender by Borrower. The amounts of the disbursements will be based on the approved budget. The Borrower's request notice shall contain a description of the disbursement and adequate documentation of the costs associated with said disbursement. Lender will have five (5) business days following the receipt of the notice to approve the disbursement. NOTE: Any disbursement made in connection with the improvements for the Vacant Land will be limited to 25 percent of the total costs allocated to the Vacant Land.
Lender Approval:	This application and the transaction contemplated herein must be approved by Lender's Investment Committee.

Additional Loan Provisions

A. Leases:	Lender shall have the right to review and approve all existing leases of the Property and future leases which differ from leasing standards attached as Exhibit A to this letter.
B. Secondary Financing:	No secondary financing permitted.
C. Right of First Offer:	If the Borrower desires to sell the Property, the Lender shall have the right of first offer to purchase the Property.
D. Budget Approval:	During the term of Loan, Borrower shall submit to Lender annual operating and capital budgets for the Property for Lender's review and approval.
E. Due on Sale:	Neither the Property nor any interest in Borrower may be sold or otherwise transferred without Lender's prior written consent.

F. **Management:** Borrower shall have the exclusive right to designate the property manager. Lender will have the right to reasonably approve the management and leasing agreement. The property manager shall be entitled to earn the management fees specified in tenant leases and which in any case shall not exceed 4 percent of total revenue which will include the scheduled base rental income for the Property plus any expense pass through income including operating expense and real estate tax reimbursements. The management fee will include all general and administrative items.

G. **Accountant:** The Loan Commitment will provide that the Borrower will engage an accounting firm satisfactory to Lender who shall perform an annual audit of the Property.

H. **Future Financing:** Lender reserves the right to offer the permanent financing for development on the vacant land under market terms and conditions if the vacant land is transferred to a development entity related to Borrower.

I. **Asbestos Management Plan:** An Asbestos Management Plan satisfactory to Lender will be implemented by the Borrower. The Plan will include provisions for regular 24-hour air volume measurements, a procedures manual for the appropriate tenants and their subcontractors, a procedures manual for building contractors and Property Management employees, and a definitive schedule for its removal and reinsulation.

Contingencies The Commitment shall have the following contingencies:

A. **Engineering:** The Borrower will engage an engineer approved by Lender to review the plans and specifications for the Property. The study will include an inspection and evaluation of the Property's mechanical, electrical, and structural components. Lender reserves the right to review and approve the scope and substance of the engineering study. The cost of the engineering study will be paid for by the Borrower. Lender must be satisfied with the results of the engineering study.

B. Appraisal: Receipt of an appraisal of the Property from an MAI appraiser approved by Lender stating that the market value of the Property assuming stabilized occupancy is at least $27,000,000.

C. Environmental Report: Receipt of an environmental study of the Property by a reputable engineering or environmental firm acceptable to Lender which demonstrates to the Lender's reasonable satisfaction that there are no environmental hazards or hazardous or toxic materials existing upon or affecting the Property. The analysis will involve a physical inspection of the land and a historical review of the previous uses of the land. In the event that the historical review indicates that toxic materials may exist in the soil, soil borings will be conducted and the results will be analyzed by laboratory. The cost of the environmental study will be paid for by the Borrower.

Receipt of an asbestos study of the Property by a reputable engineering or environmental firm acceptable to Lender which demonstrates to Lender's reasonable satisfaction that the existing asbestos in the Property meets current OSHA and EPA guidelines and that there is no indication that the asbestos air content will increase prior to its removal from the Property.

D. Partnership Documents: Approval by Lender of the Partnership Agreement of Borrower.

F. Books, Records and Leases: Borrower will allow Piedmont Realty Advisors to examine all books, records and leases for the Property prior to the Lender's Investment Committee meeting.

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

If the terms outlined in this letter are acceptable, please sign below and return this letter together with an application fee in the amount of $75,000. The application fee should be wired to a custodial account. Please call me for wiring instructions. The application fee shall be refundable only if the Lender does not issue a Commitment according to the terms set forth in this letter, in which event Lender shall return the application fee within three (3) business days. If you accept the Commitment, the application fee will be applied to the cash portion of the Commitment Fee upon your acceptance of the Commitment. The terms set forth in this letter shall expire if you do not accept and return a signed copy of this letter and wire the application fee by July 27, 1988. You understand that this letter is only an outline of the general terms and conditions of a Commitment and it is not a binding contract for the parties to enter into a Commitment.

Sincerely,

Stephen L. Grant
Principal

Accepted:

By: ______________________ ______________________
Date

Title: ________________

Exhibit A

LEASING STANDARDS

All new leases for space in the Property shall conform with the conditions set forth below (the "leasing standards") or upon such other terms as Lender may reasonably accept:

1. The primary term of any lease shall be for a term of not fewer than thirty-six (36) months nor more than one hundred twenty (120) months. In the case of a lease with a primary term in excess of sixty (60) months, there must be a rental increase not less than 25% of the base rent at the end of the fifth lease year or 100% of the change in the Consumer Price Index (C.P.I.) which occurred during the first five lease years.

2. The leases may include rights and options to renew the term thereof at the then prevailing market rental for a period not to exceed sixty (60) months.

3. During the twenty-four (24) months following the initial disbursement date, the leases shall provide for an average annual base triple net (or calculated equivalent) rent at a rate not less than (a) an average contract rent of $14.00 per square foot of net rentable area of office space or (b) an average effective rent of $12.50 per square foot of net rentable area of office space. For all future leases after the initial twenty-four (24) period, the rental rate must be at a rate not less than the greater of the original lease rate or prevailing market rental rates.

4. The standard form of lease, including those standard modifications previously approved by Lender (subsequent to approval by Lender), shall not be materially altered or amended without the prior written consent of Lender.

5. All leases shall be duly authorized and properly executed by Borrower pursuant to all necessary corporate or partnership action.

6. Amounts allocated for tenant finish work, as provided in a work letter from Borrower to each tenant, shall not be less than $10.00 per square foot of net rentable area.

7. The term of any executed lease must commence within nine (9) months of the signing of such lease.

Exhibit A

LEASING STANDARDS (Continued)

Leases conforming to the above standards shall be deemed automatically approved. All other leases shall be subject to Lender's reasonable approval within 10 business days. These leasing standards shall apply from the date of this letter until the date 24 months after the date of initial disbursement. Thereafter the parties shall revise such standards annually by submission by Borrower to Lender during the 22nd month following initial disbursement and each 12th month thereafter. The submission will contain the proposed leasing standards with appropriate supporting data to show that such proposed standards conform to market standards at other buildings of equal or better architectural and construction quality, location, amenities and management in the Skokie, Illinois area. The leasing standards shall be subject to Lender's approval, such approval not to be unreasonably withheld. Lender shall respond to the initial annual submission of leasing standards within 22 business days and within 10 business days to subsequent revised submission of leasing standards.

LA SALLE PARTNERS
11 South LaSalle Street
Chicago, Illinois 60603
(312) 782-5800

July 29, 1988

Mr. Stephen L. Grant
Principal
Piedmont Realty Advisors
650 California Street
22nd Floor
San Francisco, California 94108

Dear Mr. Grant:

The revisions summarized in this letter represent the terms on which LP Equity Associates Limited ("LPEAL") will accept the proposed participating first mortgage loan on Old Orchard Plaza outlined in the Recommendation Letter from Piedmont Realty Advisors to Allison Golz of LaSalle Partners, as agent for LPEAL, dated as of July 22, 1988. That letter is attached hereto as Exhibit A and is incorporated herein by reference.

Subject to your acceptance of the following modifications, which should be inserted into or deleted from the original text as noted, LPEAL accepts Piedmont Realty's proposal:

1) Definition of Property (page 1):

Buildings: add the word "approximately" before "19.3 acres."

Vacant Land: add the word "approximately" before "6.5 acres."

2) Definition of Real Property (page 1): add the word "approximately" before "25.8 acres."

3) Additional Interest - A. Operations (page 3):

Insert "(which will include a reasonable deduction for a reserve account for capital expenses)" after the words "(i) approved capital expenses and actual operating expenses"

4) Additional Interest - A. Operations (page 3):

Add a second paragraph which reads as follows: "In the event that there is insufficient Net Cash Flow to pay for required tenant refit capital costs (which shall include, among other things, tenant improvement costs, leasing commissions and asbestos removal expenses), Lender will permit LPEAL to borrow a working capital loan, the proceeds of which will be used exclusively to pay for the above-referenced tenant refit capital costs. Lender will permit Net Cash Flow to be used for the repayment of the working capital loan prior to LPEAL's payment of Lender's Additional Interest from Operations.

Shouldn't this be after.

5) Holdbacks - A. Reserve Account:

In the NOTE following this paragraph, the two references to "Vacant Land" will be deleted and "Property" shall be substituted.

6) Additional Loan Provisions - B. Secondary Financing:

Amended to read: "No secondary financing except as expressly permitted herein."

7) Additional Loan Provisions - E. Due on Sale:

Amended to read: "The Property may not be sold or transferred prior to the sixth anniversary of the Closing Date without the Lender's prior written consent, which shall not be unreasonably withheld. As long as the loan is outstanding existing holders of partnership interests in the Borrower will continue to hold a minimum of 50% of the total interests of the Borrower, or with the prior written consent of Lender, will hold less than 50%."

8) Closing Paragraph (page 9):

After the phase "The application fee shall be refundable only if the Lender does not issue a Commitment according to the terms set forth in this letter," insert "or if LPEAL does not obtain approval from the first lien holders prior to August 15, 1988 to prepay the existing note and release the lien."

9) Closing Paragraph (page 9): delete "July 27, 1988" and insert "July 29, 1988."

If these modifications are acceptable to you, please acknowledge your acceptance below and return a copy to us.

Sincerely,

LA SALLE PARTNERS
LIMITED, as agent for
LP EQUITY ASSOCIATES
LIMITED

Wade W. Judge
Managing Director

WWJ:me

Approved and accepted this _____ day of July, 1988

PIEDMONT REALTY ADVISORS

By: ____________________

Title: Principal

Date: 8-1-88

II. THE PROPERTY

II. THE PROPERTY

A. INTRODUCTION

Old Orchard Plaza is an existing office project containing eight buildings with a leasable area of 329,936 square feet on approximately 30 acres of land in Skokie, Illinois. The eight-building complex currently encompasses the northernmost 19.3 acres of the 30-acre site; a 150-room Marriott Hotel is planned for a 4.5-acre development parcel and the remaining 6.2 acres of vacant land is zoned for 272,000 square feet of office space. The entire 30-acre project was previously utilized as International Mineral Corporation's (IMC's) world headquarters from 1949 to 1968 and has been Brunswick's world headquarters since 1971. It was substantially rehabilitated in 1983 and 1984 as part of a sale/lease back investment structure between Equity Associates and Brunswick Corporation. Old Orchard Plaza is located at the southwest quadrant of the Old Orchard Road/Edens Expressway (Interstate 94) interchange in the northern suburbs of the Chicago Metropolitan area (see Exhibit II-1).

B. LOCATION

1. Neighborhood Demographics

Chicago's original suburban expansion occurred to the north of its central business district primarily along shores of Lake Michigan. The north lake-shore communities of Wilmette, Winnetka, Glencoe, Lake Forest and Highland Park continue to be the preferred locations of company owners, chairmans and senior executives. As a result of this concentration of decision-makers there are several large Chicago-based corporations currently headquartered in the northern suburbs (see Exhibit II-2):

- Kraft
- Baxter Travenol
- Allstate
- Brunswick
- Abbott Laboratories
- Zenith
- Bell & Howell
- Nutrasweet
- Hewitt Associates
- Packaging Corporation of America

These same communities have also led the fight for a strong anti-growth, anti-development movement throughout the northern suburbs. Freeway interchange construction projects have been delayed indefinitely and future development sites have generally experienced a 50 percent reduction in density allocations. There are currently only five, four-way freeway intersections along 45 miles of northern suburb freeways; two more are planned, but have been delayed due to lawsuits. These trends of (1) stable growth in long-term office space demand in the northern suburbs caused by a large concentration of corporate headquarters, (2) a long-term shortage of developable office land due to anti-growth sentiments and (3) a substandard transportation infrastructure are major premises of this investment.

2. Accessibility

Old Orchard Plaza is located in the southwest quadrant of The Old Orchard Road/Edens Expressway intersection and this intersection provides the subject property with excellent regional access via the Edens Expressway (see Exhibit II-3). Downtown Chicago is 20 minutes southeast of the subject property and via Interstate 94, O'Hare airport is 30 minutes southwest via the Interstate 94 or Interstate 294. Evanston and Northwestern University are a 10 minute drive to the east and the Northshore Executive communities are 15 to 30 minutes to the north.

The main ingress/egress point for the existing properties is currently the non-signalized intersection of Long Road and Old Orchard Road (see Exhibit II-4). The subject property will have improved regional access as the site improvements associated with the development of the vacant land are completed in early 1989. The site development plan associated with the construction of the Marriott Hotel includes (1) the addition of stoplights at Long Road and Old Orchard Road and Long Road and Golf Road, (2) the realignment of Long Road and (3) the expansion of Long Road to three lanes; one lane in each direction with a center turning lane. The improvement of Long Road will give the subject property unparalleled ingress/egress characteristics to two, six-lane divided roads with important regional and local roles. Old Orchard Road is the area's freeway interchange and provides the Old Orchard Mall with its regional access and as a result the street has excellent name identity. Golf Road (State Highway 58) is one of Chicago's longest east/west streets and is the main access road to Evanston and Northwestern University to the east and Schaumburg to the west.

3. Adjacent Land Uses

The most prominent adjacent land use to Old Orchard Plaza is the Harms Woods Forest preserve (see Exhibit II-5). The forest preserve is also one of the project's major amenities providing tenants with views and direct access to jogging and bike trails in a forest setting. The regional headquarters of the Portland Cement Institute and Searle Corporation (Monsanto) are located across Old Orchard Road to the north of the subject. The Glenview and Chick Evans Country Clubs lie across Golf Road to the south.

