

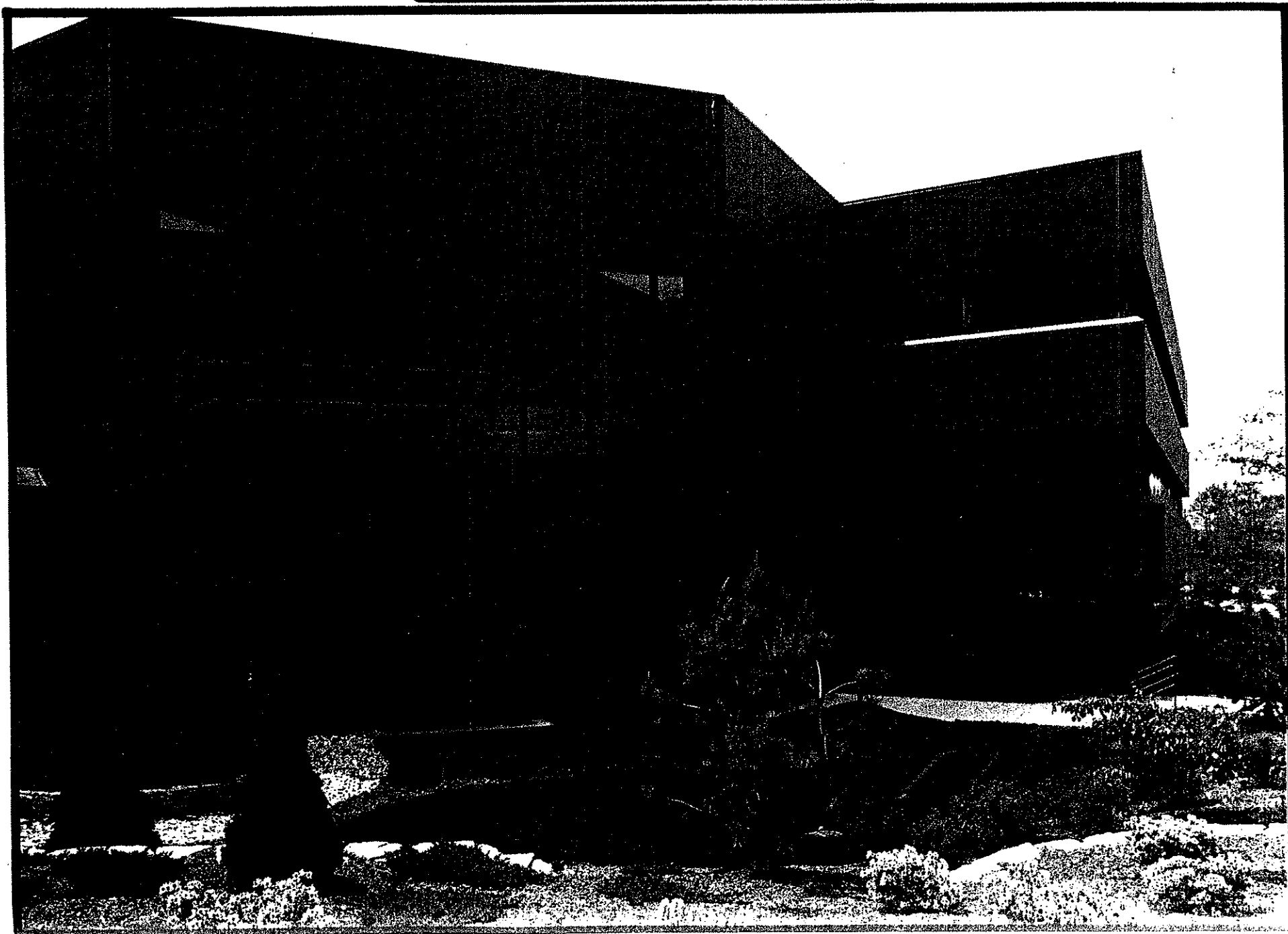
**NORTHMARK BUSINESS CENTER III**

**BLUE ASH, OHIO**

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

March 13, 1989

**NORTHMARK BUSINESS CENTER III**



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**PIEDMONT REALTY ADVISORS**

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

415-433-4100

March 13, 1989

Property Acquisition Committee  
for USF&G Protected Return Fund  
100 Light Street  
Baltimore, MD 21202

Re: **Northmark Business Center III**  
**Blue Ash, Ohio**

Dear Committee Members:

Enclosed for your review is an investment report on Northmark Business Center III (NBC III) located in the Cincinnati, Ohio suburb of Blue Ash. The proposed equity joint venture with the Linclay Corporation is for the acquisition of a Class A office building containing 106,584 rentable square feet. The total purchase price is \$12,045,000.

**The Property**

NBC III is located in the affluent Cincinnati suburb of Blue Ash. Blue Ash is bordered by Interstate 275, Interstate 71 and the Cross County Highway. This transportation infrastructure gives the area surrounding the subject property excellent regional access as well as local access to the large clerical and administrative labor base residing within the I-275 Beltway. Furthermore, neighboring Blue Ash are the executive enclaves of Indian Hill, Montgomery, Madeira and Amberly. The subject property is a 20 minute commute from downtown Cincinnati and within a 45 minute drive of the Greater Cincinnati International Airport.

NBC III is an attractive, three-story office building. It is 93 percent leased to such national credit tenants as Hewlett Packard, Amdahl, Merrell Dow, Toyota and Metropolitan Life. The subject property features quality finishes throughout complimented by a distinctive exterior incorporating brown brick and bronze insulating glass bands. The interior of the building is accentuated by a lush three-level atrium and elevator lobby. NBC III is located on, and has excellent visibility from, Reed Hartman Highway, the principal commercial thoroughfare in Blue Ash which provides tenants with a full complement of amenities including hotels, restaurants and retail centers. These locational and physical attributes have made NBC III one of the premiere suburban office buildings in metropolitan Cincinnati.

### **The Joint Venture Partner**

The Linclay Corporation is a national development firm that has become one of the most successful developers in metropolitan Cincinnati since opening its local office in 1977. Linclay has developed over 1.8 million square feet of quality office space and 1.1 million square feet of retail space during the past ten years in the Greater Cincinnati area. The Cincinnati office is a fully integrated development firm and its 60 employees are involved with site acquisition, design, construction, leasing, property management and asset disposition. These groups work together and provide Linclay the capability of producing a higher quality building at a lower cost than its competition - a significant advantage in marketing its properties to tenants. Moreover, Linclay's property management staff is recognized as the best in the area and over 85 percent of all tenants in its buildings have renewed upon lease expiration. Piedmont Realty Advisors has interviewed key people in the Linclay organization and is confident that the subject property will be operated in a professional and efficient manner.

### **The Market**

Similar to other midwestern industrial cities, Cincinnati is experiencing two significant trends. The first is the expansion of the service and high-tech industries. The second is the movement of the population from the urban core to more suburban settings north of the City. Both of these factors are contributing to the growth of the Blue Ash office market. Furthermore, large developable office parcels are scarce in the northeast quadrant of metropolitan Cincinnati, particularly inside the I-275 loop. The Blue Ash market is also experiencing a shortage of undeveloped sites as the remaining vacant land on Reed Hartman is being developed or is controlled by institutional quality developers.

Blue Ash has become metropolitan Cincinnati's most prestigious and largest suburban office market. NBC III is in the area's Class A submarket which is experiencing a 9.0 percent vacancy rate, although the Blue Ash office market is currently 20.7 percent vacant. The current state of Blue Ash's Class A office submarket is a continuation of a trend of decreasing vacancy with no corresponding introduction of new space until late 1989. Moreover, in this large tenant market (i.e. over 50 percent of leases were for more than 5,000 square feet in 1988 according to Coldwell Banker) there are limited options available for tenants seeking over 5,000 square feet.

It should be noted that the Blue Ash market is oriented to high-tech and financial service firms that demand to be located in properties with exclusive signage rights. Since all of the existing or under-construction projects have lead tenants, the Class A submarket is anticipated to have minimal movement of large tenants in the near future.

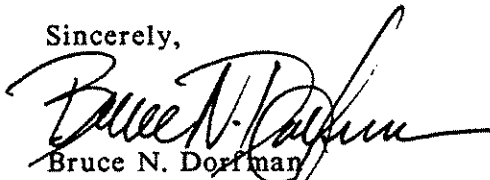
The Blue Ash Class A submarket is very active as evidenced by the decreasing market vacancy rate and the leasing prospects at NBC III. Thus, Piedmont anticipates that the remaining space in NBC III will be leased within six months at the proforma rental rate of \$12.50 per rentable square foot, on a triple net basis with less than ten percent concessions in the form of free rent.

#### **The Risk/Return**

The proposed equity joint venture has been structured to provide the USF&G Protected Return Fund (the Fund) with an immediate cash return on its invested equity and to allow the Fund to participate in the potential appreciation that will occur as the Blue Ash market continues to strengthen and expand. The Fund's risk associated with this transaction is substantially mitigated by (1) the high building occupancy, (2) the national credit tenants in NBC III, (3) the Partnership's below market basis in the property, (4) the lack of competitive office sites in the local area and (5) the locational and physical characteristics of the property. Additionally, Linclay has been provided incentives to encourage superior performance. These incentives include a cumulative preferential return to the Fund and a trigger mechanism on the buy/sell agreement.

The proposed NBC III equity joint venture will provide the Fund a ten percent cumulative preferred return, compounded quarterly, plus 75 percent of all operating and residual cash flows. The projected internal rate of return to the Fund is 12.8 percent on an unleveraged basis and 14.8 percent on a 50 percent leveraged basis. Thus, NBC III provides the Fund an opportunity to invest with one of metropolitan Cincinnati's top developers in a 93 percent leased building that is well-situated in the area's most prestigious suburban office market. Piedmont Realty Advisors believes that the Fund will receive a return that more than adequately compensates for the associated risk and recommends that the Property Acquisition Committee approve the \$12,045,000 equity investment in Northmark Business Center III.