Immediately east of the subject are easements for the Northwest Railroad and a Commonwealth Edison electrical lines. Both easements are camouflaged by mature trees along the easterly boundary of the property. The southeasterly portion of the site has excellent visibility from the Edens Expressway which forms its boundary. To the east of the easements, Lincoln Property Company completed the 12-story, 5215 Old Orchard office building in 1985. The building currently serves as Bell & Howell's headquarters, but remains only 80 percent occupied primarily due to absolute expansion rights which were granted to Bell & Howell. To the north of 5215 Old Orchard is a 6.7-acre development parcel owned by Draper & Kramer. The site has approval for a 200-room hotel and 250,000 square feet of office space, but Draper overpaid for the site in 1983 and must wait until office rents exceed $24.00 per square foot on triple net basis to finance construction or accept a loss.

The 1.3 million square foot Old Orchard Mall is located across Edens Expressway from the subject. The owners are in the process of renovating the facility and will add Bloomingdales to the existing anchors of Saks Fifth Avenue and Marshall Fields.

C. THE SITE

The Old Orchard Plaza site consists of approximately 30 acres, is generally trapezoidal in shape and is level (see Exhibit II-6). The existing improvements will occupy approximately 19.3 acres after the road improvements and site work is completed for the Marriott Hotel development in late 1988/early 1989. It should be noted that the existing parking lot will be resurfaced and re-striped as part of the site improvements and approximately 1.2 acres will be allocated to the development property. The 10.7-acre development property consists of a 4.5-acre site which will be sold to the Marriott Corporation for the construction of a six-story, 150-room prototype hotel. The remaining 6.2 acres will be part of the loan security and is zoned for 272,000 square feet of office development. The Borrower will develop the office building after an anchor tenant is secured. The anticipated development horizon is 1990 to 1991.

Piedmont has reviewed several soils reports which have been conducted for the development parcels. The results indicate a relatively high water table and, therefore, a high water content in the soil. Most of the soil problems will be alleviated by the site engineering and retention pond work associated with the Long Road expansion project and the Marriott Hotel construction. The proposed loan has a $500,000 reserve account which will be used on both the Long Road extension and the site stabilization work on the office development parcel.

D. THE IMPROVEMENTS

1. Overview

Old Orchard Plaza was designed by Perkins and Will and was built between 1949 and 1972. The existing project consists of eight, interconnected buildings with the following characteristics:

Building	Rentable Sq. Ft.	Year Built/ Rehabilitated	No. of Stories	Anchor Tenant
A	44,901	1957/83	3	Brunswick
B	9,792	1957/83	1	Brunswick
C	57,382	1957/84	5	Brunswick
D	5,558	1957/84	1	Cook Travel
E	29,513	1957/84	1	Cafeteria/Kraft
F	29,245	1949/86	1	Kraft
G	112,744	1966/87	6	Kraft
H	54,020	1972/86	2	PCA
	343,155 *			

* Piedmont used 329,936 in its underwriting (See Exhibit V-1).

The Borrower acquired the fee simple interest in Old Orchard Plaza through a variety of investment techniques in 1983 and 1984. Brunswick was consolidated into three existing buildings (A, B and C) which they rehabilitated in 1983/84 and currently occupy on a long-term triple net lease. The six-story Building G was redesigned and rehabilitated in 1986/87 and is 100 percent leased to Kraft until November, 1991. An existing cafeteria building was downsized and renovated and is a project amenity, the costs of which are passed through proportionally to the existing project tenants. The one-story Building F was gutted and is now occupied by Kraft. Building D is a one-story structure that was decreased in size after the cafeteria renovation and is occupied by Cook Travel and the property management office. Building H is a 30-foot clear height, research and development building with mezzanine offices and is occupied by Packaging Corporation of America (PCA), a Tenneco subsidiary.

All of the buildings are connected to each other and to the parking lot by a first floor hallway and an underground tunnel network. Each of the eight existing buildings are distinct from one another, but blend together by virtue of certain common design characteristics. All of the buildings except Building H have aluminum and glass curtain walls, masonry or a combination of the two materials (see Exhibit II-7). Building H consists of precast concrete panels and a ribbon band windowline. All building systems are in excellent condition and were designed to be expandable.

2. Asbestos

The existing buildings were tested for asbestos which was found in the following areas:

(1) In the fireproof insulation covering the structural steel on the fifth and sixth floors of Building G;

(2) In the plaster compound in the hallway ceilings in Buildings B, C and E; and

(3) In the elbows of all interstitial piping carrying hot and cold water for the HVAC system.

The Borrower has implemented a comprehensive asbestos removal and management plan. This plan involves the encapsulation and removal of asbestos in certain "high traffic" pipe elbows, taping and sealing of all remaining pipe elbows, the removal of asbestos insulation on floor six of Building G and the replacement of the plaster compound in Building E. The Brunswick Corporation which occupies 100 percent of Buildings A, B and C has been informed of the presence of asbestos in the plaster compound located in Buildings B and C is responsible for its encapsulation and/or removal. Future asbestos management plans call for the continuation of the 24-hour air volume monitoring program, the removal of the remaining asbestos insulation on floor five of building G when Kraft vacates the space (Kraft has been informed of the presence of asbestos) and the gradual removal of asbestos from all pipe elbows. A copy of the asbestos study and the management plan will be given to USF&G's environmental engineer for their review and approval.

E. PROJECT BUDGET

The property was acquired by the Borrower in 1983 and 1984 for approximately $18.5 million. Approximately $7.0 million was spent in the base building renovation phase for the existing properties. $3.4 million was spent on Kraft's tenant improvements. The Borrower's share of improvement costs for the development land will be approximately $1.5 million. After deducting $3.3 million due to the sale of the hotel parcel to Marriott, the Borrower's total investment basis in the property is currently estimated at $31.1 million; $25.6 million or $77.59 per square foot of leasable area allocated to the existing improvements and $5.5 million or $20.22 per FAR (Floor to Area Ratio) square foot allocated to the land. The proposed loan is allocated $20.5 million to the existing improvements and $3.0 million to the land with $22.1 million in net loan proceeds going to the Borrower (see Exhibit II-8).

F. CONCLUSIONS

Old Orchard Plaza is a unique real estate asset. The existing property is fully leased and its rent roll is exclusively Fortune 500 firms. Although the property was constructed between 1949 and 1972, it was completely renovated in 1983 through 1987 and will benefit from the site and road improvements associated with the construction of the Marriott Hotel in 1989. The hotel will provide Old Orchard Plaza and the surrounding area with a needed amenity which will ultimately increase the probability of a successful office development on the remaining 6.2-acre office parcel included in the Old Orchard Plaza loan security.

The property benefits from its location adjacent to a four-way freeway interchange and a forest preserve in a suburban area characterized by a lack of freeway intersections. The project is also located near downtown Chicago, the O'Hare airport and Chicago's largest concentration of executive housing. Old Orchard Plaza will ultimately benefit from the no-growth movement which has been successfully implemented by these exclusive "north shore" residential communities. This anti-development movement has successfully downsized several office projects in the northern suburbs of Chicago, but corporations headquartered in the area continue to expand due to the area's large concentration of executive housing.

EXHIBIT II-1
REGIONAL LOCATION MAP
OLD ORCHARD PLAZA

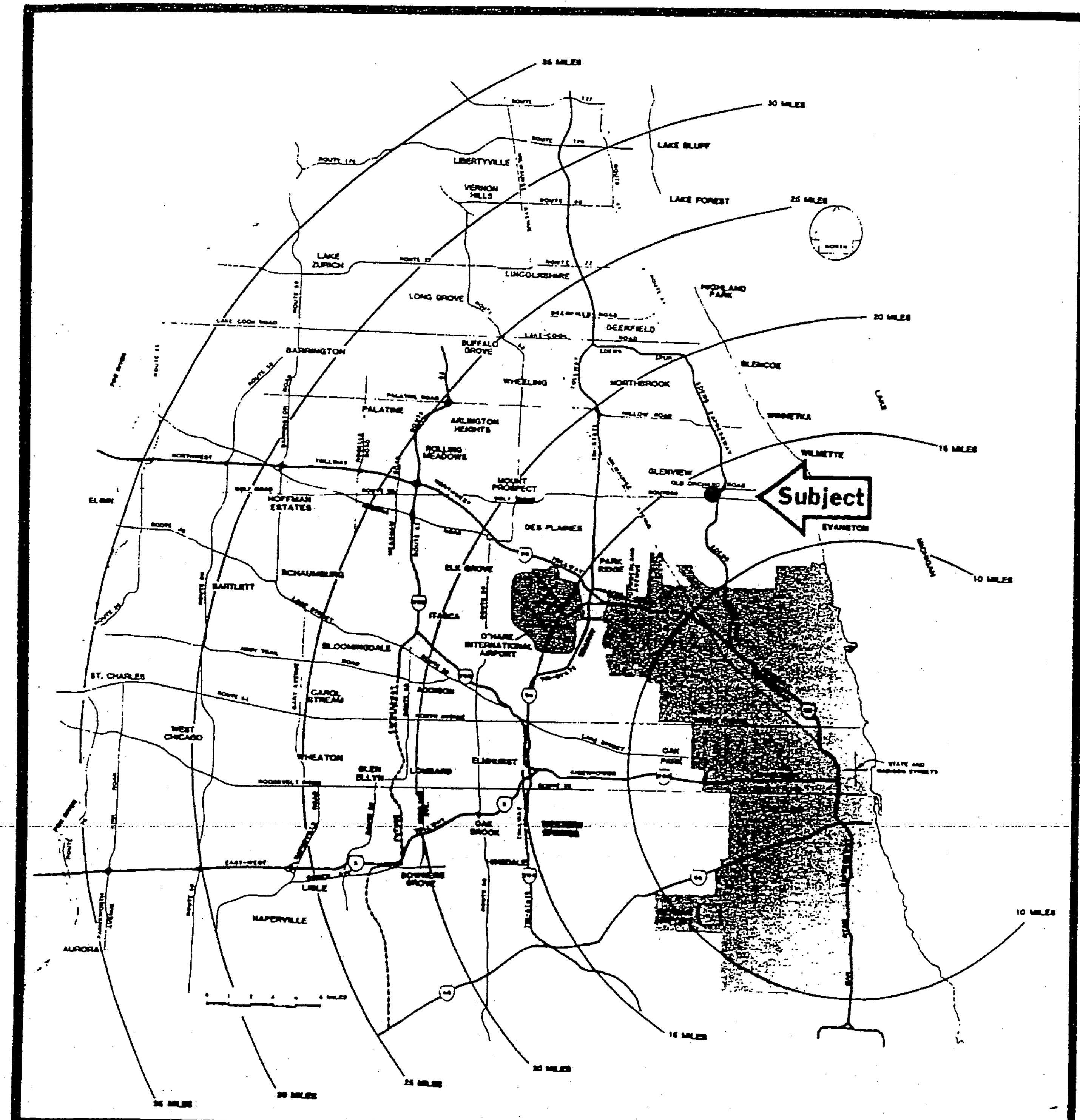


EXHIBIT II-2
SITE VICINITY MAP
OLD ORCHARD PLAZA

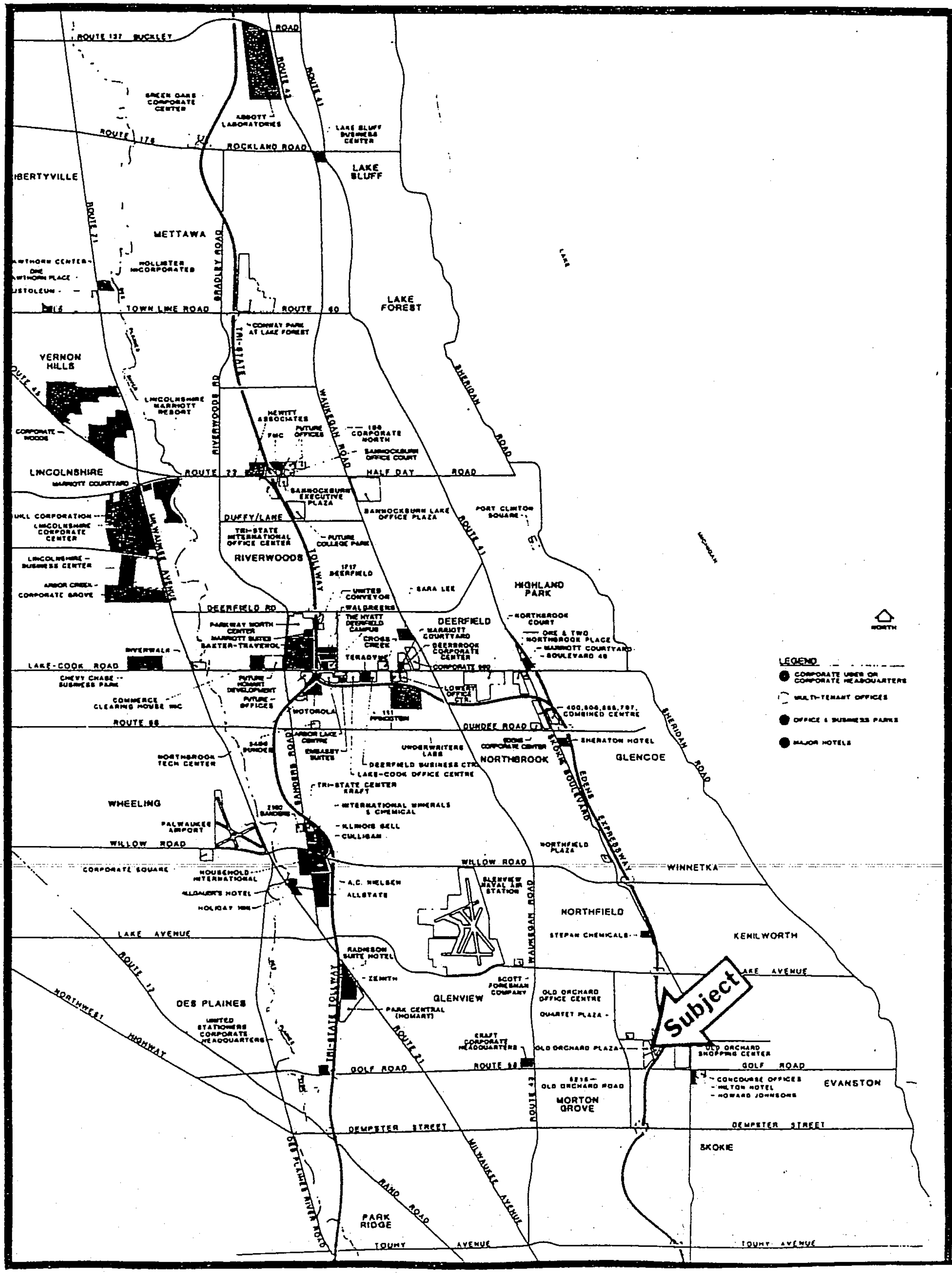


EXHIBIT II-3
REGIONAL ACCESS MAP
OLD ORCHARD PLAZA

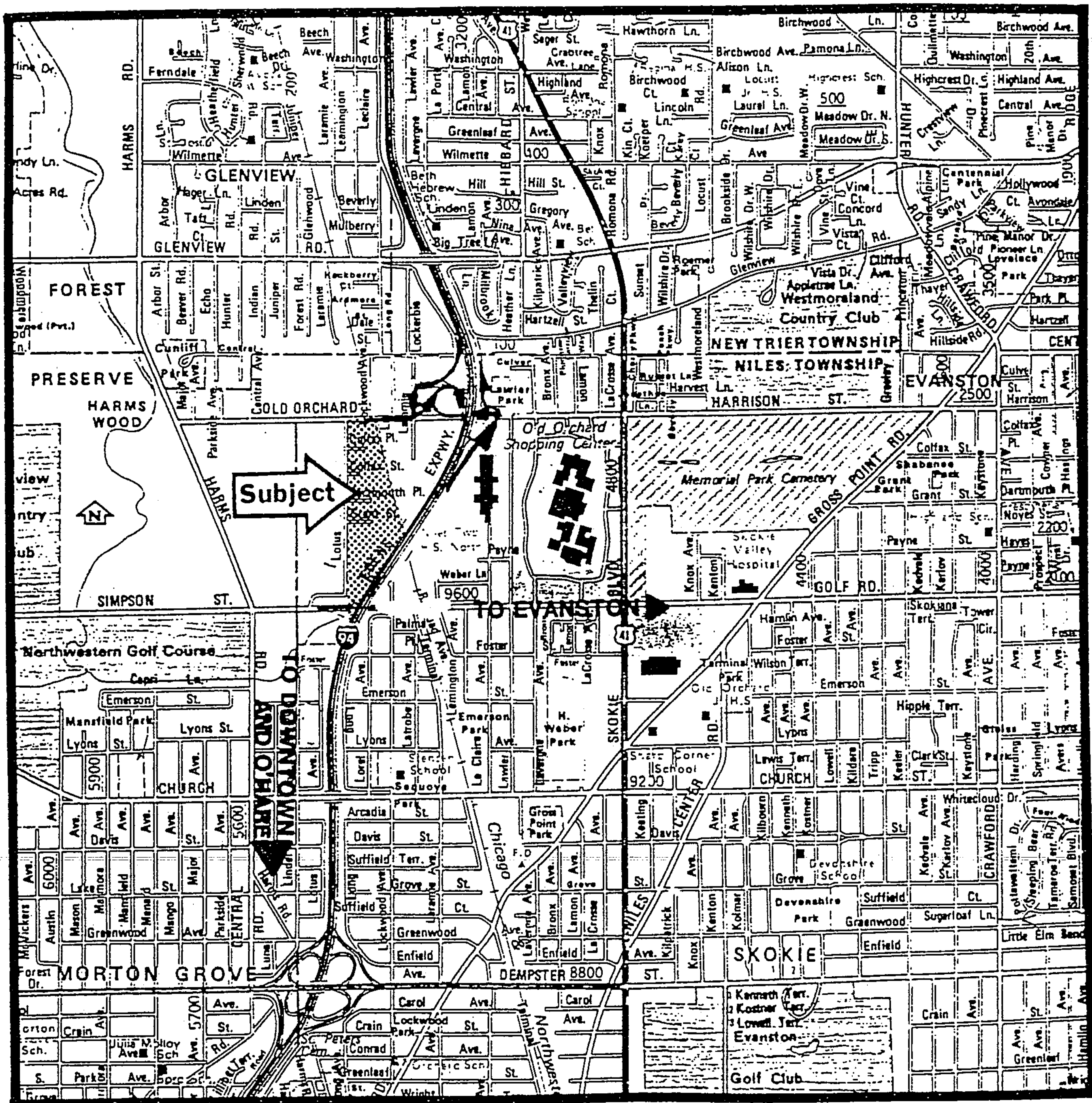


EXHIBIT II-4
EXISTING INGRESS/EGRESS
OLD ORCHARD PLAZA

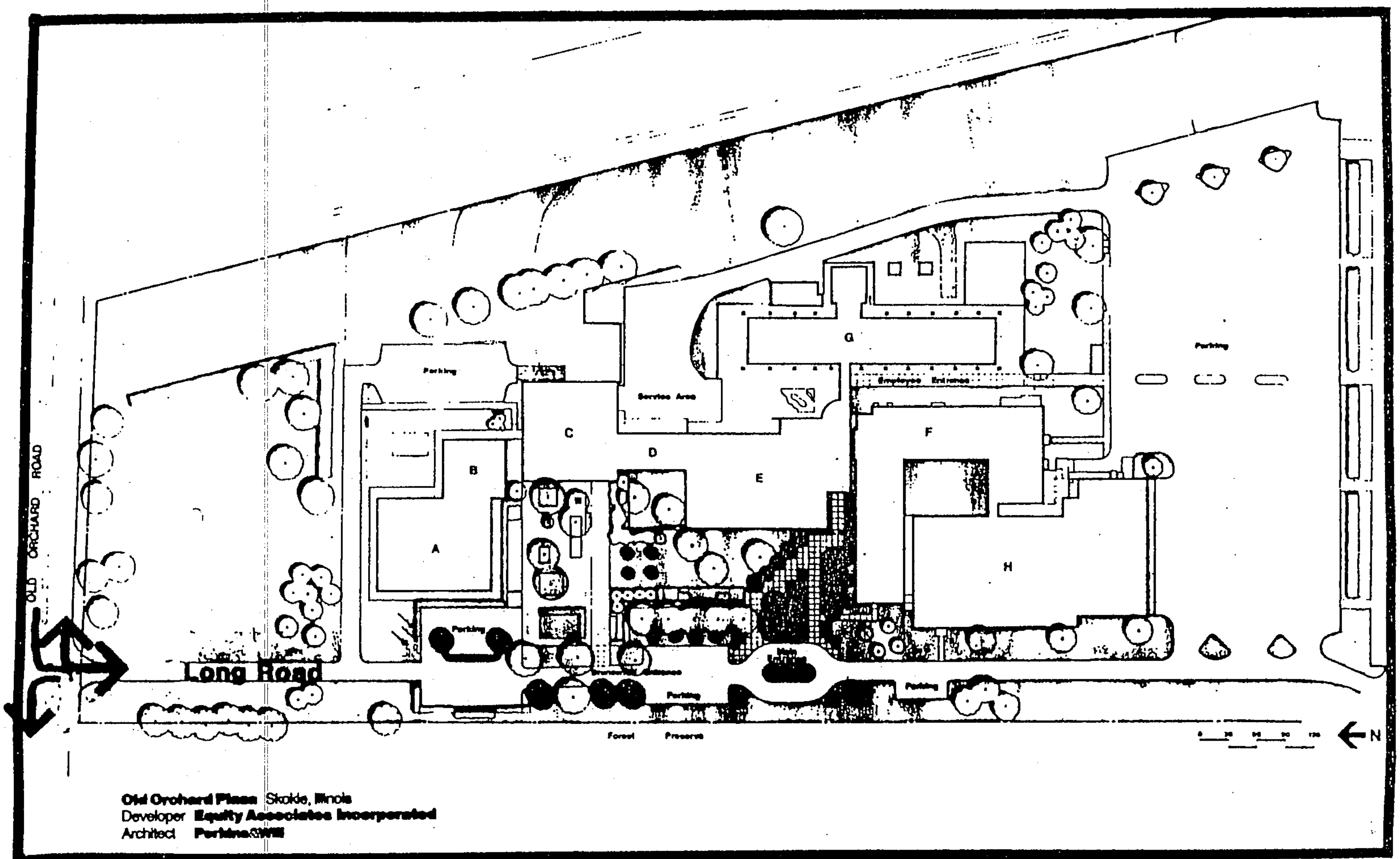


EXHIBIT II-5
AERIAL PHOTOGRAPH
OLD ORCHARD PLAZA

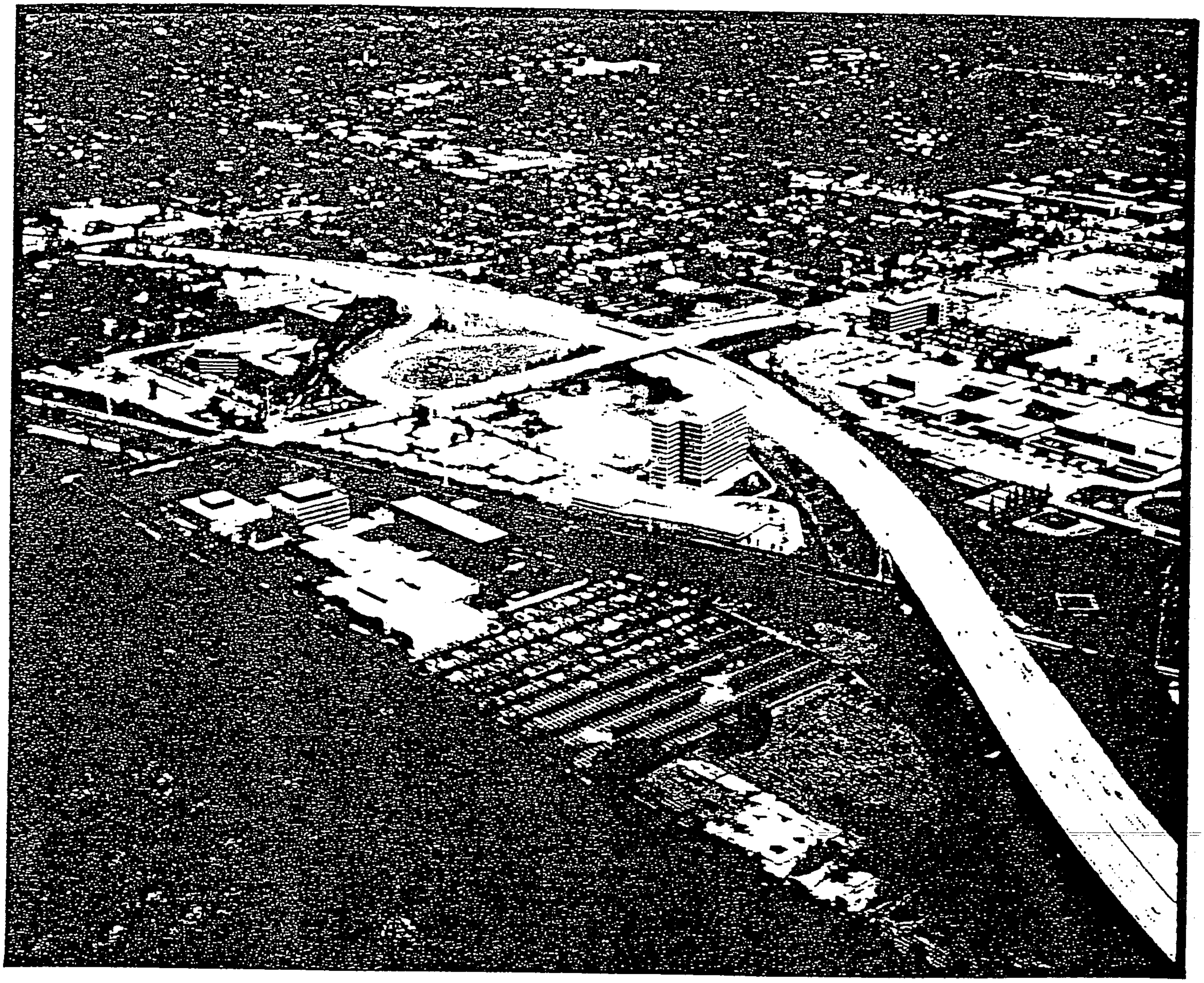


EXHIBIT II-6
SITE PLAN
OLD ORCHARD PLAZA

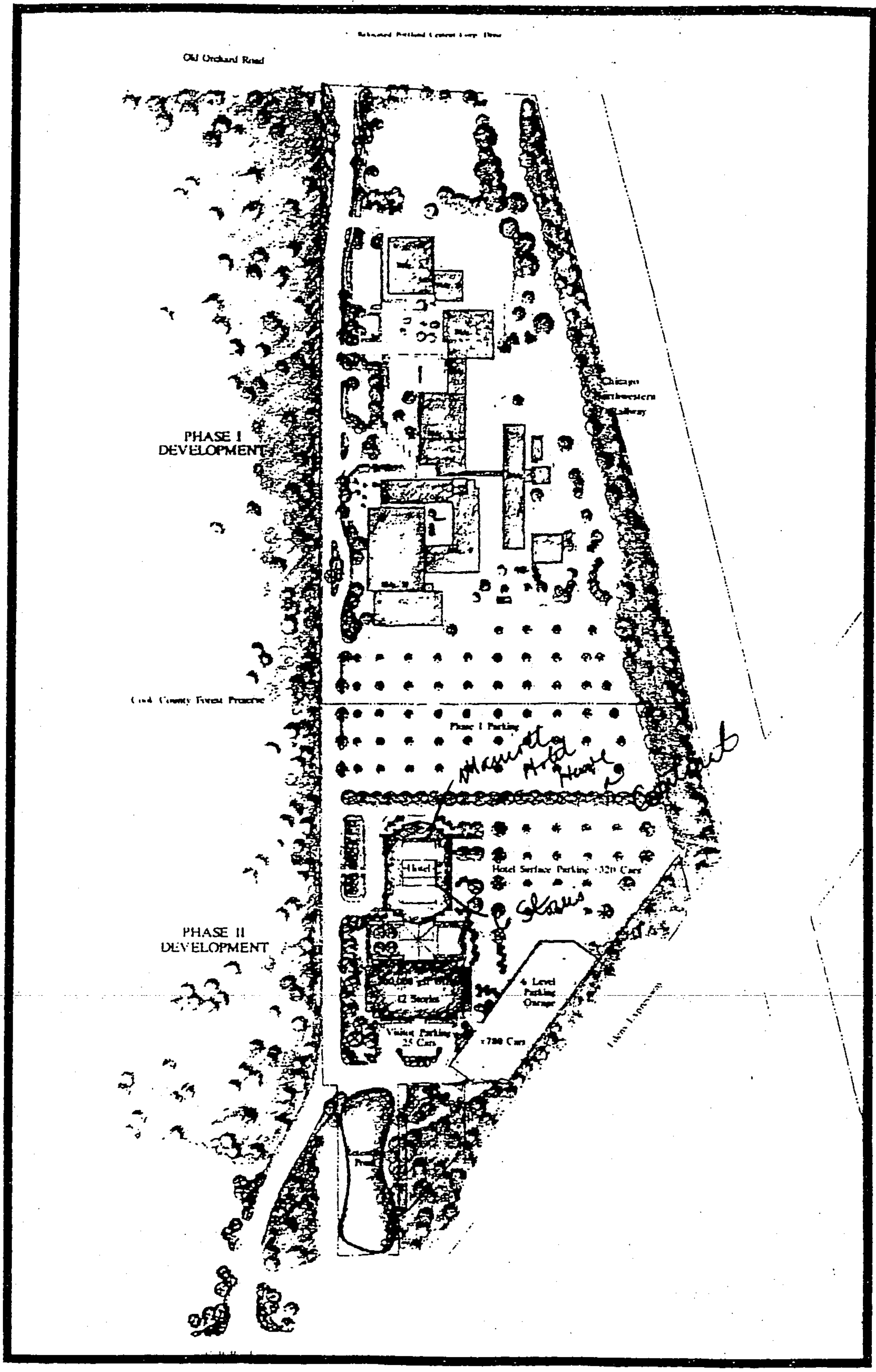


EXHIBIT II-7
BUILDING PHOTOGRAPH
OLD ORCHARD PLAZA

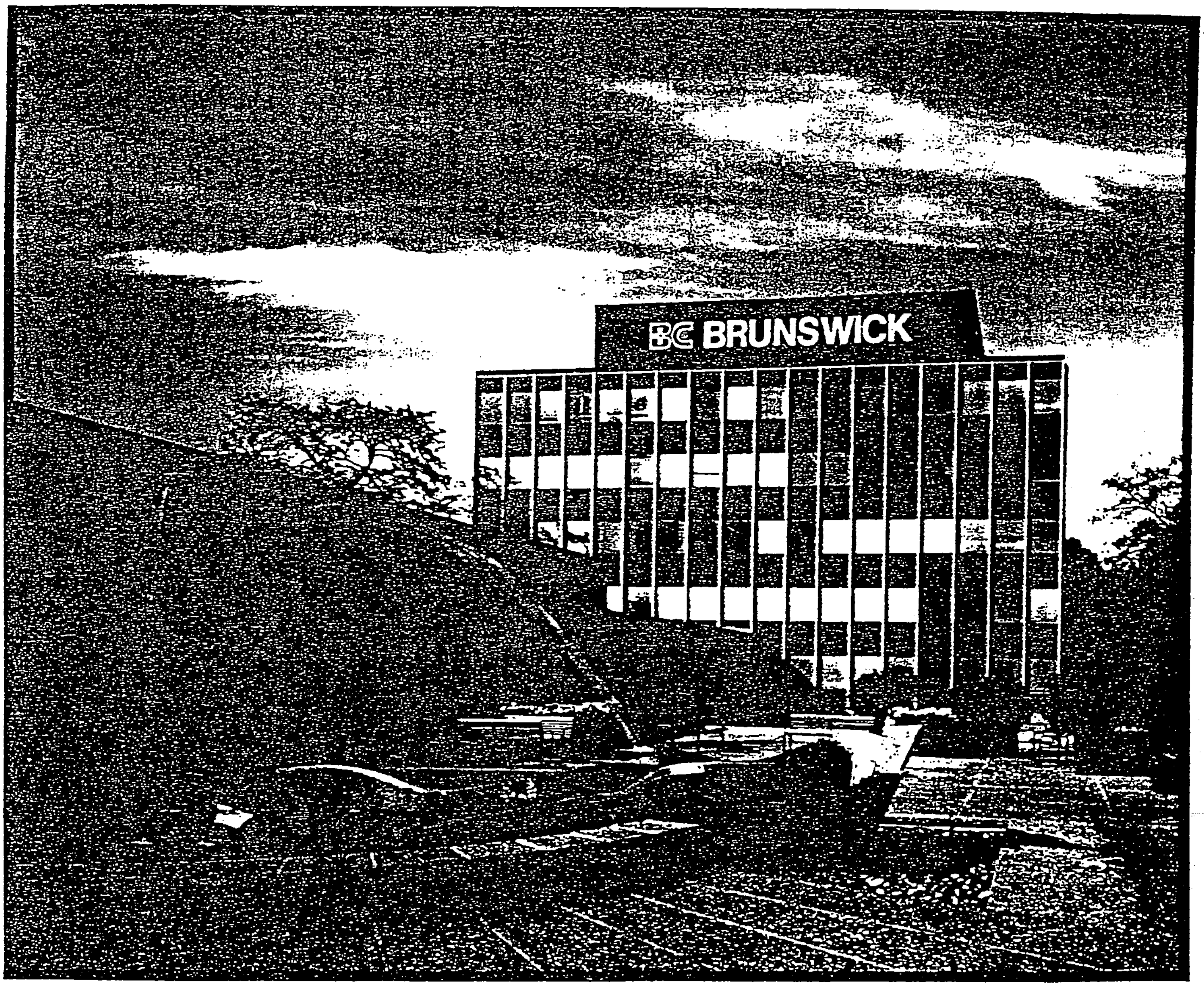


Exhibit II-8

SOURCE AND USE OF FUNDS
OLD ORCHARD PLAZA

INITIAL FUNDING		
Source of Funds		
USF&G Loan	$23,000,000	
Total		$23,000,000
Use of Funds		
Net Proceeds to Borrower		$22,100,000
Closing Costs		$ 900,000
Aetna Prepayment	$ 625,000	
Legal	50,000	
Engineering	20,000	
Title, Survey	15,000	
USF&G Fee	176,250	
Appraisal	5,000	
Closing, Miscellaneous	8,750	
Total		$23,000,000
SUBSEQUENT FUNDING		
Reserve Funding		$500,000
Long Road/Site Improvements (25 percent of total cost)	$ 450,000	
Other Capital Items	50,000	
TOTAL LOAN COMMITMENT		$23,500,000

Source: Piedmont Realty Advisors

III. THE MARKET OVERVIEW

III. THE MARKET OVERVIEW

A. INTRODUCTION

Chicago's five office submarkets have generally exhibited lower absorption rates in 1988 when compared to 1987 figures (see Exhibits III-1 and III-2). The overall Chicago office market vacancy rate was 15.3 percent at the end of the second quarter of 1988; the rate was 11.6 percent in downtown and 20.7 percent in the suburbs. Net absorption marketwide is currently occurring at an annual rate of approximately 7.1 million square feet which represents a 35 percent decline from the 1987 rate of absorption. Unlike 1987 when significant concessions resulted in record office space absorption, this current slowdown in absorption is due in part to a tightening of concessions marketwide.

B. THE NORTH SUBURBAN OFFICE MARKET

1. Overview

The north suburban office market is defined as the area bounded by Foster Avenue on the south, Milwaukee Avenue on the west, Lake Michigan on the east and Route 120 on the north (see Exhibit III-3). The office market is divided into three distinct concentrations of office development around freeway intersections. These concentrations of office development are approximately ten miles apart due mainly to a lack of freeway interchanges in the north suburban area of Chicago. One concentration surrounds the Old Orchard Road interchange of the Edens Expressway and extends eastward on Golf Road to Evanston. The second concentration of office space in the northern suburban office submarket is a corridor along Lake Cook Road with significant nodes of space located near the intersection of Waukegan Road and the Tri-State Tollway. Office projects along Half Day Road form the third concentration of office space in the northern suburbs.

As the land in the Old Orchard Road area became scarce, development jumped north to Lake Cook Road and then to Half Day Road in 1984. As the market moved north, new projects along Half Day Road competed with multi-phase projects along Lake Cook Road. As a result the northern suburban office market is currently recovering from a six quarter long period of oversupply which caused a 25 percent decline in effective rents by the end of 1987 (see Exhibit III-4). However, record absorption levels in late 1987 and early 1988 have increased effective rents to within five percent of fourth quarter 1986 contract rents. While the oversupply resulted in (1) three major tenants migrating to the market - Sears Discovery Card, Premark Industries and Moore Business Forms and (2) absorption of a significant portion of the supply of developable office land, several multi-phase developments will add almost 1.0 million square feet of space by 1990. This new addition of supply should result in relatively flat rental rate growth throughout the northern suburban market until this new space is absorbed.

If Old Orchard Plaza was a speculative development, Piedmont Realty Advisors would not recommend a forward commitment due to our interpretation that the north suburban market is entering a period of oversupply which should be characterized by relatively flat effective rental rates and increased concession activity. The historical pattern of development and its subsequent absorption in the northern suburbs indicates that the market should be in a recovery period in the 1991 and 1992 time frame. It is this period in which the Borrower has targeted its development completion date for the proposed 272,000 square foot office building. This 1991/1992 time frame is also significant for the existing property because Kraft's lease expires October 31, 1991. The 1991/1992 time frame should be characterized by declining vacancy rates and increasing effective rental rates. Overall the timing characteristics of the subject property fit very well into the historic patterns of the north suburban office market.

2. Real Estate Taxes