Sincerely,



Bruce N. Dorfman  
Regional Acquisition Manager

BND:ar

## NORTHMARK BUSINESS CENTER III

### I. PROPERTY SUMMARY

- A. **Property:** Northmark Business Center III (NBC III)  
Blue Ash, Ohio
- B. **Location:** The subject property is located in Blue Ash, which is an affluent incorporated suburb in Metropolitan Cincinnati. The Cincinnati SMSA is the 27th largest metropolitan area in the U.S. with 1.4 million people. Blue Ash is located near the executive communities of Indian Hill, Montgomery, Madeira, and Amberley Village and is bordered by Interstate 275, Interstate 71 and the Cross County Highway.

The area's highway system provides tenants of the subject property with good access to the entire Cincinnati region as Indianapolis, Louisville, Lexington, Dayton and Columbus are all within an easy two-hour drive (see Exhibit I-1). Additionally, this transportation infrastructure places NBC III within 20 minutes of downtown Cincinnati, 45 minutes of the Greater Cincinnati International Airport and ten minutes of a large clerical and administrative labor base residing inside the I-275 Beltway (see Exhibit I-2). NBC III has capitalized on these locational attributes by successfully orienting its leasing efforts towards regional sales offices and back office operations of national companies.

NBC III is located along the Reed Hartman Highway, the primary commercial corridor in Blue Ash (see Exhibit I-3). Reed Hartman provides NBC III with a full complement of restaurants, retail centers and hotels. The subject property is approximately two miles north of the Cross County Highway, four miles south of the I-275 Beltway (both accessed via Reed Hartman) and within one mile of I-71, which is accessed via Phieffer Road. Phieffer Road is currently undergoing an expansion program (to be completed in mid-1989) to reduce the traffic congestion on Reed Hartman. Since direct access to all Blue Ash office developments is prohibited on Reed Hartman, ingress and egress to the Northmark Business Center is provided by a fully signalized intersection at Carver Road (see Exhibit I-4).

**C. Neighborhood Overview:**

Blue Ash was originally intended to be the home of the Greater Cincinnati Airport, but due to considerable neighborhood dissent, an alternative site was selected. Subsequently, Blue Ash established a comprehensive plan for commercial, industrial and residential development to become a balanced suburban community. The implementation of this plan has resulted in population growth from 8,324 persons in 1970 to 9,506 in 1980 and to approximately 13,000 in 1986 - an increase of 35 percent since 1980. Emphasis on promoting quality residential development, schools and municipal facilities reflects Blue Ash's dedication to community planning. Although the population is not anticipated to increase at the historical rates as growth for the remainder of the decade, the value of homes and wealth of residents is increasing in this very desirable suburb due to a lack of undeveloped residentially zoned land. In 1988, the average single-family home sale price was \$146,471 in the Blue Ash area which compares favorably to the average sale price of a single family home in the northern Cincinnati area of \$92,731 according to the Cincinnati Board of Realtors. Additionally, Blue Ash has established itself as the largest suburban office concentration with its daily workforce swelling to 65,000.

**D. Property Description:**

The subject property is located in the 20-acre Northmark Business Center in the heart of the Blue Ash office market on the Reed Hartman Highway. The first building in the park (NBC II) was completed in 1984 and is 100 percent leased with Merrell Dow Pharmaceutical being the principal tenant. The subject property (NBC III) was completed in late 1985 and is 93 percent leased with Hewlett Packard as its major tenant. The third building (NBC I) was completed in mid-1987 as a build-to-suit for Digital Equipment Corporation (DEC) and is currently 87 percent leased to DEC, Kodak and Dow Chemical (see Exhibit I-5). NBC I and NBC II were sold to the Public Employees' Retirement Association of Colorado (PERA) in 1987 and PERA has retained a right of first offer to purchase NBC III.



NBC III is a three-story Class A office building, containing 106,584 net rentable square feet. Its attractive brown brick exterior is accented with bands of bronze insulated glass. The interior features a lush three-level, all-glass atrium which also serves as its elevator lobby (see Exhibit I-6). The building was designed to allow Hewlett Packard, which occupies all of the first floor, to have an individual security entrance on this level. Due to the sloping nature of the site, the upper two multi-tenant floors are accessed by a separate main entrance on the second level. Tenants on these two floors include Amadah, Paychex, Merrell Dow, Metropolitan Life and Toyota. All of the occupied space is built out for general office use with finishes befitting a Class A office building. The floorplates will accommodate users as small as 1,500 square feet (see Exhibit I-7).

The attractively landscaped site contains 9.4 acres and provides for a very high parking ratio of 5.1 spaces per 1,000 rentable square feet. The size of the site provides the building with a low FAR (floor to area ratio) of 27 percent which allows the building to be expanded to accommodate future tenant growth (Hewlett Packard has a 26,000 square foot expansion option). However, since comparable land sales have been in the range of \$200,000 per acre, another option is to sell the excess developable land of approximately three acres for the construction of a 60,000  $\pm$  square foot office building. Either of these options would increase the Fund's return. As part of its pre-closing responsibilities, Linclay (the developer of NBC III) will submit for the Fund's approval a development plan for the expansion of the building or sale of the excess land.

**E. Current Rent Roll:**

NBC III is 93 percent leased to national credit tenants on a triple net basis, with the exception of Toyota which has \$17.50 gross rental rate with a \$5.00 per square foot expense stop. Although "serious negotiations" are currently ongoing to lease the remaining vacant space, several tenants have rights of first offer to lease expansion space adjacent to their offices. Consequently, it is anticipated that the unoccupied space, the bulk of which is ideally located on the entry level floor, will be leased by mid-1989. It should be noted that the term of the existing leases have been intentionally

staggered to allow the expansion of stronger tenants without impacting the occupancies of other tenants. For example, it is anticipated that should Hewlett Packard exercise its expansion option, vacant space on the second or third floor of the building could be made available thereby negating the need to expand NBC III.

**F. Partner:**

Linclay is the developer of the Northmark Business Center. Linclay was established in 1963 in St. Louis and has subsequently developed a national presence, although its current focus is on midwestern cities such as Cincinnati. Between 1967 and 1988, Linclay had developed or acquired a total of 210 individual projects, aggregating approximately 20 million square feet. This includes 9.1 million square feet of office space, 6.1 million square feet of warehouses and 3.5 million square feet of retail. The company has developed projects in 52 different cities in 14 states. It presently has development and management offices in St. Louis, Denver, Cincinnati, Columbus and Cleveland.

The Cincinnati office, which was established in 1977, has become the largest suburban office developer in this region having developed 1.8 million square feet of office space. It has also developed a reputation in the market for developing the highest quality product and for providing the highest level of property management service. This is illustrated by Linclay's ability in Cincinnati to retain 85 percent of its tenants at lease expiration. Ms. Nadine Raffurty is the Vice President in charge of the Cincinnati office's operations and has been with Linclay since 1978. Her 60 employees are involved with all aspects of real estate development, including site acquisition, design, construction, leasing, management and asset disposition. Linclay has an active leasing group that cooperates fully with all brokers and has maintained a good relationship with the brokerage community.

## II. MARKET

### A. Introduction

Similar to other midwestern cities, Cincinnati is experiencing two significant trends that are augmenting the growth of the suburban office markets, especially Blue Ash. The first trend is the diversification of the regional economic base. This trend has resulted in decreased emphasis on manufacturing while the service, FIRE (finance, insurance, and real estate) and wholesale and retail trade sectors have expanded. Between 1977 and 1986, the number of jobs in manufacturing decreased by 7.9 percent, while jobs in the service, FIRE and trade sectors increased by 35.5 percent according to U.S. Department of Labor. Furthermore, overall job growth during the period was 16.4 percent and in excess of 90,000 new jobs were created. This reflects a number of corporate relocations, (e.g. Manhattan National Corporation, Penn Central Corporation, and Chiquita Brands), the opening of American offices of Japanese firms (e.g. Clarion Corporation, Mitsubishi Electric Corporation and Shinwa U.S.A.) and the expansion of local firms (e.g. Proctor & Gamble, General Electric's aircraft engine division and Cincinnati Milacron). According to Solomon Brothers, Cincinnati is in the heart of what the Japanese consider the "Golden Triangle" due to its central location and efficient transportation network. Solomon states that this area is targeted for additional investment.

The second trend has been the movement of the population from City to suburban neighborhoods. Blue Ash exemplifies this trend having grown by over 50 percent between 1970 and 1986. Furthermore, several firms (e.g. Xerox, Lazarus, MCI, and Kelly Services) have moved from downtown locations to the suburbs to capitalize on the lower rental rates, free parking and more convenient commutes for employees.

These trends have resulted in considerable growth of the suburban office markets, which have increased supply over four fold since 1980 according to Coldwell Banker. However, the downtown market remains the strongest and the largest with an 11 percent vacancy rate and 60 percent of the greater Cincinnati office inventory (see Exhibit II-1). The Blue Ash market is the largest and considered most prestigious suburban office location which reflects the success of the City's development plan as well as its control of a large parcel of undeveloped land (i.e. the old airport site). Moreover, Blue Ash offers the most concentrated supply of quality office product due to a chronic shortage of well-located, large tracts of developable land within the I-275 Beltway. The other markets within the I-275 Beltway, specifically Kenwood and Tri-County, are more of an unplanned mix of office, retail, residential and industrial projects resulting from the local government's inability to institute a long range development plan in the 1950s and 1960s. Subsequently, new development is occurring north of the I-275 Beltway along I-71, which is considered a secondary location with an inadequate transportation infrastructure and limited services and amenities. Office development is also occurring within the Beltway on expensive sites that require the demolition of existing structures (see Exhibit II-2).

**B. Blue Ash Market:**

The core Blue Ash market is accessed by Reed Hartman Highway and is segmented by product type and building quality. This segmentation illustrates the evolution of the Blue Ash market from warehouse/industrial buildings to one-story office space to mid-rise office projects. This is due to increasing land values. Consequently, it is anticipated that the Blue Ash office market will become more homogeneous as less intensive land uses are replaced by the development of quality office buildings.

The development of the quality office market in Blue Ash was triggered in 1981 by Prudential's introduction of the Westlake Center office building. The success of the project indicated the potential of the Class A office market and resulted in the introduction of over 500,000 square feet of quality space between 1985 and 1987. Additionally, during this time frame over 350,000 square feet of lower quality space was made available. This caused developers to offer significant concessions to quality tenants, often exceeding 20 percent of a lease's value. However, with the introduction of no new quality space since mid-1987, the Class A office market has improved. Additionally, the supply of new product should be much more controlled than in the mid-1980s due to the lack of undeveloped land.