Although a lack of developable land in the Old Orchard Road area originally led to the northerly expansion of the office submarket, real estate tax spreads between Cook County (location of the subject property) and Lake County have resulted in a construction boom and record absorption levels north of Lake Cook Road. ~~Taxes for new buildings in Northbrook (Cook County) range from $5.00 to $8.00 per square foot.~~ Real Estate taxes for new buildings in Deerfield or Lincolnshire (Lake County) range from $2.50 to $5.00 per square foot.

why would you build project cost w/5% by 1991 - 5.80 9.25

This tax differential has caused Cook County developers to lower their effective net rental rates to accommodate tenant demand. The impact of these tax differentials and the subsequent developer response has resulted in the following submarket trends:

(1) A change to a triple net rental rate structure marketwide;

(2) Tenant negotiated tax caps (tenant pays no more than a negotiated real estate tax payment) in Cook County;

(3) Flatter contract rental rate increases in Cook County relative to Lake County; and

(4) Absorption rates which are generally proportionate between Cook and Lake County developments.

Old Orchard Plaza will have significant advantage over other Cook County competition because its real estate tax rate of $4.40 per square foot will not be increased more than two percent per year until the next quadrennial assessment in 1992 and will not be increased due to the funding of the proposed participating loan.

won't there be a significant increase in 1992 to catch up

C. COMPETITIVE OFFICE MARKET

1. Overview

There are seven existing office projects containing ten buildings, one project planned and three projects approved which could potentially compete against Old Orchard Plaza (see Exhibits III-5 and III-6). Collectively the existing properties contain almost 1.9 million square feet of office space with a relatively healthy average vacancy rate of 8.7 percent. The 8.7 percent vacancy rate is particularly healthy because the vacant space includes 25,500 square feet in Old Orchard II which is leased until October, 1988 and 35,754 square feet in 5215 Old Orchard which is encumbered by absolute rights of expansion with 1990 and 1991 exercise dates. Harmswoods Plaza is the only approved building close to a construction start date. Negotiations for an anchor tenant have concluded and the developer is currently seeking financing.

100 percent of Old Orchard Plaza's office space is currently leased to credit tenants. Kraft's lease, which expires on October 31, 1991, is the first vacancy exposure for the property. Therefore, the relevant competitive market factors for the subject property are as follows:

(1) Current market rental rate applicable to the subject property and prospects for future growth;

(2) Kraft's plans in the market; and

(3) The probability of future construction and its impact on the development of a 272,000 square foot office building on the subject property.

2. Market Rental Rate

The average rental rate for office space in the competitive market area is $13.68 per rentable square foot on a triple net basis. Individual property rental rates range from $10.00 to $17.50 per square foot. Based on the subject property's location, condition of its buildings and the quality of the Kraft space, Piedmont concludes that the effective market rent applicable to the Kraft space today is $12.00 per square foot triple net. If Kraft vacates in 1991, $10.00 per square foot (current dollars) would be required in tenant improvements to achieve the market rent. New leases would include annual rental rate increases of two to three percent or 30 percent of the change in the consumer price index.

big issue?

3. Kraft

Kraft occupies 137,713 square feet of office and basement space in the subject property. The 137,713 square feet is encumbered by various leases with coterminous expiration dates of October 31, 1991. Kraft's headquarters is currently located one mile east of the subject property at the intersection of Golf and Waukegan Roads. They are currently operating the facility at capacity and have leased an additional 420,000 square feet of office space (including the subject) in the northern suburban market with all leases terminating in 1991. Kraft is currently seeking approval from the Village of Northfield to rezone approximately 400 acres at the intersection of Waukegan and Willow Roads for the construction of a new world headquarters. The Village is against the rezoning effort and has placed a measure on the November 1988 ballot to purchase the property and convert it to park land. Kraft is currently challenging the legality of the measure in Cook County circuit court. A timely resolution of this matter is highly unlikely.

Kraft has invested a significant amount of money in the subject property for the construction of three computer facilities. Their office space is currently used by their consumer products division for customer service and accounting and they have constructed a state-of-the-art wordprocessing training facility in the basement of Building G. Based on Kraft's legal problems with Northfield and their level of investment in the subject property, Piedmont assumed that Kraft would renew in 1991 for three years. In 1994 it was assumed that Kraft would move out of the building and that $21.50 per square foot would be spent to rehabilitate their 137,713 square feet of space.

4. Future Construction

There is a limited number of buildings which can be constructed in the competitive market area. Northfield III is the third and final phase of a successful project developed by the Marling Group and is experiencing legal and approval problems. The Concourse project has a serious parking problem which would get worse, if either of the two approved towers were developed because a portion of the existing parking garage would have to be demolished to accommodate the construction. Draper & Kramer purchased the Standard Rate and Data Services building in 1983 for $17.50 per square foot of office building area. Demolition costs and lower than expected site density has resulted in a cost basis of $25 per square foot of buildable office area which is substantially higher than market value; the market rents would have to increase to approximately $24.00 per square foot triple net to finance construction.

Draper & Kramer will probably be the only competition for the proposed 272,000 square foot tower on the subject property. The indicated market timing of the proposed tower is in the 1991 to 1992 time frame. The Borrower's proforma rent of $20.00 triple net is reasonable relative to current market rents and the indicated rent for Draper & Kramer's building.

D. CONCLUSIONS

The competitive market area for the subject property is very healthy relative to the suburban Chicago office market. This is due primarily to a lack of development land in the competitive area and a stable tenant base. The subject property should be 100 percent leased until 1991 when Kraft's lease expires. Although there is a possibility that Kraft may vacate their space in 1991, it is highly unlikely due to their substantial investment in their space and their legal problems associated with their new headquarters site.

The development time frame of 1991 to 1992 for the 272,000 square foot office building is supported by Piedmont's market analysis. The 1989 proforma rent of $12.00 per square foot triple net for Kraft's existing office space and $20.00 for the future construction is reasonable based on current and anticipated short run market conditions. Overall the subject property is exposed to a minimal amount of market risk in the short run and has the potential for significant upside in the long run due to a lack of competition and the ability to develop a high-rise office building as part of the loan security.

EXHIBIT III-1
CHICAGO OFFICE SUBMARKET
LOCATION MAP

(1) - (5) Correspond to Exhibit III-2

Exhibit III-2

CHICAGO OFFICE MARKET SUMMARY
JULY, 1988

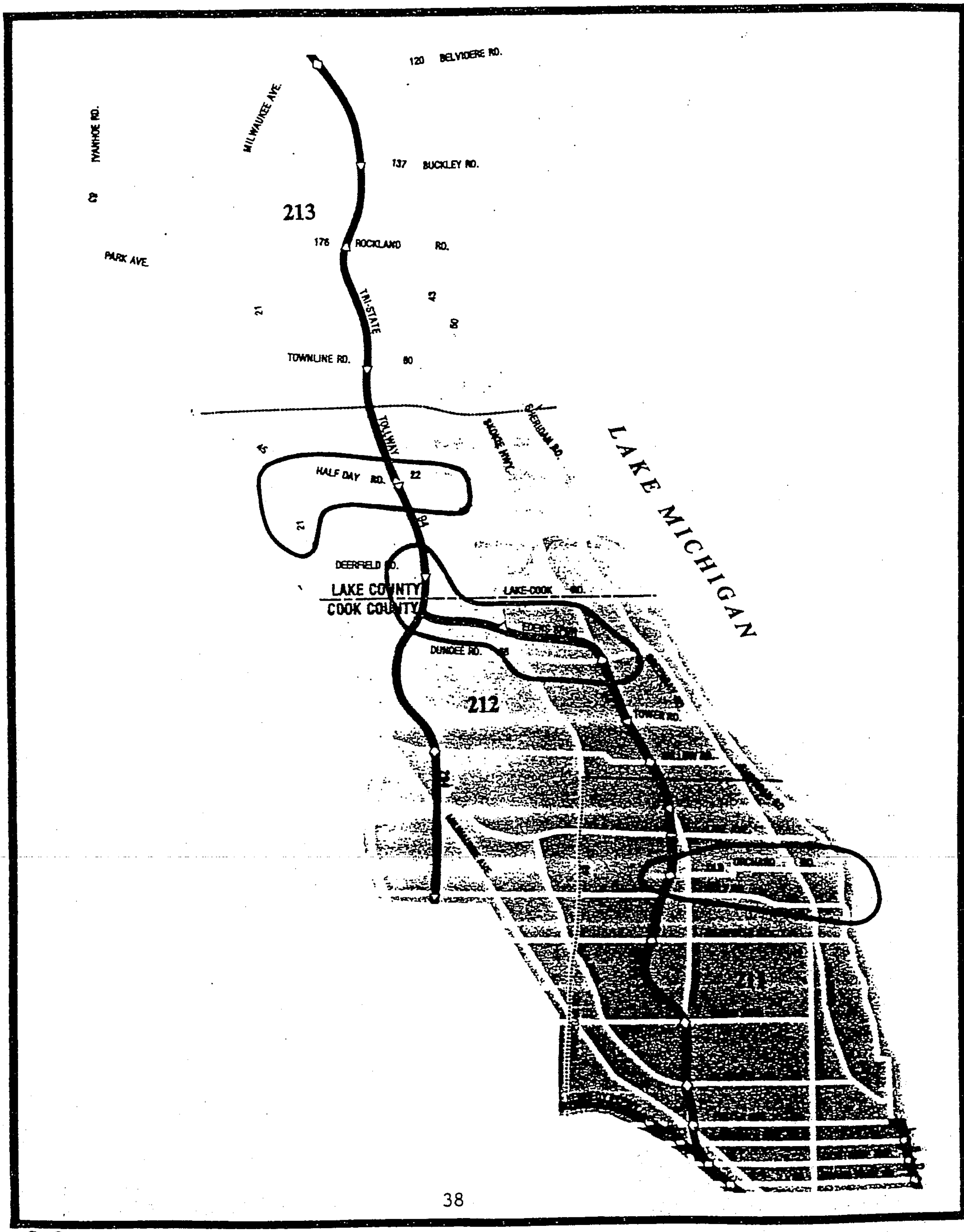
Map No.	Submarkets	Total (Sq. Ft.)	Vacant (Sq. Ft.)	Vacancy Rate	Absorption 1987	Absorption 1988 (1)
1	Downtown	96,295,565	11,212,893	11.6%	4,920,000	3,022,000
2	East-West Tollway	22,917,112	4,524,373	19.7	1,733,000	1,790,000
3	Northwest	18,143,451	4,576,158	25.2	1,540,000	1,440,000
4	North Suburbs	12,622,903	1,949,060	15.4	1,560,000	600,000
5	O'Hare	10,888,391	2,286,065	21.0	1,080,000	200,000
TOTAL		160,867,422	24,548,549	15.3%	10,833,000	7,052,000

Notes: (1) All square footage in net rentable area.
(2) Figures include all buildings over 10,000 square feet in size.

(1) 1988 annual net absorption estimated by doubling the absorption figures through the end of the second quarter of 1988.

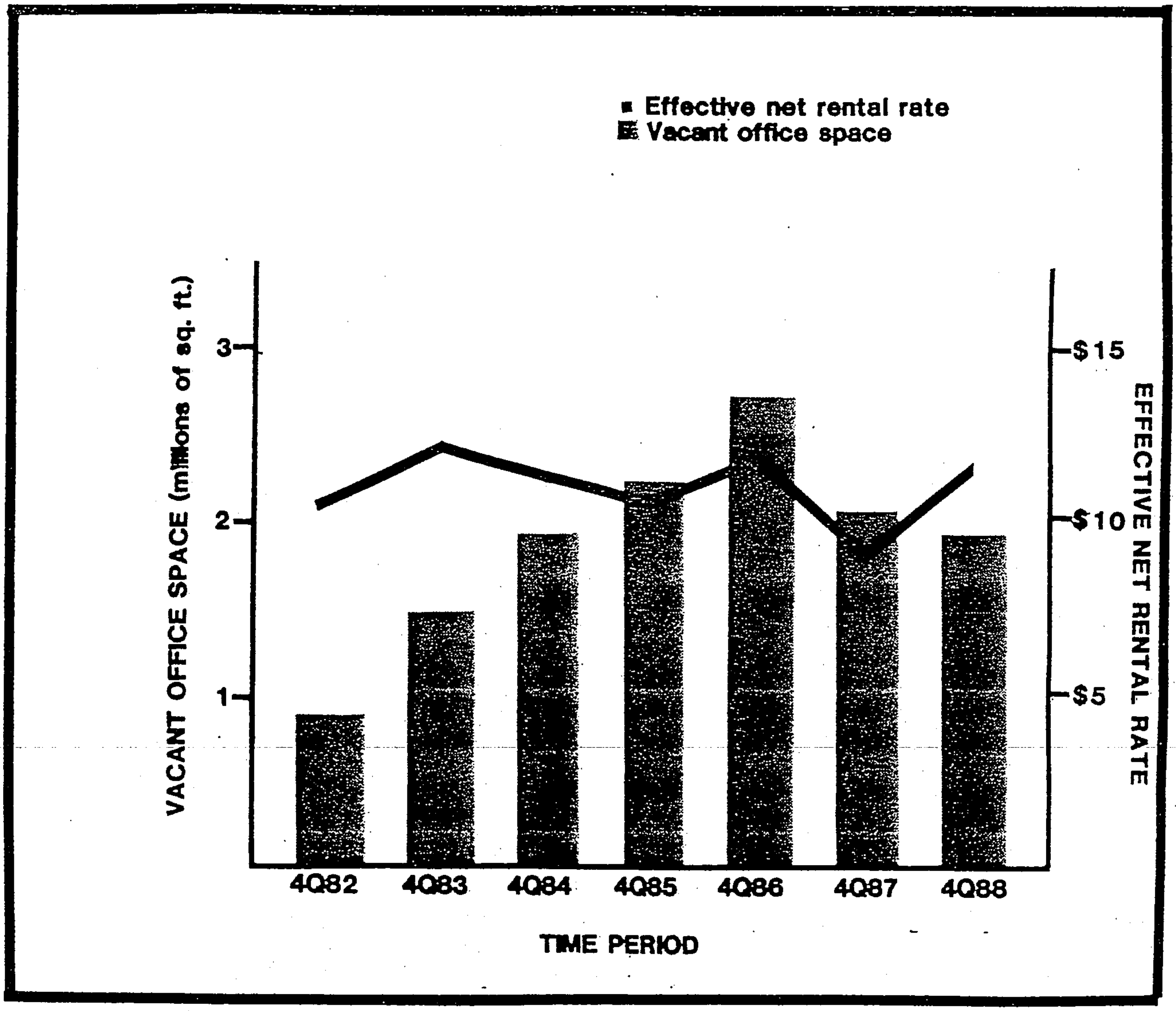
Sources: Frain, Camins & Swartchild;
Coldwell Banker;
Piedmont Realty Advisors.

EXHIBIT III-3
OFFICE CONCENTRATIONS
NORTH SUBURBAN
SUBMARKET



O Office concentration

EXHIBIT III-4
VACANCY TRENDS
NORTH SUBURBAN
SUBMARKET



SOURCE: Frain, Camins & Swartchild;
LaSalle Partners;
Lincoln Property Company;
Piedmont Realty Advisors.

Exhibit III-5

COMPETITIVE OFFICE SURVEY
OLD ORCHARD PLAZA

Map No.	Building Name	Year Built	No. Floors	Size (Sq. Ft.)	Vacant (Sq. Ft.)	Vacancy Rate	Rental Rate (Quoted)	Expense Stop	Comments
EXISTING BUILDINGS									
1	One Rotary Plaza	1977	18	377,000	40,000	10.6%	$21.50	$6.50	Vacant space is highly finished.
2	Sherman Place	1986	8	135,000	14,615	10.8%	$19.50+ $ 1.50 Elec.	$7.50	Three percent annual increase. $25 tenant improvement workletter.
3	State National Bank	1969	22	321,968	13,200	4.1%	$19.00+ $ 2.00 Elec.	$6.50	35 percent of CPI annual. No parking.
4	Concourse I	1971	12	140,000	5,745	4.1%	$18.00+ $ 2.50 Elec.	$8.00	2.1/1,000 parking ratio.
4	Concourse II	1972	12	140,000	0	0.0	N/A	N/A	Nutrasweet sublease for 80,000 square feet at $9.00 net "as is".
5	Northfield Phase I	1980	5	118,963	7,500	6.3%	$21.75+ $ 1.50 Elec.	$8.25	Turnkey buildout offered to small tenants.
5	Northfield Plaza II	1982	3	118,963	2,900	2.4%	$21.75+ $ 1.50 Elec.	$8.75	IBM anchor tenant.
6	Old Orchard I	1982	7	165,000	0	0.0	N/A	N/A	Searle occupies entire building.
6	Old Orchard II	1983	7	165,000	25,500 (1)	15.5%	$15.00 Net	N/A	Searle will probably take vacancy.
7	5215 Old Orchard	1984	12	210,000	55,850 (2)	26.6%	$17.50 Net	N/A	16 percent load factor.
EXISTING BUILDINGS TOTAL/AVERAGE				1,891,894	165,310	8.7%	$13.68 (3)		

Exhibit III-5 (cont'd)

Map No.	Building Name	Year Built	No. Floors	Size (Sq. Ft.)	Vacant (Sq. Ft.)	Vacancy Rate	Rental Rate (Quoted)	Expense Stop	Comments
PLANNED BUILDINGS									
A	Harmswoods Plaza	1989	6	90,000	70,000	77.8%	$19.50 Net	N/A	(4)
POTENTIAL BUILDINGS									
4	Concourse III/IV	N/A	12	132,500/ Building	N/A	N/A	N/A	N/A	N/A
B	SRD	N/A	N/A	250,000	N/A	N/A	(5)	N/A	N/A
5	Northfield III	N/A	N/A	200,000	N/A	N/A	N/A	N/A	(6)