**C. The CMA:**

The Competitive Market Area (CMA) consists of the Class A office buildings in Blue Ash that are accessed via Reed Hartman Highway (see Exhibit II-3). The CMA is presently experiencing a vacancy rate of 9.0 percent and has averaged annual net absorption of over 100,000 square feet during the past four years. Rental rates in the CMA range from \$12.25 for older product to \$13.50 per square foot (net) for Linclay's NBC I product (completed in 1987). Concessions have been decreasing steadily since 1987 and presently tenants are typically offered ten percent or less of a lease's value in the form of free rent. Standard tenant improvement packages range from \$12.00 to \$15.00 per square foot with over standard improvements usually being offset by a reduction in free rent.

The only property in the CMA that is having difficulties leasing is Cornell Plaza. This can be attributed to its lack of Reed Hartman visibility, more difficult access and lower quality finishes than NBC III. The remaining CMA properties are all of comparable quality, with the possible exception of Westlake Center. Westlake Center, built in 1981, is beginning to show signs of age as well as obsolescence. It was designed before the personal computer boom which has necessitated the need for higher capacity mechanical systems and upgraded electrical capacity. Although, the HVAC system has been upgraded, several tenants have moved from the property for this reason.

Two projects are planned to be introduced in 1989. These are Galbreath-Huff's 120,000 square foot One Ashview Place and Trammell Crow's 40,000 square foot Blue Ash Business Center VI. Galbreath-Huff has preleased 25 percent of its project to Xerox. It is believed that this lease was extremely favorable for Xerox (i.e. 18 months free on a five-year term). Although the Crow building is recognized as a Class A development, Crow's previous office projects have been of lower quality and have had trouble leasing. Furthermore, both Crow and Galbreath-Huff have not fully cooperated with the local brokerage community, as does Linclay. They have also developed reputations as lower quality property managers than Linclay. Crow and Galbreath-Huff are quoting rental rates of \$13.50 to \$14.00 per square foot with rental concessions in the form of free rent of one month per lease year.

*in Cincy only*

### III. INVESTMENT SUMMARY

A. Investment Type:	Equity Joint Venture		
B. Investment Amount:	\$11,905,000	Initial Funding	
	111,000	Tenant Improvement Holdback *	
	<u>29,000</u>	Leasing Commission Holdback *	
	<u>\$12,045,000</u>	Total Contribution Amount	
		(\$113/SF)	

\* Linclay will provide a corporate guarantee to provide tenant improvements and leasing commissions of \$15.00 and \$4.00 per rentable square foot for the currently vacant space in lieu of these holdbacks.

C. Cumulative Preferential Rate: 10.00%, compounded quarterly. If Linclay secures third party debt prior to closing at a rate below 10.50 percent, the cumulative preferred rate will be reduced by a corresponding amount.

D. Participations:

o Operations	75%
o Residual	75%

E. Valuation: As detailed in Exhibit III-2, Piedmont Realty Advisors has determined that the value of the subject property is between \$13,325,000 and \$13,850,000. Therefore, the Partnership's below market basis in the NBC III is between 87 percent and 90 percent of the property's value. This represents a 9.1 percent to 8.7 percent capitalization rate applied to existing income and does not account for the value of the excess land.

F. Return:

#### Capitalization Rate

	<u>8.75%</u>	<u>9.00%</u>	<u>9.25%</u>
1. 10-Year Term - Unleveraged	13.0%	12.8%	12.7%
2. 10-Year Term-50% Leveraged	15.0%	14.8%	14.5%
3. 8-Year Term-50% Leveraged	15.3%	14.8%	14.4%

**G. Risks**

The risks involved with the project are outlined below:

Risks:

Mitigating Factors:

**Market**

1. The Blue Ash office market has been very soft over the past several years.

Although the overall office market continues to experience a high vacancy rate, the CMA which includes only Class A buildings is very strong. This reflects the distinction between Class A office submarket and the abundance of Class B and Class C space which is available in Blue Ash. Much of this office space, as well as several industrial projects fronting Reed Hartman, are prime for upgrading to quality office, but land costs of \$15.00 to \$25.00 per FAR foot are not presently supported by market rents.

2. The Duke Company's office developments may impact the CMA.

The majority of Duke's projects are inferior in quality, design and location. However, due to the lack of space in the CMA, several large tenants seeking space in Blue Ash have located in Duke developments due to an absence of contiguous space in the Blue Ash area. Duke's finest project, the Towers of Kenwood, is seeking rents of \$14.00 per square foot triple net, but has a low parking ratio (2.5 spaces per 1,000), poor access and is not in Blue Ash.

3. Tenants may migrate north to new office developments.

Although development is occurring north of I-275 on I-71, these areas are further from executive housing, less accessible to labor base and provide tenants with fewer amenities.



4. The building still has  
unleased space.

NBC III was introduced in a very soft market and leased at higher rates with less concessions than its competition, while still capturing more than its share of tenants. Linclay is currently looking for tenants with specific space requirements to fit the two remaining offices in the building. Additionally, Toyota and Amdahl have expansion options on approximately 1,000 square feet that will be exercised this year.

#### **Building**

1. NBC III has long hallways  
and low floor loading in  
outside bays (50 Lbs/SF).

This project is perceived as one of the finest buildings in Blue Ash and existing and prospective tenants have not commented on these items. This building is easily multi-tenanted for the typical users in this market as evidenced by its tenant roster.

#### **Partner**

1. Linclay is focusing on  
leasing its Princeton Hill  
project in the Tri-County  
market.

Linclay's only project in Blue Ash is Northmark Business Center (although it manages Cornell Plaza for New York Life) and Linclay is very aggressive in marketing the vacant space in this project. Since NBC III will be the only building in this market in which Linclay has an equity investment and the joint venture is structured to encourage performance, it is anticipated that Linclay will be properly motivated to lease and manage the subject property.

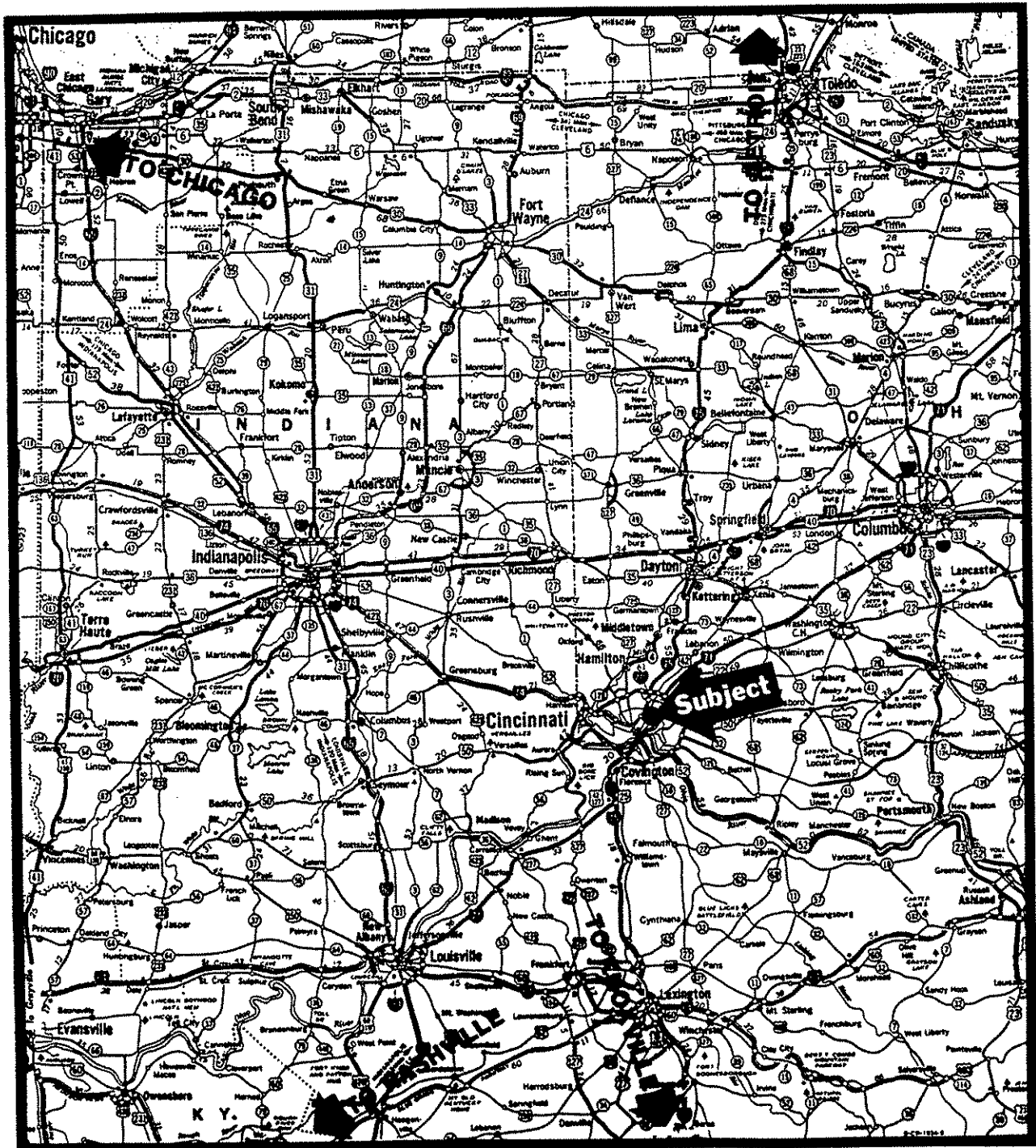
## Financial Analysis

1. The proforma assumes that tenant improvements on lease rollovers will be \$6.00 and \$12.00 per square foot for 2nd and 3rd generation leases, respectively, applied to 25 percent of the space that is renewing or releasing.

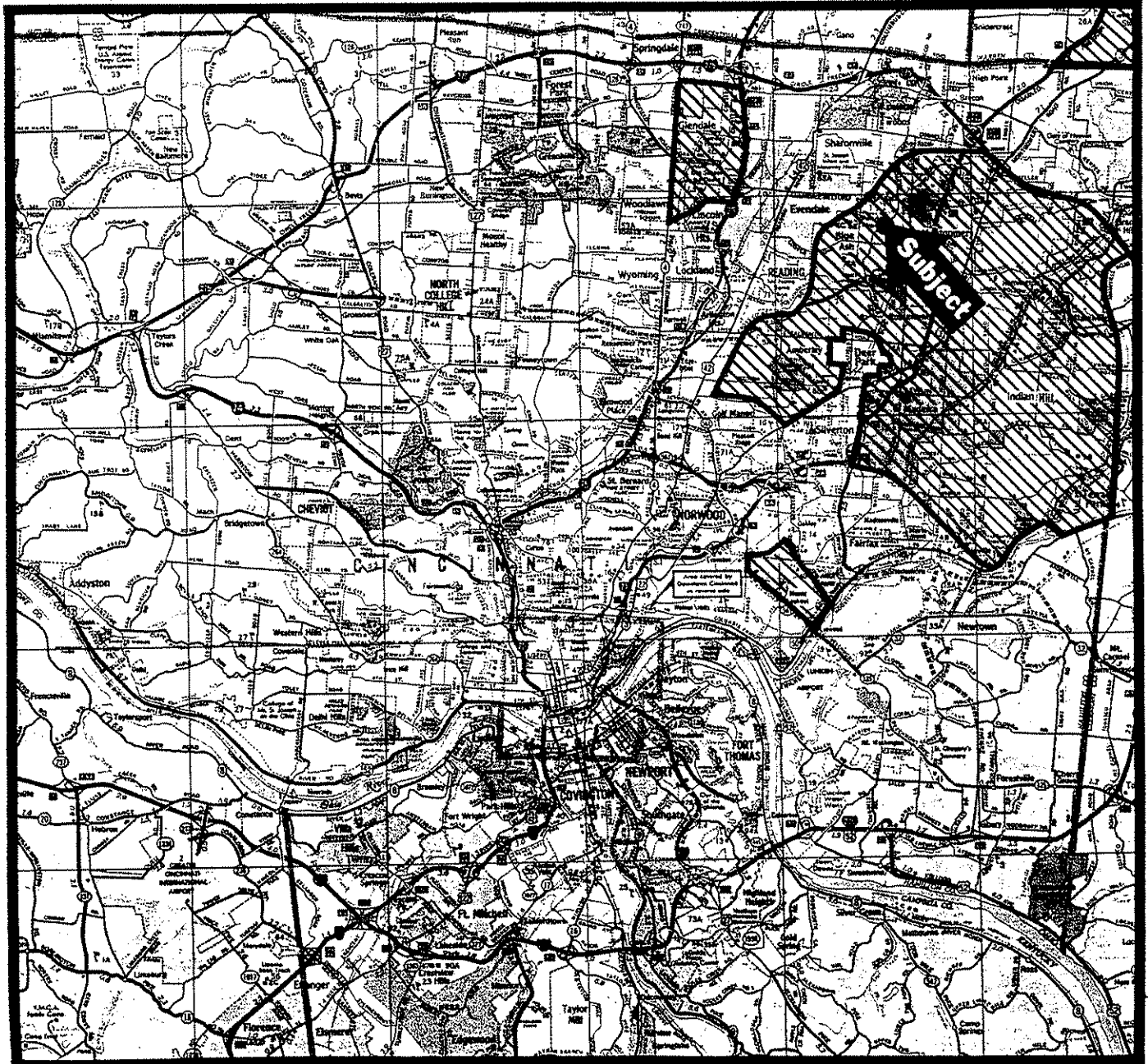
This refit assumption is based on (1) Linclay's high rate of renewals of existing tenants, 85 percent, and history of associated refit costs, (2) Linclay's experience in refitting space for new tenants and (3) the current level of tenant improvements provided in the market.