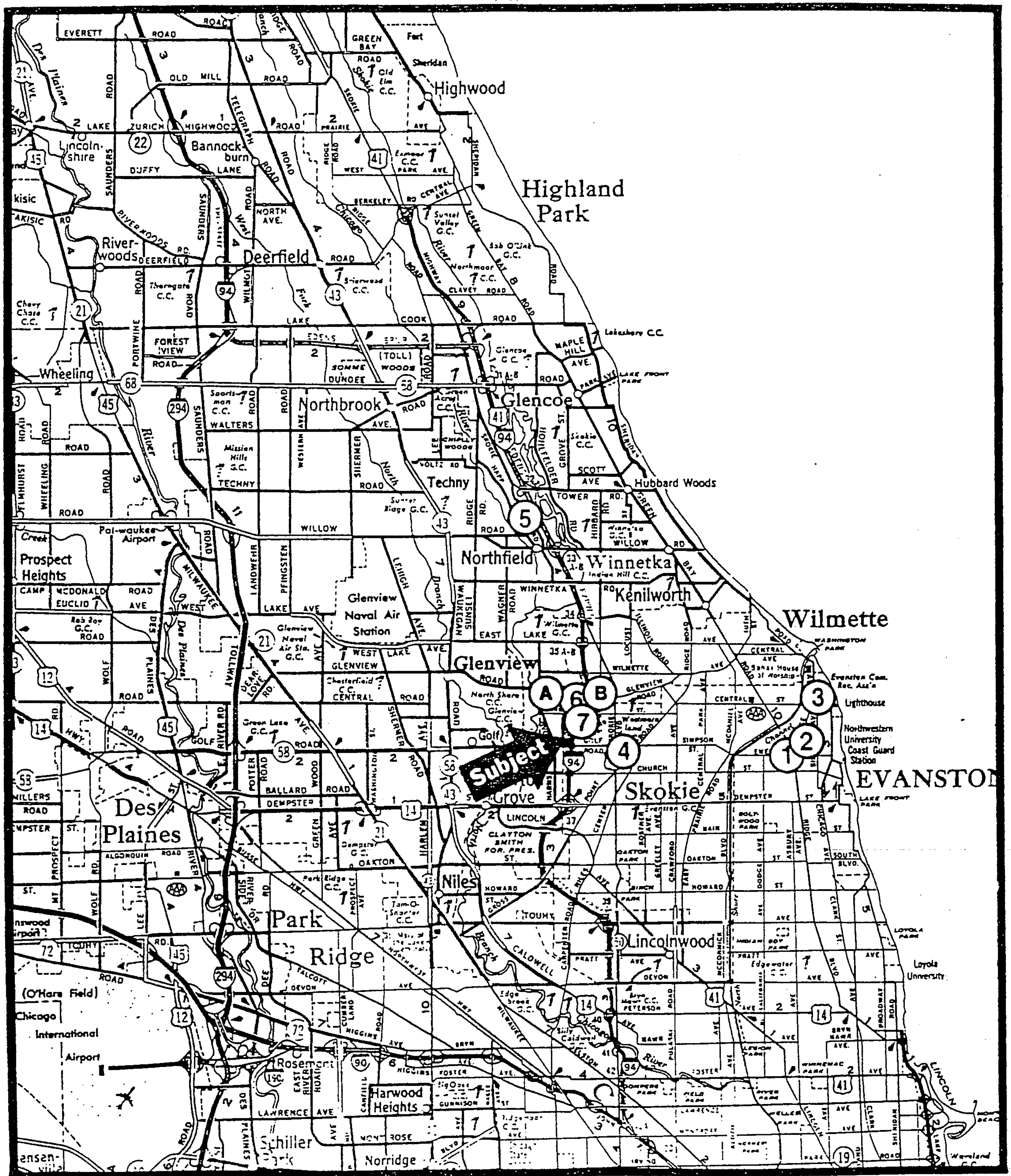
Mark Goodman

N/A = Not Available
Elec. = Tenant pays electricity. Amounts vary due to energy efficiency of building.
T.I. = Tenant Improvement Budget
CPI = Change in Consumer Price Index

(1) Nutrasweet pays rent on 25,500 square feet until October, 1988. Searle is negotiating to take space.
(2) 35,754 square feet encumbered by absolute expansion rights given to Bell & Howell for 1990 and 1991.
(3) All rents converted to triple net for averaging purposes. Averages calculated weighting rents by building square footage.
(4) Pre-lease tenant for 20,000 square feet, 19.50 triple net, 24 months free net rent on a ten-year lease, tenant improvement budget of $26.00 per square foot.
(5) Needs $24.00 net rents to finance or accept a loss.
(6) Plan approval problems.

Sources: Frain, Camins & Swartchild;
LaSalle Partners;
Mark Goodman & Associates;
Piedmont Realty Advisors.

EXHIBIT III-6
COMPETITIVE PROPERTY
LOCATION MAP



1-7 & A-B Correspond to Exhibit III-5

IV. THE BORROWER

IV. THE BORROWER

A. INTRODUCTION

LP Equity Associates Limited (LPEAL) will be the Borrower for the proposed loan. LPEAL is composed of the managing partners of LaSalle Partners Limited, a subchapter S corporation. LPEAL has contracted with LaSalle Partners for development and property management services based on long term "arms length" transaction (see Exhibit IV-1). LPEAL needs institutional partners to continue to develop property and it is very sensitive of its relationship (perceived or otherwise) with LaSalle Partners Limited.

B. THE BORROWING ENTITY

1. Organization

The borrowing entity was formed when LaSalle restructured its corporate form to a subchapter S corporation, but it has existed as Equity Associates since 1973. The key person in the borrowing entity is Stuart Scott, managing director of LaSalle's development group. The person with functional responsibility within LPEAL for Old Orchard Plaza is Wade Judge. Wade has been with Equity Associates since 1975. Mary Anne Cronin reports to Wade Judge and is the project manager responsible for the day-to-day decision making and long-term planning for the new construction on the development parcels of Old Orchard Plaza. Ms. Cronin has been with Equity Associates since 1984.

LaSalle Partners' management services maintains a property management office in Building F at Old Orchard Plaza. The office is staffed by a general manager and a receptionist. One chief engineer, four systems engineers, an apprentice and a handyman are located in various offices in the basement systems area of the complex. Landscaping and janitorial services are handled by third party contracts.

C. BORROWER TRACK RECORD

1. Previous Experience

Equity Associates was formed in 1973 to plan and construct Gould Center in Rolling Meadows, Illinois for the Gould Corporation. Since 1976, Equity Associates has completed ten projects containing over four million square feet of space (see Exhibit IV-2). Most of their development properties are located in the northern suburban area of Chicago. As a result, they have developed a very strong commercial leasing division which has represented over 2,500,000 square feet of corporate tenancies in the north suburban market since 1982. Many of these tenants were placed in competitive buildings because Equity Associates lacked current available office inventory.

D. CONCLUSION

As a Borrower, Equity Associates is one of the strongest choices in the northern suburban area of Chicago. They have large concentration of existing office inventory, they have excellent relationships with all major north suburban corporations and they understand how to economically operate a building in this area of Chicago. Piedmont Realty Advisors interviewed all key Equity Associates' personnel and the on-site property management employees and concludes that the property will be well managed during the investment period of the loan. During the 1991 to 1992 time frame the existing property may have to be released and the vacant land will probably be developed by Equity Associates. Piedmont concludes that the Borrower is currently well staffed to effectively meet both of these needs.

EXHIBIT IV-1
BORROWER FLOW CHART
LPEAL

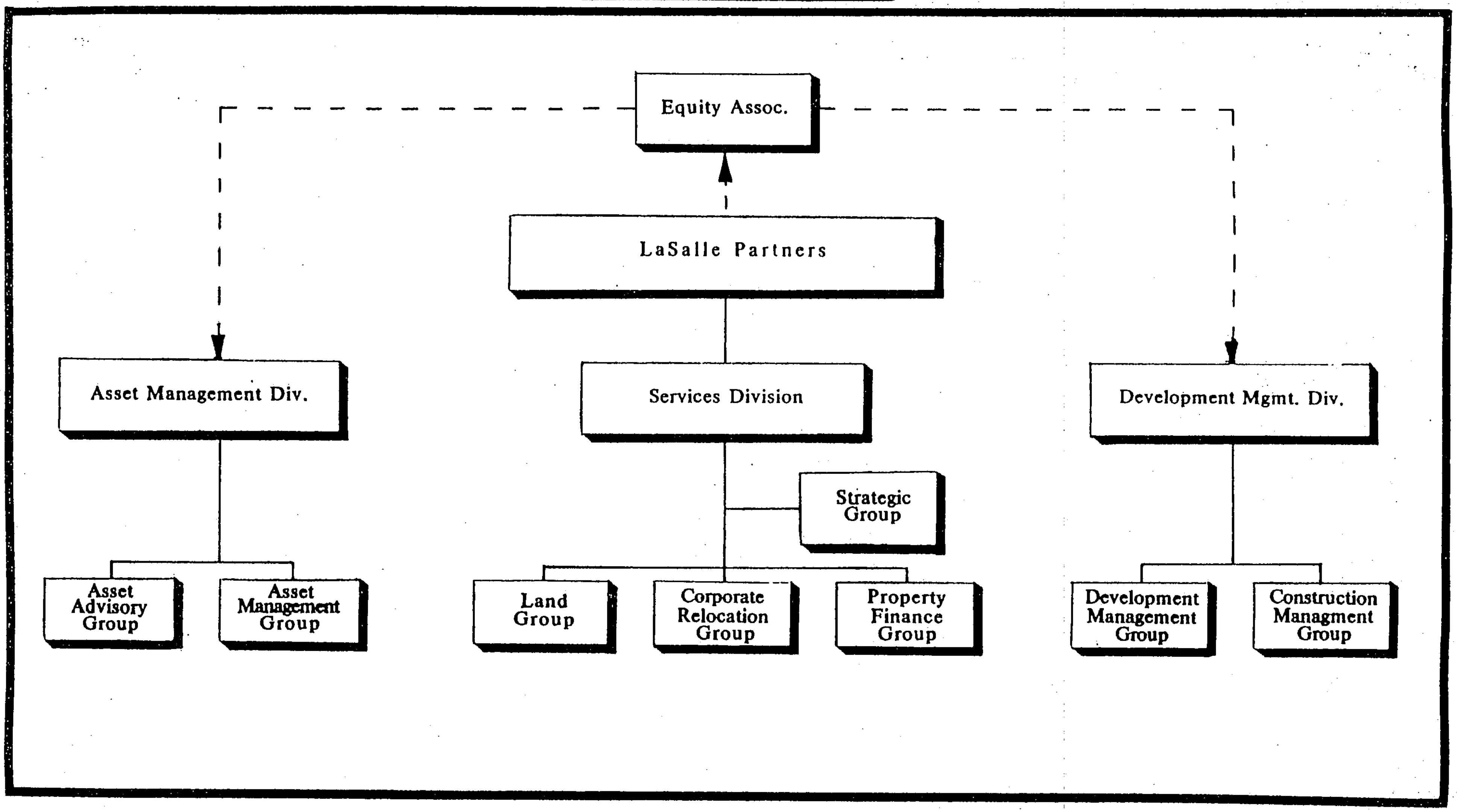


Exhibit IV-2

BORROWER'S TRACK RECORD

Project	Location	Built	Development Size Existing	Development Size Potential
Gould Center	Chicago, Illinois	1976/79	1,000,000	1,000,000
17th Street Plaza	Denver, Colorado	1982	750,000	750,000
11 S. LaSalle	Chicago, Illinois	1984	300,000	300,000
Parkway North	Chicago, Illinois	1986+	250,000	1,250,000
Union Station	Washington, D.C.	1988	290,000	290,000
Tri-State Center	Chicago, Illinois	1978	360,000	360,000
Hewitt Associates	Chicago, Illinois	1978	280,000	280,000
Denver Corporate Center	Denver, Colorado	1979/83	550,000	800,000
1717 Deerfield	Chicago, Illinois	1986	138,000	138,000
Old Orchard Plaza	Chicago, Illinois	1984/86+	329,000	601,000
Total			4,247,000	5,769,000

Sources: Equity Associates;
Piedmont Realty Advisors.

V. RISK AND RETURN

V. RISK AND RETURN

A. DEAL STRUCTURE

1. Introduction

As a form of investment, the participating mortgage has some of the advantages of an equity investment as well as the guaranteed return and security position of traditional debt. The proposed participating mortgage for Old Orchard Plaza will be fully secured by a first lien on (1) the eight existing buildings which are 100 percent leased to credit tenants and (2) a vacant 6.2-acre parcel which is zoned for 272,000 square feet of office development. The income produced by the existing buildings' tenants is sufficient to "carry" the development parcel at the proposed maximum commitment amount.

2. Special Deal Features

The proposed participating mortgage has been structured to allow the existing property's income stream to carry the development parcel. This was accomplished by structuring the loan with a low pay rate of 8.00 percent until the development parcel is released from the loan. Accrued interest will compound quarterly and the difference between the pay rate and the coupon rate of 10.00 percent will be capitalized annually until the development parcel is released from the loan. The Borrower may release the development parcel from the loan for (1) a bonafide sale to a third party, (2) refinancing or (3) development by a related entity. To release the development parcel from the loan, the Borrower must pay the Lender a Base Release Price sufficient to reduce the Outstanding Principal Balance of the loan to an amount which results in a 1.13 debt coverage ratio (net operating income divided by debt service payment) at a 10.00 percent interest only percentage rate. The following is an outline of the base release price formula:

- Assume land release at the end of loan year 2.
- Assume Outstanding Principal Balance of $24,493,823 at the end of loan year 2.
- Assume land value of $5,500,000.
- Assume a year 3 net operating income of $2,499,001.

(1)	Net Operating Income year 3	$ 2,499,001
	Divided by: 1.13	1.13
	New Debt Service Payment	$ 2,211,505
(2)	New Debt Service Payment	$ 2,211,505
	Divided by: .1000	.10
	New Loan Amount	$ 22,115,050
(3)	Outstanding Principal Balance	$ 24,493,823
	Less: New Loan Amount	22,115,050
	Base Land Release Price	$ 2,378,773

(4)	Land Value	$ 5,500,000
	Less: Base Release Price	2,378,773
	Residual	$ 3,121,227
	Multiplied by: .25	.25
	Additional Interest	780,307
(5)	Base Release Price	$ 2,378,773
	Plus: Additional Interest	780,307
	Total Return to USF&G	$ 3,159,080

The Base Release Price is sufficient to pay off $2,378,773 of Outstanding Principal Balance of the loan. After the land release the loan balance will be $22,115,053 and there will be no further accrual after the development parcel is released from the loan.

This mortgage is also structured to allow the Lender to receive additional interest of (1) 25 percent of any profit above the Base Release Price from the sale proceeds of the development parcel or (2) 25 percent of the ownership of the development partnership if the land parcel is refinanced or developed by a related third party. The Lender will also receive 50 percent participation in operations and 50 percent of net sale proceeds as additional interest.