**EXHIBITS**

EXHIBIT I-1  
REGIONAL LOCATION MAP

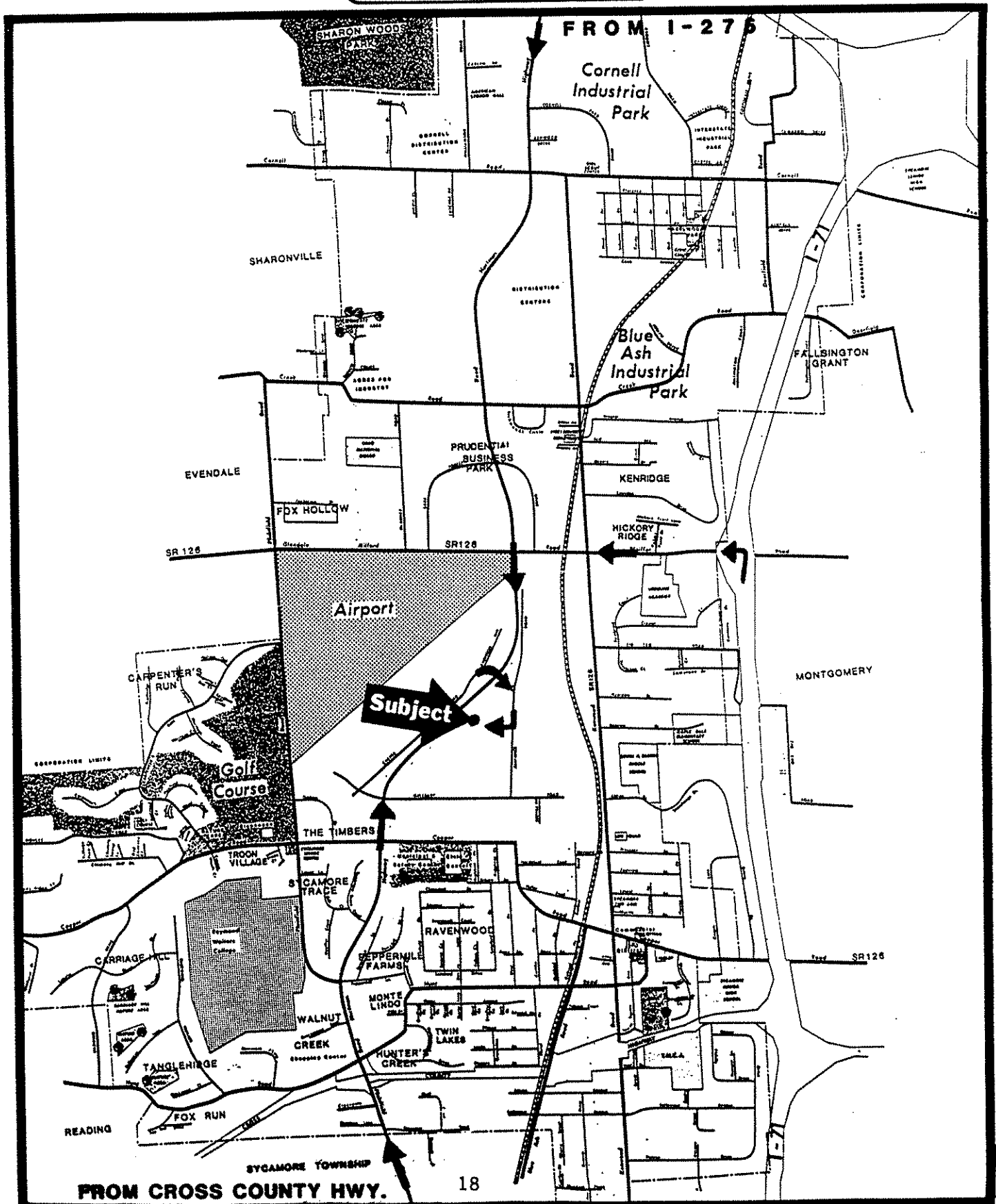


**EXHIBIT I-2  
LOCAL AREA MAP**

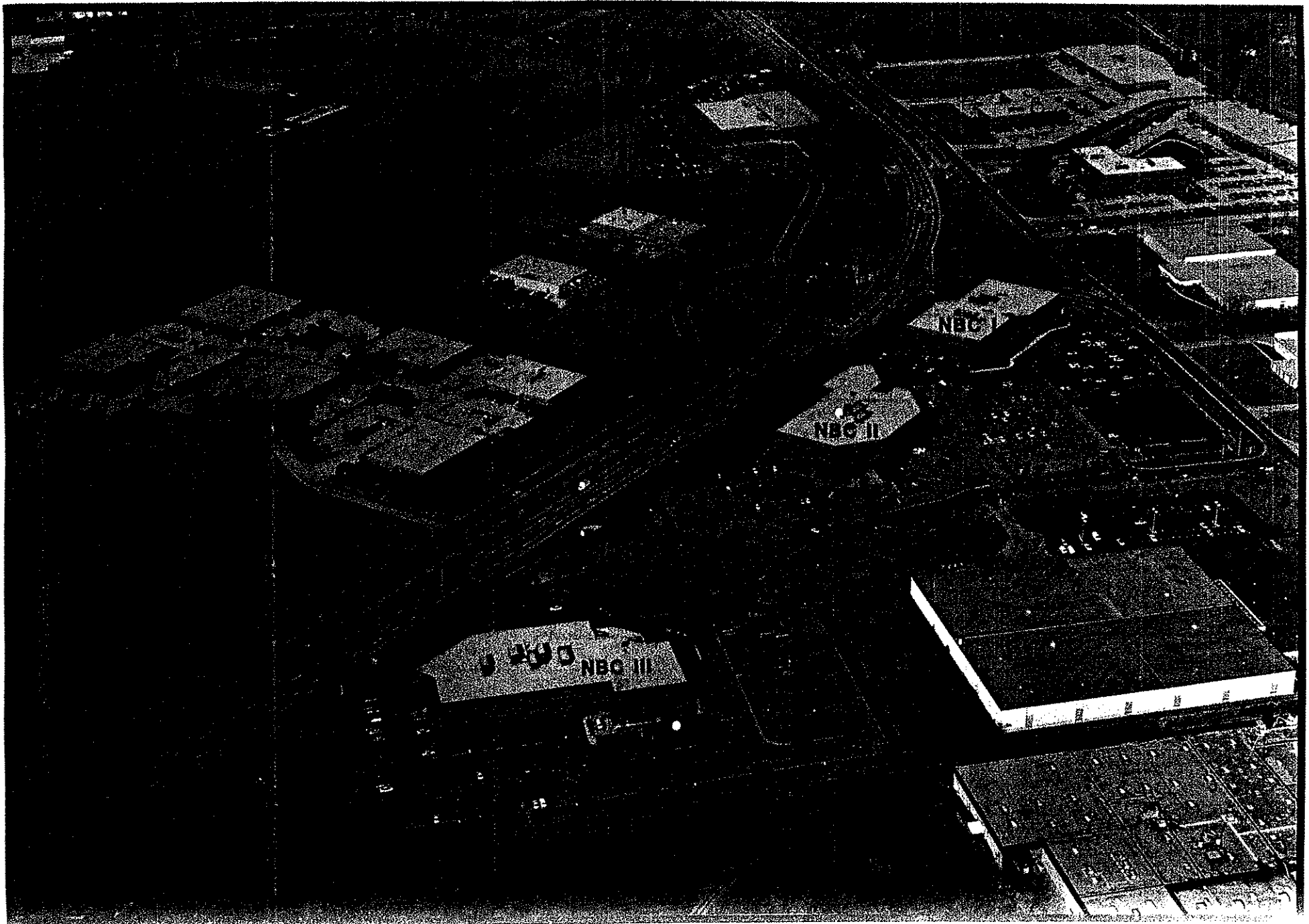


 **High Income Areas**

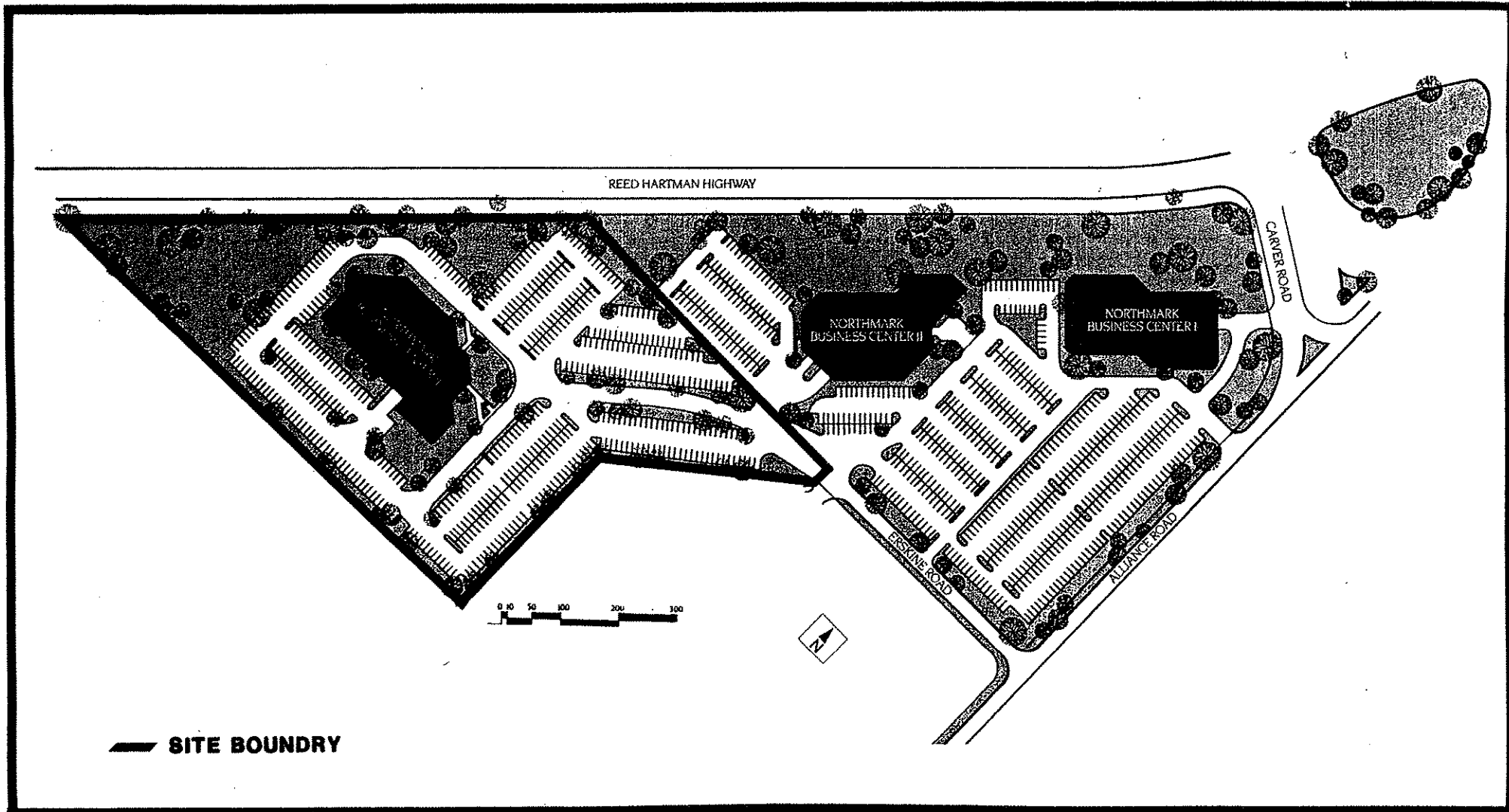
**EXHIBIT I-3  
SITE ACCESS MAP**



**EXHIBIT I-4  
AERIAL PHOTOGRAPH**

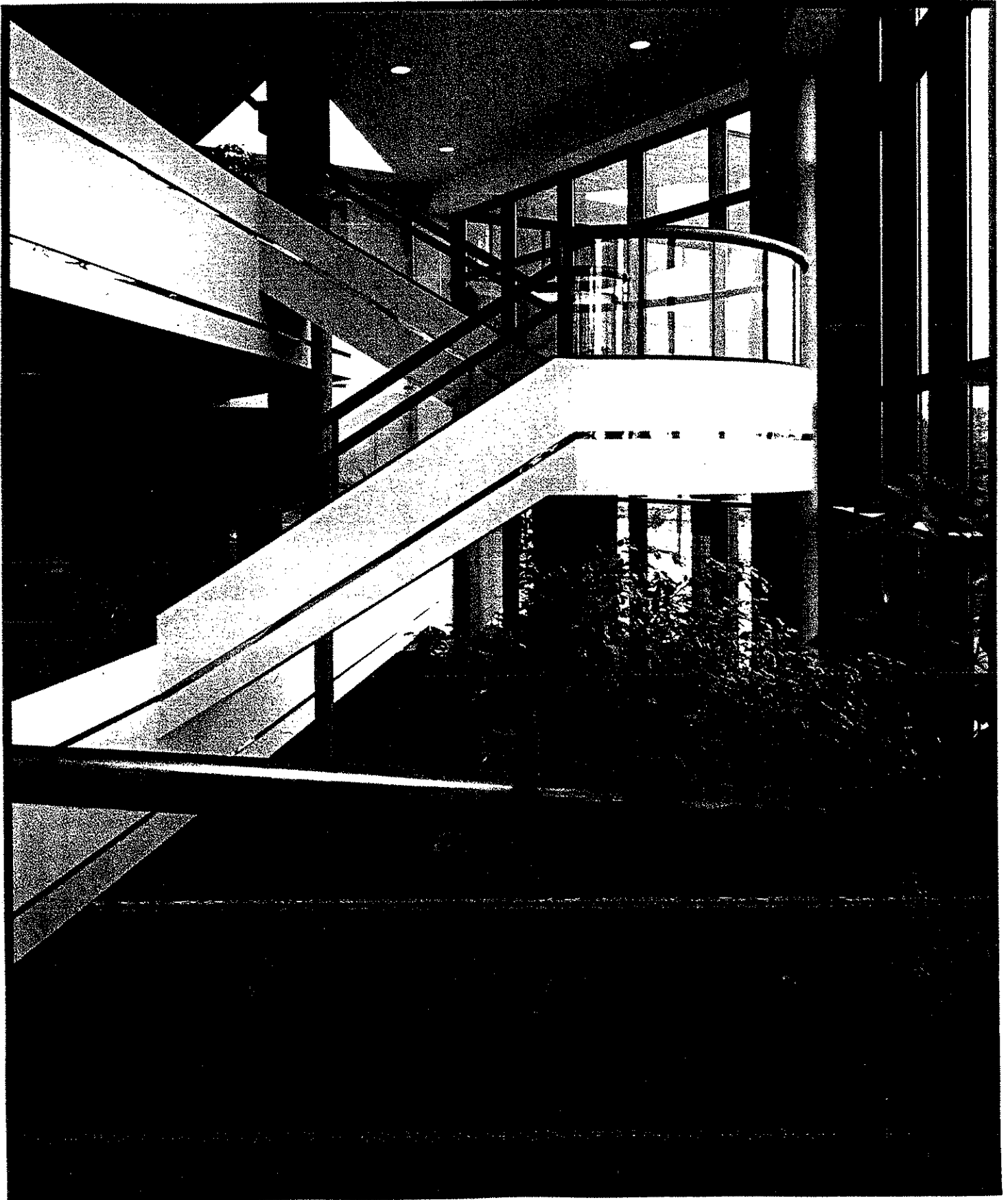


**EXHIBIT I-5  
SITE PLAN**

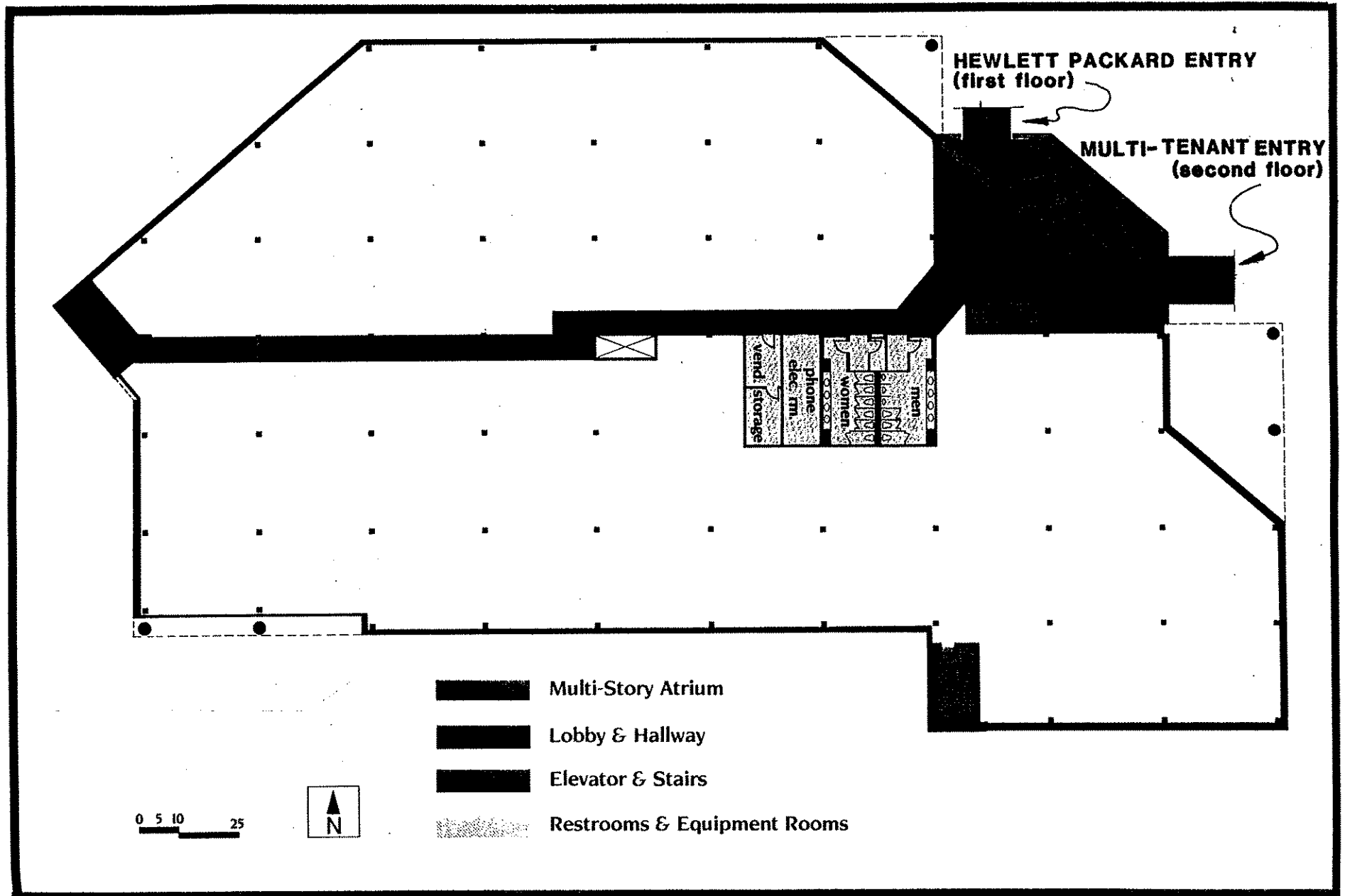




**EXHIBIT I-6  
NBC III ATRIUM**



**EXHIBIT I-7A  
FIRST & SECOND FLOOR PLAN  
(typical)**



**EXHIBIT I-7B  
THIRD FLOOR PLAN**

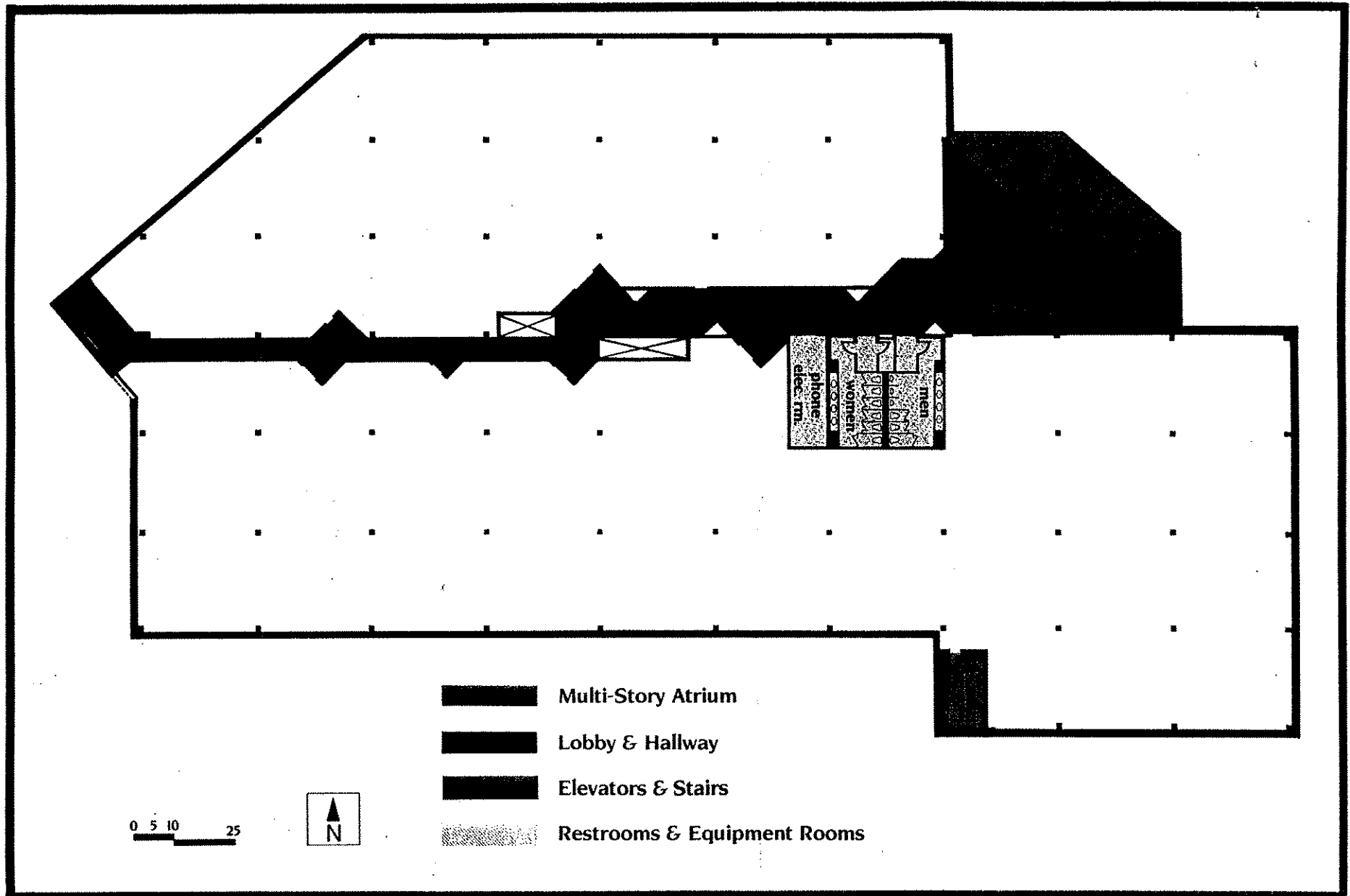


Exhibit I-8  
TENANT RENT ROLL  
NORTHMARK BUSINESS CENTER  
JANUARY, 1989

Tenant	Square Feet	Annual Net Base Rent Per Sq. Ft.	Current Expense Stop	Free Rent	Lease Term in Months	Lease Start Date	Lease Expiration Date	Current Net Monthly Base Rent	-Future Rent Changes-		Comments
									Date Rent Changes	New Annual PSF	
Hewlett Packard	35,320	\$12.35	NNN	9	96	10/01/85	09/30/93	\$36,350			2-3 year options to renew, at \$14.50/sf and at market, respectively. Ability to expand space by adding 26,000 sf contiguous or on upper floors, if available.
Honey Baked Hams	8,296	\$12.50	NNN	5	60	10/01/86	09/30/91	8,642			3-year option to renew at market.
Merrell Dow	3,359	\$11.00	NNN	0	36	02/01/87	01/31/90	2,178			Right of first offer for the adjacent 1,500 sf.
Metropolitan Life	17,044	\$12.50	NNN	0	36	05/01/88	05/31/91	17,754			2-year option to renew at \$14.06/sf.
Computer Associates	4,820	\$12.50	NNN	18	60	06/01/87	05/31/92	5,021			Option to renew for five years at \$14.50/sf, plus expenses. Right of first offer for adjacent 5,000 sf.