The proposed mortgage is structured with a single holdback which can be disbursed for a variety of capital items during the investment holding period. 25 percent of the total Long Road expansion project and 25 percent of the development parcel improvement costs or approximately $450,000 represents the bulk of this "Reserve" holdback. The remaining portion of the holdback can be used for non-reimbursable capital expenditures such as roof repairs, parking lot repairs and ongoing asbestos removal.

3. Investment Basis

The proposed participating mortgage is allocated $20.5 million or $62.13 per square foot of leasable area to the existing buildings and $3.0 million or $11.03 per FAR square foot to the land. The initial funding will be $23.0 million on the anticipated loan closing date in October 1988. Approximately $450,000 will be disbursed from the reserve holdback during the fourth quarter of 1988 and the first quarter of 1989 to reimburse the Borrower for 25 percent of the costs associated with the Long Road and development parcel improvements.

The Base Release Price provision for the development parcel should result in the repayment of all accrued interest and some principal of the loan. The amount of principal repayment will depend on (1) the timing of the land release (2) the value/price of the land at its release, or (3) the 25 percent ownership cash flows from the new construction.

B. VALUE ESTIMATE

1. Current Rent Roll

Old Orchard Plaza is 100 percent leased to credit tenants with relatively long leases (see Exhibit V-1). All tenant leases are based on net rentable square footage, the Brunswick and Packaging Company of America (PCA) leases are triple net and the Kraft and Cook Travel leases are full-service with a specified expense stop (tenant pays all occupancy costs above expense stop). For the purpose of expense reimbursements, the Borrower estimates the proceeding year's operating expenses and real estate taxes and then bills each tenant proportionally in 12 monthly installments. The Brunswick and PCA leases feature fixed rental rate increases and options to renew. The Kraft and Cook Travel leases feature annual rental rate increases based on 30 percent of the increase in the Consumer Price Index.

2. Proforma Income and Expenses

The proforma income for Old Orchard Plaza is based on the 1989 income and expense projections for the property. The stabilized net operating income is expected to be $2,423,000 (see Exhibit V-2). No vacancy factor was applied to the scheduled income from the property because the (1) property is 100 percent leased until 1991 (2) the operating expenses incorporate non-reimbursable expense and capital expenditures for the operating year and (3) Piedmont excluded 13,192 square feet of the stated BOMA rentable area from its financial analysis. The estimated net operating income produces a 1.29 debt coverage ratio on the scheduled pay rate of 8.00 percent and a 1.03 debt coverage ratio on the loan coupon rate of 10.00 percent.

3. Preliminary Valuation Estimate

Piedmont Realty Advisors estimated the preliminary value of Old Orchard Plaza by comparing the subject property to four office building sales and five land sales in the northern suburban area of Chicago. The value estimate range in Exhibit V-3 is $32.5 to $33.5 million. The proposed loan amount of $23.5 million is 70.1 percent to 72.3 percent of the value estimate.

C. RETURN

1. Cash Flows

Piedmont Realty Advisors estimated the Property's income and expenses to calculate the cash flow to USF&G during the investment holding period of 10 years. Assumptions for the releasing of existing tenant space are shown in Exhibit V-4. The base case cash flow analysis presented in Exhibit V-5 includes a land parcel release at the end of year 3 of the investment holding period. In loan years 1 and 2, the base debt service and the additional interest from operations results in cash returns on investment in excess of 9.0 percent. After loan year 3 the cash returns are estimated at 10 percent or higher.

In the base case cash flows and all of the yield matrix analysis, the development parcel was released from the loan at the end of each respective loan year. The proceeding loan year's net operating income was used to calculate the Base Release Price of the land. To be conservative for the base case, the additional interest from the land release was calculated by taking 25 percent of the difference between a constant land price of $5.5 million and the Base Release Price. It is anticipated that the Borrower will develop the new office building and USF&G will receive its Base Release Price plus additional interest in the form of 25 percent ownership in the new building. Given the size of the new tower, USF&G's 25 percent ownership interest should have a value of approximately $4.0 million. This value would be realized at stabilized occupancy which should occur 3 years after the land release. Therefore, Piedmont expects the actual cash flows and yields from this investment to be greater than the base case presented in this report.

Piedmont assumed that a complete renovation of the Kraft space would occur starting at the end of loan year 6 of the analysis. A 12-month vacancy/free rent period was applied to Kraft's space. In order to pay for the renovation and provide for payment of USF&G's base debt service, a working capital loan of $4.5 million was incorporated into the analysis. 100 percent of the cash flow in loan years 6 through 10 was allocated to retire the working capital loan. The inclusion of the working capital loan eliminated any additional interest from years 6 through 10 of the analysis.

It should be noted that the loan is locked to prepayment for six years. This time period was chosen because it will allow the Borrower to repay the loan or sell the Property prior to the estimated date of Kraft's departure from the Property. If Kraft intends to leave or stay, the Borrower will have enough lead time to formulate an asset strategy for the proposed investment.

2. Returns at Sale

The net residual value of the property was calculated by capitalizing the 11th year's net operating income at 8.75 percent and deducting the sum of (1) two percent selling expenses and (2) releasing costs for space rolling over in year 11. The gross estimated selling price of the existing buildings (the land parcel was released at the end of year 2 of the base case analysis) of $33.3 million is approximately $101 per square foot and represents 1.8 percent to 1.9 percent average annual increase over Piedmont's preliminary value estimate for the existing buildings.

3. Yield Analyses

USF&G's base case internal rate of return for the proposed investment is 12.4 percent (see Exhibit V-6). This yield is based on the assumptions outlined in Exhibit V-4 and the ten-year cash flows presented in Exhibit V-5. Piedmont evaluated alternative yields for the investment by releasing the land parcel at the end of years 3 and 4. Piedmont also varied the capitalization rate under each scenario from 8.5 percent to 9.0 percent which is consistent with the sale comparables evaluated in Exhibit V-3. As shown in Exhibit V-6, USF&G's yields varies from 12.1 percent to 12.5 percent.

D. RISK

The risks involved with this project are outlined below:

Risks	Mitigating Factors
Project	
(a) The fifth floor in Building G and interstitial pipe elbows contain asbestos insulation.	The building is managed under an asbestos removal and management program. 24-hour air volumes are monitored by Standard Testing Services (STS) and Kraft is aware of the presence of the asbestos. Borrower intends to remove and reinsulate when the Kraft space is remodeled.
(b) The project should continue to be oriented toward larger tenants.	Buildings G and H are ideally suited for large tenant occupancy. They can not easily accommodate small sized (under 4,000 square feet) tenants.
(c) Kraft's lease expiration in 1991 is the rent roll's only major risk.	Kraft's world headquarters is located one mile west on Golf Road and they are operating the facility at capacity. They use contiguous space at the subject and have invested substantial funds to develop computer facilities in the basement and on the third and on the sixth floors of their building. They currently have legal problems with their proposed headquarters site at Willow and Waukegan Roads.
(d) The existing properties were constructed in 1949 through 1972.	All of the buildings were substantially rehabilitated in 1983 through 1987. The buildings are currently 100 percent leased to credit tenants and have excellent liquidity characteristics. The profit potential of the existing properties is similar to ONB/Plaza Center and 12301 Wilshire in that the value exists today, not at stabilized occupancy like a forward commitment.

Market Risks

(a) The north suburban office market is currently recovering from an extended oversupply, but will soon be entering another significant construction period.

The continued softness will primarily be the result of the development activities of several merchant builders located in the northern portion of the market. The competitive market area is relatively healthy with a scarcity of developable sites.

Deal Structure

(a) Accrued Interest

Until the land is released from the loan, the interest is accruing at the rate of 200 basis points per year or approximately $500,000. If a constant value of $5.5 million is used for the land and the loan allocation for the land is $3,000,000, there will be a loan to value crossover in year 6 of the loan.

E. CONCLUSIONS AND RECOMMENDATIONS

Not in line w/ our investment policy.

Old Orchard Plaza is a unique institutional grade asset which is 100 percent leased to credit tenants <u>and</u> has the upside potential typically associated with development property. Risk characteristics commonly associated with lease expirations and speculative development are mitigated in the proposed investment because these specific risks at Old Orchard Plaza correspond to a healthy market cycle based on the historical patterns of office absorption and development in the northern suburban office market. The estimated loan to value ratio range of 70.1 to 72.3 percent is the lowest loan to value ratio ranges presented to USF&G and the debt coverage ratio of 1.29 is among the highest.

The projected internal rates of return vary between 12.1 and 12.5 percent and are relatively insensitive to changes in land release assumptions and capitalization rates at sale. The projected internal rates of return are excellent relative to the identified risks of the proposed transaction. In addition, Piedmont Realty Advisors expects the actual cash flows and yields to be higher than those presented because the additional interest from the land portion of the investment should be derived from 25 percent ownership in a 272,000 square foot building instead of 25 percent of the profit from selling the land at todays value.

We therefore recommend that the Real Estate Investment Committee of the United States Fidelity & Guaranty Company approve the issuance of a commitment for a first mortgage of $23,500,000 for Old Orchard Plaza.

EXHIBIT V-1
TENANT RENT ROLL
OLD ORCHARD PLAZA

Tenant	Building	Area	Base Rent	Expense Stops	Net Rent	Lease Commencement	Lease Expiration	Term Remaining (1)	Options/Comments
Brunswick Corporation	A								Renewals:
-Upper Level	B	89,557	$5.75	0	$5.75	01-May-83	30-Apr-93	53	Five 5-year renewals. First option is same as original lease. For each subsequent option, rent is calculated as current rent x 50% of percentage increases in CPI from 4/83 to the month prior to the first month of new lease. Landlord pays tenant $2,000,000 if first option not exercised or $1,000,000 if second option not exercised.
-Lower Level	C	34,673	$3.50	0	$3.50	01-May-83	30-Apr-93	53	
Brunswick (Executive Dining Room)	E	924	$8.10	$0.00	$8.10	01-May-83	30-Apr-93	53	Expense Pass-Through Notes: A) Prorata share of management fees which will not be in excess of 4% of Tenant's Base Rent, Operating (net of taxes and utilities) and Additional Rent. B) Prorata share of real estate taxes, provided that lower level real estate tax allocation based on value equal to 50% of upper level. C) Prorata share of operating expenses, after adjusting for the following: - Tenant is metered separately for electricity. - Tenant provides own cleaning service. - Tenant pays pro rata share of cafeteria operating losses.
Thomas Cook Travel	D	1,331	$15.00	$4.50	$10.50	01-May-84	30-Apr-89	4	Expense Pass-Through Notes: A) Tenant pays $1.00 psf of electrical costs, escalated at the inflation rate. B) Tenant pays pro rata share of any cafeteria operating losses, subject to a maximum of $.75 per net RSF per annum.
Kraft, Inc.	E	2,267	$17.50	$4.50	$13.00	16-Mar-87	31-Oct-91	34	Renewals:
Kraft, Inc.	F	19,867	$16.50	$4.50	$12.00	01-Sep-86	31-Oct-91	34	Extension options for one to three years at market rates.
Kraft, Inc.	F	906	$8.00	$3.50	$4.50	01-Apr-86	31-Oct-91	34	
Kraft, Inc.	G1,G2,G3	40,724	$17.50	$4.50	$13.00	01-Mar-86	31-Oct-91	34	Expense Pass-Through Notes:
Kraft, Inc.	G2	6,678	$16.75	$4.50	$12.25	01-Jul-85	31-Oct-91	34	A) Tenant pays $1.31 per rsf for electrical costs, escalated at the
Kraft, Inc.	G4	17,200	$16.75	$4.50	$12.25	29-Jul-85	31-Oct-91	34	inflation rate.
Kraft, Inc.	G5,G6	34,400	$16.75	$4.50	$12.25	20-Oct-85	31-Oct-91	34	
Kraft, Inc. (Support Center)	G	4,207	$10.00	$3.50	$6.50	12-May-86	31-Oct-91	34	B) Tenant pays pro rata share of real estate taxes, provided that lower level
Kraft, Inc. (Switch & Storage)	G	2,068	$8.00	$3.50	$4.50	01-Apr-86	31-Oct-91	34	estate tax allocation is based on value equal to 50% of upper level.
Kraft, Inc. (Systems Group)	G	7,720	$14.00	$3.50	$10.50	09-Mar-87	31-Oct-91	34	
Kraft, Inc. (Corridor)	G	643	$8.00	$3.50	$4.50	01-Jan-88	31-Oct-91	34	C) Tenant pays pro rata share of cafeteria operating losses.
Packaging Corporation of America	H	46,776	$5.00	$0.00	$5.00	27-Sep-83	31-Aug-98	118	Renewals:
Packaging Corporation of America	F	1,506	$4.00	$0.00	$4.00	06-Jan-86	31-Aug-98	118	1-5 year at greater of $6.50 or $4.00 x 175% of the (percentage) increase in CPI between 9/83 and 8/98. Landlord may prevent exercise by abating last six months base rent.

EXHIBIT V-1 (cont.)
TENANT RENT ROLL
OLD ORCHARD PLAZA

Packaging Corporation of America (cont.)

Base rent escalates to $5.00 9/1/88 - 8/31/93
$6.50 9/1/93 - 8/31/98

Termination:
Tenant may cancel after tenth year upon 18 months notice.

Expense Pass-Through Notes:
A) Tenant pays half of pro rata share of landscaping, security and administrative expenses.

B) Pass-throughs exclude expenses not directly beneficial to Building H, which totalled $72,265 in 1986.

C) Real estate tax pass-through is calculated as the previous year's R.E.Tax expense times the rate at which taxes were increased over previous year.

D) Tenant is metered separately for electricity.

E) Tenant buys steam and hot water for heating and chilled drinking water separately from the complex.

Barber Shop	F	228	0	$0.00	$0.00	--	--	--	Must be provided rent free per Brunswick lease.
Cafeteria	E	11,173	0	$0.00	$0.00	--	--	--	Costs of operation are reimbursed by tenants.
Vacant 1 Basement	F	4,840	$5.00	$0.00	$5.00	01-Jun-89	31-Dec-91	36	
Vacant 2 Basement	F	2,248	$5.00	$0.00	$5.00	01-Jun-90	31-May-93	36	
Total		329,936							

Note: Square Footage figures are based on leaseable area which excludes all existing unallocated BOMA common area measurements.
(1) Lease term remaining (in months) prior to the expiration of primary lease term. Tenants may have options to renew (see comments).