Toyota	6,755	\$12.50	\$5.00	13	60	11/01/87	10/31/92	7,036			5-year option to renew at \$15.21/sf. Option to expand by 2,166 sf during the first 24 months of the lease. Right of first offer on expansion space.
Amdahl	6,010	\$12.50	NNN	0	60	04/01/88	03/31/93	6,260			
Paychex	7,348	\$12.50	NNN	10	48	04/01/88	03/31/92	7,654			2-year option to renew at \$13.75/sf.
Lincly Marketing	981	\$12.50	NNN	9	60	12/01/85	11/30/90	1,022			
Hibbard Brown	9,252	\$12.50	NNN	6	36	06/01/88	05/31/91	9,638			2-year option to renew at market.
Vacant	7,399	\$12.50	NNN	0	0	--	--				
Total	106,584										

Source: Lincly Corporation;  
Piedmont Realty Advisors.

## Exhibit II-1

CINCINNATI OFFICE MARKETS  
YEAR-END 1988

Map No.	Market	Inventory (Sq. Ft.)	Occupied (Sq. Ft.)	Vacancy Rate	% of Market	Under Construction
1	Downtown	11,843,735	10,538,956	11.0%	59.6%	1,712,000
2	Blue Ash	2,390,497	1,896,128	20.7%	12.0%	185,000
3	Tri-County	2,173,453	1,725,941	20.6%	10.9%	86,000
4	Northern Kentucky	1,077,065	694,550	35.5%	5.4%	400,000
5	I-71 North	916,210	672,648	26.6%	4.6%	337,000
6	Kenwood	802,486	504,985	37.1%	4.0%	-0-
7	I-275 East	<u>678,527</u>	<u>572,696</u>	<u>15.6%</u>	<u>3.4%</u>	<u>120,000</u>
	Subtotal - Suburban	<u>8,038,238</u>	<u>6,066,948</u>	<u>24.5%</u>	<u>40.4%</u>	<u>1,128,000</u>
	Total - Metropolitan Cincinnati Area	<u>19,881,973</u>	<u>16,605,904</u>	<u>16.5%</u>	<u>100.0%</u>	<u>2,840,000</u>

Sources: Chelsea Moore Company;  
Coldwell Banker;  
Cline Realtors;  
West Shell Commercial Real Estate Services;  
Piedmont Realty Advisors.