Sources: Lasalle Partners;
Piedmont Realty Advisors.

Exhibit V-2

PROFORMA INCOME AND EXPENSES
OLD ORCHARD PLAZA

Scheduled Gross Income	$5,890,000
Less: Vacancy (1)	0
Effective Gross Income	$5,890,000
Less: Operating Expenses (2)	$2,011,000
Less: Non-reimbursable Expenses	$ 6,000
Less: Real Estate Taxes (2)	$1,450,000
Net Operating Income	$2,423,000
Less: Base Debt Service (3)	1,880,000
Cash Flow	$ 543,000
Indicated Debt Coverage Ratio at 8.00%	1.29
Indicated Debt Coverage Ratio at 10.00%	1.03

(1) Expense budget incorporates non-reimburseable expenses and capital expenditures.

(2) Based on Borrower's 1989 Income and Expense projections which include an $86,000 capital expenditure composed of $35,000 general and $41,000 which will be funded out of the reserve holdback.

(3) $23,500,000 at 8.00% interest rate.

Sources: LPEAL;
Piedmont Realty Advisors.

Exhibit V-3

VALUE ESTIMATE
OLD ORCHARD PLAZA

Piedmont Realty Advisors reviewed 22 office building sales which occurred in suburban Chicago since 1979 to estimate the value of the existing building portion of the Property. Four comparable building sales were chosen based on each comparable's size and location (see Exhibits V-3A and V-3C). Piedmont Realty Advisors also reviewed 18 office land sales which occurred in the northern suburban area since 1983 to estimate the value of the development parcel portion of the Property. Five comparable land sales were chosen based on each comparables size and location (see Exhibits V-3B and V-3C). All sale comparables were adjusted by the actual change in the Consumer Price Index to calculate an August 1988 time adjustment. All sales comparables were then ranked in order of comparability and the following value range for Old Orchard Plaza was estimated.

Existing Buildings

$27,700,000 - $28,100,000

Development Parcel

$4,800,000 - $5,400,000

Total

$32,500,000 - $33,500,000

Exhibit V-3A

COMPARABLE BUILDING SALES RANKING
OLD ORCHARD PLAZA

Map No.	Building Name	Year Completed	Size (Sq. Ft.)	Sale Date	Price/ Sq. Ft. (1)	Cap Rate	Comments
1	Arborlake I	1986	197,607	12/87	$175.50	7.12%	100 percent leased with ten-year leases to credit tenants.
2	111 Pfingsten	1986	120,925	07/87	$184.60	9.00%	Seller masterleased 20 percent of building at sale.
3	One Northbrook	1983	175,000	01/84	$172.00	9.00%	100 percent leased at sale.
	SUBJECT	1984/86 (2)	329,936 (3)	N/A	$110/Office (3) $27/Basement (3) $50/R&D (3) $0/Other (3)	8.75%	See Footnote (3).
4	Tri-State Center	1979/81	348,594	04/87	$130.41	8.61%	100 percent leased at sale. Needed rehabilitation.

Note: The sales are ranked based on quality, size and location relative to the subject. Sales numbers 1, 2 and 3 are superior to the subject and would require discounts applied to their sales prices in the valuation process, sale number 4 is inferior to the subject and would require a premium applied to its sales price in the valuation process.

Exhibit V-3A (cont'd)

(1) All sales prices were adjusted for date of sale by applying the actual change in CPI to the actual sales price.
(2) Rehabilitation dates.
(3) Due to the variety of space in the subject property the following values were estimated:

Tenant	Square Feet	Value/SF	Indicated Value
Brunswick			
Office	89,557	$ 65.00	$ 5,800,000
Basement	35,597	30.00	1,000,000
Kraft			
Office	121,136	145.00	17,500,000
Basement	3,617	30.00	100,000
Basement Office	11,927	90.00	1,000,000
Thomas Cook	1,331	120.00	150,000
PCA	48,282 *	50.00	2,400,000
Cafeteria	11,173	0.00	0
Vacant Basement	7,088	20.00	150,000
Barber Shop	228	0.00	0
Total	329,936	$ 85.00	$28,100,000

* Leased on 55,526 square feet of gross leasable area. BOMA rentable = 48,282.

Sources: Real Estate Research Corporation;
Blake Company;
Lincoln Property Company;
Piedmont Realty Advisors.

Exhibit V-3B

COMPARABLE LAND SALES RANKING
OLD ORCHARD PLAZA

Map Letter	Address	Buildable Sq. Ft. (1)	Sale Date	Price/ SF Buildings (2)	Comments
A	630 Dundee Northbrook	94,469	10/85	$24.26	Actual approved density was 40 percent less than anticipated.
B	707 Skokie Northbrook	250,000	12/84	$21.02	Fifth and final phase of Combined Center approved in July 1988.
C	3210 Dundee Northbrook	123,000	04/85	$19.15	The Pointe opening in November 1988.
D	SDRS Skokie	250,000	06/83	$22.07	Draper & Kramer.
	Subject	272,000	N/A	$17.50-$20.00	
E	5215 Old Orchard Skokie	210,000	09/83	$14.35	Four levels of structured parking.

Note: The sales are ranked based on size and location relative to the subject. Sales A, B, C and D are superior to the subject and would require discounts applied to their sales prices in the valuation process. Sale E is inferior to the subject and would require a premium applied to its sales price in the valuation process.

(1) Based on existing zoning in place at time of sale (if applicable) or subsequent building size.

(2) All sales were adjusted for the date of sale by applying the actual change in CPI to the actual sales prices.

Sources: LaSalle Partners;
Lincoln Property Company;
Hawthorn Realty;
Piedmont Realty Advisors.

EXHIBIT V-3C
COMPARABLE SALES
LOCATION MAP

1-4 Correspond to Exhibit V-3A
A-E Correspond to Exhibit V-3B

Exhibit V-4

CASH FLOW ASSUMPTIONS
OLD ORCHARD PLAZA

A. Project Summary	
1. Funding Date	01/01/89
2. Total Net Rentable Area	329,936 sq. ft. (11,173 square foot cafeteria excluded)
3. Annual Inflation Rate	5%
4. Inflation Start Date	Upper = Year 1 Lower = Year 2
B. Existing Tenant Income	See Exhibit V-2
C. Vacant Space Lease Up Assumptions	N/A
D. Lease Renewal Assumptions	
1. Market Rents (Net)	Upper = $12.00 Lower = $ 5.00
2. % Leases Renewed	50%
3. % Leases Relet	50%
4. Lag Time on Relet space	Six Months
5. Lease Term Relet/Renew	60 Months
6. Rent Increase in Relet/Renew Leases	
a. Frequency	Upper = Every Year Lower = Flat
b. Rate	30% of change in CPI.
7. Leasing Commissions	
(a) Initial	----
(b) 2nd Generation	3.75%
(c) 3rd Generation	3.75%

Exhibit V-4 (cont'd)

8. Tenant Improvements	
(a) Initial	
(b) 2nd Generation	$5
(c) 3rd Generation	$15 (Kraft 1994 is considered third generation).
E. Operating Assumptions	
1. Vacancy	Excluded square footage equals 7% of building area.
2. Operating Expenses ($/SF)	Borrower's projections.
3. Management Fee	Included in operating expenses.
4. Reserves	$35,000/year increasing 5%/year.
5. Holding Period	10 Years
F. Sale Assumptions	
1. Cap Rate at Sale	8.75%
2. Selling Expenses	2%
G. Participating Mortgage	
1. Accrual Payback from:	
(a) Next Available Cash	No
(b) Sale of Property	Yes * * or land release
2. Mortgage Amount ($)	$23,500,000
3. Coupon Rate	10.00%

Exhibit V-4 (cont'd)

4. Pay Rate:

(a) Year 1-2	8.00%
(b) Year 3-10	10.00%
5. % of Operations	50%
6. % of Residuals	50%

7. Loan Disbursements:	Closing	Year 1	Year 2	Year 3
(a) Initial	$23M			
(b) T.I.'s				
(c) L.C.'s				
(d) Deficit				
(e) Economic				
(f) Reserve Holdback		500,000		

Source: Piedmont Realty Advisors.

EXHIBIT V-5
CASH FLOW ANALYSIS
OLD ORCHARD PLAZA

OLD ORCHARD PLAZA

			OPERATING YEAR 1	2	3	4	5	6	7	8	9	10	11
OUTSTANDING LOAN BALANCE			23,250,000	23,989,136	22,115,049	22,115,049	22,115,049	22,115,049	22,115,049	22,115,049	22,115,049	22,115,049	
Coupon Due (10%)			2,325,000	2,398,914	2,211,505	2,211,505	2,211,505	2,211,505	2,211,505	2,211,505	2,211,505	2,211,505	
Pay Rate Due			1,860,000	1,919,131	2,211,505	2,211,505	2,211,505	2,211,505	2,211,505	2,211,505	2,211,505	2,211,505	
			8.00%	8.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	
GROSS POTENTIAL INCOME:													
Rental Income			5,923,271	6,080,772	6,161,453	6,551,589	6,411,954	6,619,004	7,252,594	7,476,959	7,587,788	7,956,992	8,430,469
LESS: VACANCY			(33,271)	(4,722)	0	0	(6,707)	(278,810)	(1,314,291)	0	0	(94,315)	(84,305)
EFFECTIVE GROSS INCOME			5,890,000	6,076,050	6,161,453	6,551,589	6,405,247	6,340,194	5,938,303	7,476,959	7,587,788	7,862,677	8,346,164
LESS: Expenses (Reimburseable)			(1,935,000)	(2,031,750)	(2,133,338)	(2,240,004)	(2,352,005)	(2,469,605)	(2,593,085)	(2,722,739)	(2,858,876)	(3,001,820)	(3,151,911)
Real Estate Taxes			(1,450,000)	(1,485,000)	(1,522,500)	(1,598,625)	(1,678,556)	(1,762,484)	(1,850,608)	(1,943,139)	(2,040,296)	(2,142,310)	(2,249,426)
Expenses (Non-Reimburseable)			(6,000)	(6,300)	(6,615)	(6,946)	(7,293)	(7,658)	(8,041)	(8,443)	(8,865)	(9,308)	(9,773)
NET OPERATING INCOME			2,499,000	2,553,000	2,499,001	2,706,014	2,367,393	2,100,447	1,486,569	2,802,638	2,679,751	2,709,239	2,935,054
LESS: Leasing Commissions			(4,808)	0	0	0	(2,551)	(5,768)	(599,927)	0	0	0	
Alterations (TI's)			(6,931)	0	0	0	(14,287)	(32,299)	(2,831,077)	0	0	0	
Capital Improvements			(35,000)	(36,000)	(37,800)	(39,690)	(41,675)	(43,758)	(45,946)	(48,243)	(50,656)	(53,188)	
Cash Flow Deficit			0	0	0	0	0	192,882	4,201,886	(542,890)	(417,590)	(444,546)	
NET CASH FLOW			2,452,261	2,517,000	2,461,201	2,666,324	2,308,880	2,211,504	2,211,505	2,211,505	2,211,505	2,211,505	
DS Due At Pay Rate			(1,860,000)	(1,919,131)	(2,211,505)	(2,211,505)	(2,211,505)	(2,211,505)	(2,211,505)	(2,211,505)	(2,211,505)	(2,211,505)	
Surplus Above Pay Rate			592,261	597,869	249,696	454,819	97,376	0	0	0	0	0	
Quarterly Compounding	10.38%		(24,136)	(24,904)	0	0	0	0	0	0	0	0	
Accrual Interest @	10.00%		(465,000)	(479,783)	0	0	0	0	0	0	0	0	
Cash Above Pay Rate / (Accrual)			(489,136)	(504,687)	249,696	454,819	97,376	0	0	0	0	0	
EQUITY OUTLAYS:													
Initial Equity		(23,000,000)											
Leasing Commission Outlay			0	0									
Tenant Improvement Outlay			0	0									
Reserve Holdback			(500,000)	0									
Economic Outlay			0	0									
CASH INFLOWS:													
Current Interest Due (Pay Rate)			1,860,000	1,919,131	2,211,505	2,211,505	2,211,505	2,211,505	2,211,505	2,211,505	2,211,505	2,211,505	
Accrued Interest Due	10.00%		0	0	0	0	0	0	0	0	0	0	
Repay Accrual			0	0	0	0	0	0	0	0	0	0	
Operations @	50.00%		296,131	298,935	124,848	227,410	48,688	0	0	0	0	0	
Residual @	50.00%											5,114,513	
Repayment Of Debt				3,159,081								22,115,049	
		(23,000,000)	1,656,131	5,377,146	2,336,353	2,438,914	2,260,193	2,211,505	2,211,505	2,211,505	2,211,505	29,441,067	
TOTAL INVESTED	$23,500,000												
CASH ON CASH RETURN			9.27%	9.25%	10.56%	11.03%	10.22%	10.00%	10.00%	10.00%	10.00%	10.00%	
DEBT SERVICE COVERAGE			1.34	1.33	1.13	1.22	1.07	1.00	1.00	1.27	1.21	1.23	

why do this

SALES CALCULATION

11th Yr. NOI	2,935,054
CAP	8.75%
	33,543,472
	2.00%
	32,872,603
L.C.'S	(74,41
T.I.'S	(454,11
	32,344,075
REPAY DEBT	22,115,049
	10,229,026
REPAY ACCRUAL	0
	10,229,026
DEV. PREF.	0
ADDITIONAL INT.	5,114,513
DEV RESIDUAL	5,114,513
IRR	12.4%

Exhibit V-6

YIELD ANALYSIS
OLD ORCHARD PLAZA

Land Release (End of Year) (1)	9.00%	8.75%	8.50%
2	12.3%	12.4%	12.5%
3	12.1%	12.2%	12.3%
4	12.2%	12.4%	12.5%

Note: If the proposed office building is completed by the Borrower, USF&G's 25 percent ownership interest should be worth approximately $4.0 million. If the new office building was sold at stabilized occupancy the projected internal rates of return would increase by approximately 100 basis points for all scenarios.

(1) Additional interest calculated by taking 25 percent of the difference between a value of $5,500,000 and the Base Land Release Price.

Source: Piedmont Realty Advisors.