**EXHIBIT II-2  
CINCINNATI OFFICE MARKET  
LOCATION MAP**



**Numbers 1-6 correspond to Exhibit II-1**

## Exhibit II-3

## COMPETITIVE OFFICE MARKET SUMMARY

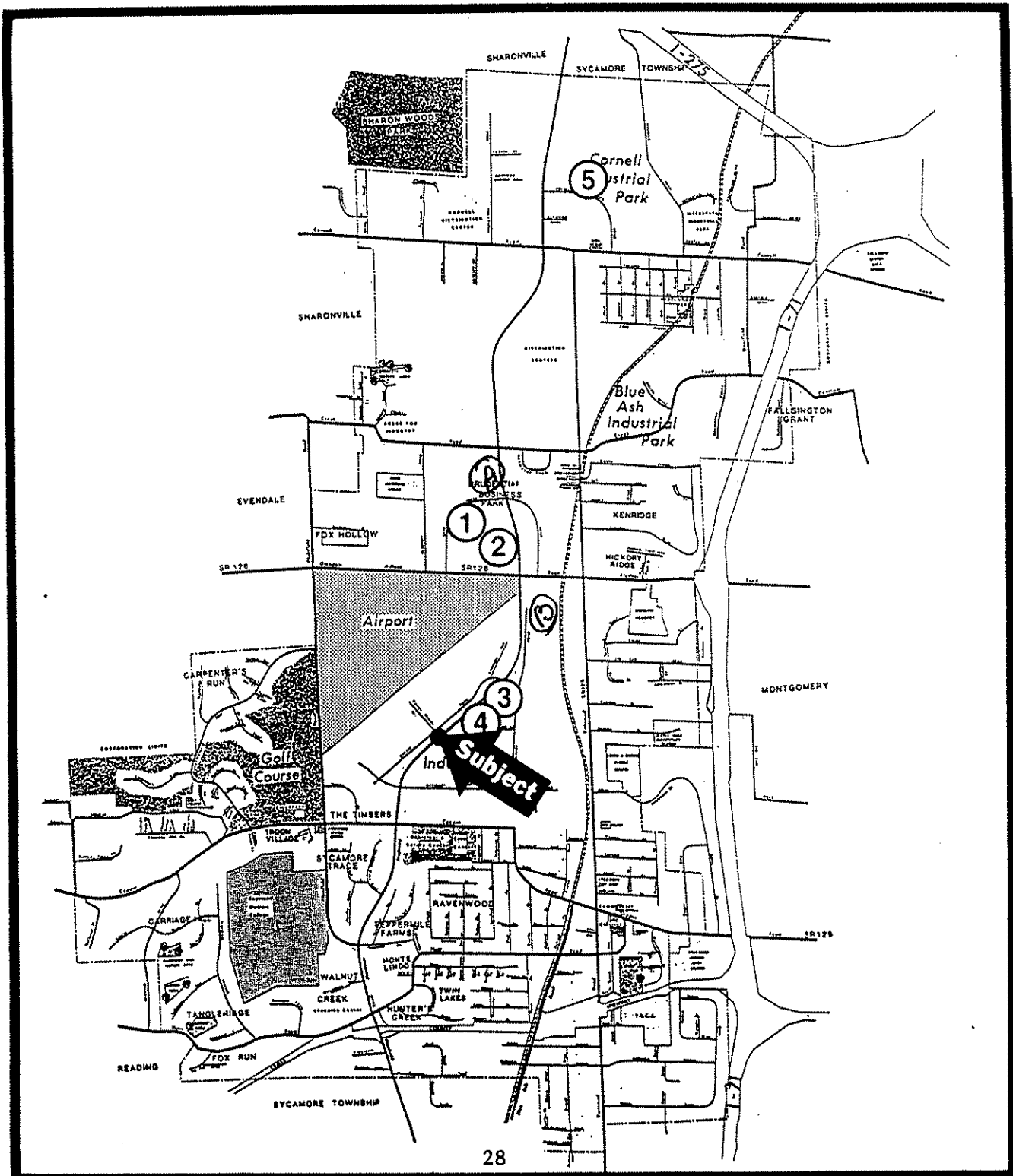
<u>Map No.</u>	<u>Building</u>	<u>Developer/Owner</u>	<u>Year Constructed</u>	<u>Rentable (Sq. Ft.)</u>	<u>Leased (Sq. Ft.)</u>	<u>Vacancy Rate</u>	<u>Rental Rate (1)</u>
Existing							
1	Lake Forest Place	Boston Company	1985	217,264	207,248	4.6%	\$13.00
2	Westlake Center	Boston Company	1981	179,850	158,808	11.7%	\$12.25
3	Northmark Business Center I	Public Employees Retirement Association of Colorado	1987	101,147	88,009	13.0%	\$13.50
4	Northmark Business Center II	Public Employees Retirement Association of Colorado	1984	94,857	94,857	0.0%	\$12.25
5	Cornell Plaza	New York Life	1985	82,865	64,394	22.3%	\$12.75
Subject	Northmark Business Center III	Linclay	1985	<u>106,584</u>	<u>99,185</u>	<u>6.9%</u>	\$12.50
				<u>782,567</u>	<u>712,501</u>	<u>9.0%</u>	
Under Construction							
A	One Ashview Place	Galbreath-Huff	1989	120,000	(2)	--	\$13.50-\$14.00
B	Blue Ash Office Center VI	Trammell Crow Company	1989	<u>40,000</u>	-----	----	\$13.50-\$13.75
				<u>160,000</u>	-----	----	

(1) Per rentable square foot, triple-net basis.

(2) 25% preleased to Xerox.

Sources: Chelsea Moore Company;  
Coldwell Banker;  
Cline Realtors;  
Linclay Corporation;  
Piedmont Realty Advisors.

**EXHIBIT II-4**  
**COMPETITIVE MARKET**  
**AREA**



**Numbers 1-5 correspond to Exhibit II-3**



**Exhibit III-1**

**PROFORMA CASH FLOW  
END OF FIRST OPERATING YEAR**

**Income:**

(a) Existing Leases	\$1,218,660
(b) Vacant Space (7,399 x \$12.50/SF)	<u>92,488</u>
	\$1,311,148
Less: Vacancy	<u>65,557</u>
	\$1,245,591
Less: Unrecoverable Expenses (1)	27,712
Less: Replacement Reserve (2)	<u>10,658</u>
	<u>\$1,207,221</u>
 Cash on Cost Return (3)	 <u>10.0%</u>

- 
- (1) Based on operating expenses \$5.20 per square foot unreimbursed on vacant space.  
(2) \$0.10 per square foot.  
(3) Based on an investment basis of \$12,045,000.

Sources: Linclay Corporation;  
Piedmont Realty Advisors.

**Exhibit III-2**

**VALUE ESTIMATE  
NORTHMARK BUSINESS CENTER III**

Piedmont Realty Advisors reviewed ten office building sales which have occurred in the metropolitan Cincinnati area since late 1986. Five comparable sales were chosen based on construction quality, design, use and location (see Exhibit II-2A and II-2B). All five sales were adjusted by the actual change in the CPI to calculate a March, 1989 time adjustment. The sale comparables were then ranked in order of quality and the following value range for Northmark Business Center III was estimated:

**\$13,325,000 - \$13,850,000**

## Exhibit III-2A

BLUE ASH  
COMPARABLE SALES

<u>Building</u>	<u>Date of Sale</u>	<u>(NRSF) Size</u>	<u>Year Built</u>	<u>Sales Price</u> (1)	<u>\$/SF</u> (1)	<u>Cap Rate On Income</u> (2)	<u>Comments</u>
(1) Lake Forest Place Westlake Center	12/22/87	217,264	1985	\$48,800,000	\$123	5.6% (1st Year)	Both towers sold by Prudential to the Boston Company without a master lease.
		179,850	1982			9.0% (2nd Year)	
		397,114					
(2) NBC II	05/22/87	94,857	1984	\$13,100,000	\$138	8.3%	Sold by Linclay to PERA with master lease.
Subject Property NBC III	04/01/89	106,584	1985	\$13,325,000	\$125	9.0%-8.7%	Contains excess land for expansion/sale.
				-\$13,850,000	-\$130		
(3) NBC I	12/21/87	101,547	1987	\$14,350,000	\$141	9.2%	Sold by Linclay to PERA with master lease. 70% occupancy at sale.
(4) Cornell Plaza	03/30/88	85,830	1985	\$9,985,000	\$116	9.7%	Class A/B building without Reed Hartman exposure. Sold to New York Life with 18 month master lease.
(5) Officeplex II	03/03/88	82,213	1986	\$10,400,000	\$127	8.4%	Sold by Vantage to Heitman. Class B building.

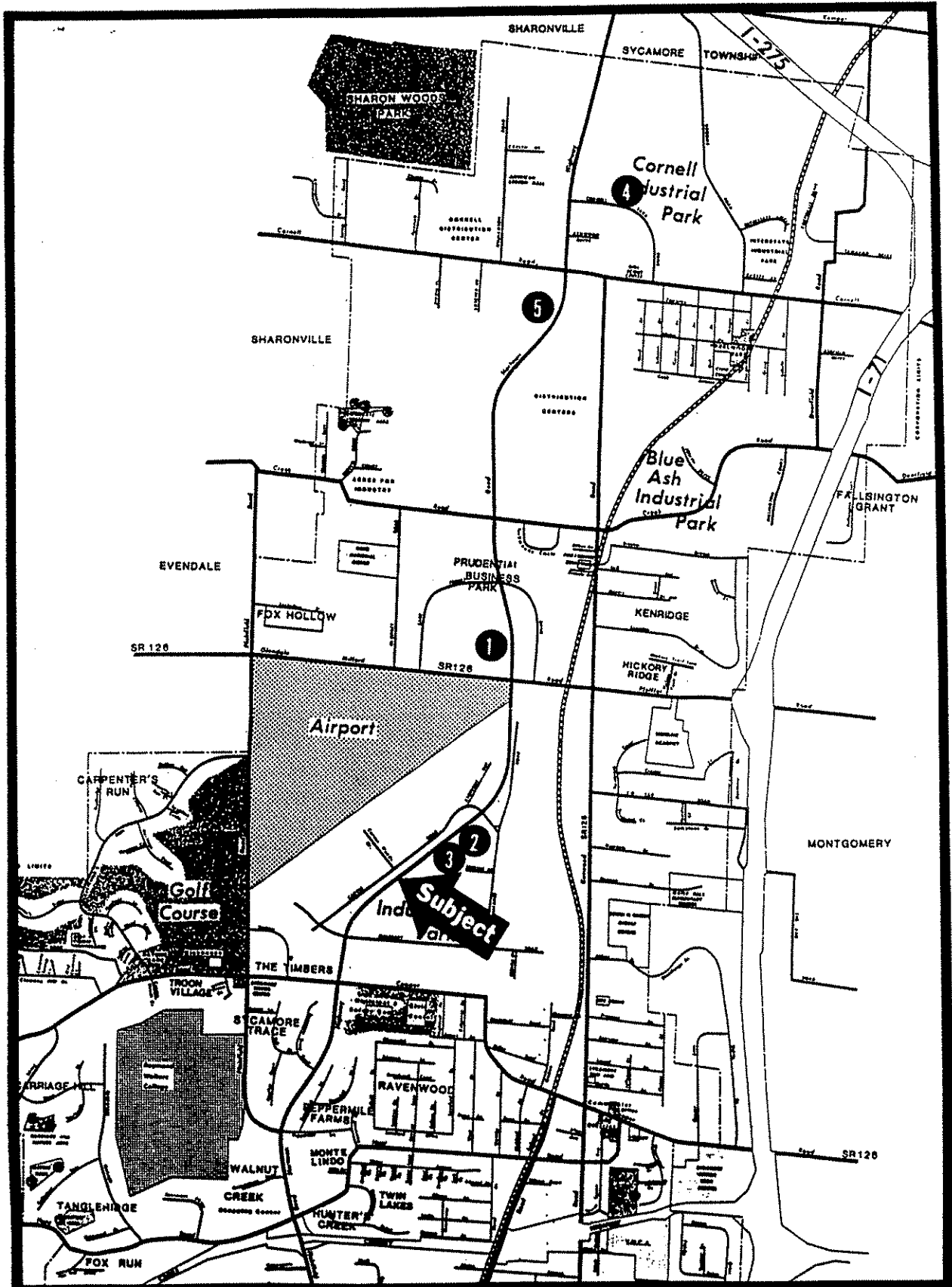
Note: The sales are ranked on quality and comparability to the subject. Sales number one was judged to be superior. Sales number two and three were the most comparable to the subject, sales number four and five were inferior.

(1) All sales prices were adjusted for time of sale by applying the actual change in the CPI to the actual net sales price.

(2) Based on current income at time of sale and actual sales price (not adjusted for inflation).

Sources: R.A. Jackson Appraisal Company;  
Linclay Corporation;  
Piedmont Realty Advisors.

**Exhibit III-2B**  
**COMPARABLE SALES MAP**



**Numbers 1-5 correspond to Exhibit III-2A**

**EXHIBIT III-3A  
UNLEVERAGED PROFORMA  
NBC III**

NORTHMARK BUSINESS CENTER III  
JOINT EQUITY VENTURE-UNLEVERAGED

10-Mar-89

OPERATING YEAR

**I. PROPERTY OPERATIONS**

Gross potential Income:  
Rental Income

Less: Vacancy

Effective Gross Income

Less: Uncollected Expenses  
Expenses

Net Operating Income

Less: Replacement Reserve

Less: Capital Expenditures  
Leasing Commissions  
Tenant Improvements

Cash Flow

Deficit Contribution/(Repayment)

Net Cash Flow

**II. EQUITY DIVIDEND AND ACCRUAL CALCULATIONS**

Average Outstanding Equity Balance

Cumulative Preferred Dividend Due:

Initial Principal 12,045,000

Cumulative Preferred Dividend Due 10.00%

Unpaid Cumulative Preferred Dividend

Compounding @ 10.38%

Less Offsetting Cash Flow

Cumulative Preferred Dividend Balance

**III. INVESTOR CASH FLOW AND YIELD CALCULATIONS**

Initial Equity Investment-Purchase Price (11,905,000)

Leasing Commission Disbursement

Tenant Improvement Disbursement

Interest Reserve

Capital Reserve

Cash Flow from Property Operations

Cumulative Preferred Dividend

Additional Interest-Operations 75.00%

Additional Interest-Sale 75.00%

Cumulative Preferred Balance at Sale

Repayment of Equity

Net Cash Flows to Lenders

Cash on Cash Return

**SALES CALCULATION**

11TH YR NOI	1,827,754
CAPITALIZATION RATE	9.00%
GROSS SALE PROCEEDS	20,300,370
COSTS OF SALE	2.00%
	10,902,210
LEASING COMMISSIONS	(126,354)
TENANT IMPROVEMENTS	(252,732)
UNAMORTIZED DEFICITS	0
NET SALE PROCEEDS	19,523,122
INVESTOR DIVIDENDS	0
REPAYMENT OF EQUITY	(12,045,000)
NET PROFIT	7,478,122
LENDER PARTICIPATION	5,608,592
BORROWER PARTICIPATION	1,869,531

TOTAL INVESTMENT	\$12,045,000
IRR	12.0%

**EXHIBIT III-3B  
10 YEAR LEVERAGED  
PROFORMA  
NBC III**

**NORTHMARK BUSINESS CENTER III  
JOINT EQUITY VENTURE-LEVERAGED  
10-YEAR HOLDING PERIOD**

Mar-89

OPERATING YEAR

**I. PROPERTY OPERATIONS**

Gross potential Income:  
Rental Income

Less: Vacancy

Effective Gross Income

Less: Uncollected Expenses  
Expenses

Net Operating Income

Less: Debt Service

Principal

Interest Paid

6,000,000  
10.50%

Net Income

Less: Replacement Reserve

Less: Capital Expenditures

Leasing Commissions

Tenant Improvements

Cash Flow

Deficit Contribution/(Repayment)

Net Cash Flow

**II. EQUITY DIVIDEND AND ACCRUAL CALCULATIONS**

Average Outstanding Equity Balance

Cumulative Preferred Dividend Due:

Initial Principal 6,045,000

Cumulative Preferred Dividend Due 10.00%

Unpaid Cumulative Preferred Dividend

Compounding @ 10.38%

Less Offsetting Cash Flow

Cumulative Preferred Dividend Balance

**III. INVESTOR CASH FLOW AND YIELD CALCULATIONS**

Initial Equity Investment-Purchase Price (5,905,000)

Leasing Commission Disbursement

Tenant Improvement Disbursement

Interest Reserve

Capital Reserve

Cash Flow from Property Operations

Cumulative Preferred Dividend

Additional Interest-Operations 75.00%

Additional Interest-Sale 75.00%

Cumulative Preferred Balance at Sale

Repayment of Equity

Net Cash Flows to Lenders

Cash on Cash Return

**SALES CALCULATION**

11TH YR NOI	1,827,754
CAPITALIZATION RATE	9.00%
GROSS SALE PROCEEDS	20,388,378
COSTS OF SALE	2.00%
	19,992,218
LEASING COMMISSIONS	(126,366)
TENANT IMPROVEMENTS	(252,732)
UNAMORTIZED DEFICITS	0
NET SALE PROCEEDS	19,523,112
REPAYMENT OF PRINCIPAL	(6,000,000)
INVESTOR DIVIDENDS	0
REPAYMENT OF EQUITY	(6,045,000)
NET PROFIT	7,478,112
LENDER PARTICIPATION	5,608,584
BORROWER PARTICIPATION	1,869,528

TOTAL INVESTMENT	\$6,045,000
IRR	14.0%

**EXHIBIT 11-3C  
7 YEAR LEVERAGED  
PROFORMA  
NBC III**

**NORTHMARK BUSINESS CENTER III  
JOINT EQUITY VENTURE-LEVERAGED  
7-YEAR HOLDING PERIOD**

Mar-89

OPERATING YEAR

**I. PROPERTY OPERATIONS**

Gross potential income:  
Rental Income

Less: Vacancy

Effective Gross Income

Less: Uncollected Expenses  
Expenses

Net Operating Income

Less: Debt Service

Principal

Interest Paid

Net Income

Less: Replacement Reserve

Less: Capital Expenditures

Leasing Commissions

Tenant Improvements

Cash Flow

Deficit Contribution/(Repayment)

Net Cash Flow

**II. EQUITY DIVIDEND AND ACCRUAL CALCULATIONS**

Average Outstanding Equity Balance

Cumulative Preferred Dividend Due:

Initial Principal

Cumulative Preferred Dividend Due

Unpaid Cumulative Preferred Dividend

Compounding @

Less Offsetting Cash Flow

Cumulative Preferred Dividend Balance

**III. INVESTOR CASH FLOW AND YIELD CALCULATIONS**

Initial Equity Investment-Purchase Price

Leasing Commission Disbursement

Tenant Improvement Disbursement

Interest Reserve

Capital Reserve

Cash Flow from Property Operations

Cumulative Preferred Dividend

Additional Interest-Operations

Additional Interest-Sale

Cumulative Preferred Balance at Sale

Repayment of Equity

Net Cash Flows to Lenders

Cash on Cash Return

6,000,000

10.50%

8,045,000

10.00%

10.38%

(5,905,000)

75.00%

75.00%

**SALES CALCULATION**

11TH YR NOI 1,519,234  
CAPITALIZATION RATE 9.00%

GROSS SALE PROCEEDS 16,000,375  
COSTS OF SALE 2.00%

16,542,767  
LEASING COMMISSIONS 0  
TENANT IMPROVEMENTS 0  
UNAMORTIZED DEFICITS 0

NET SALE PROCEEDS 16,542,767  
REPAYMENT OF PRINCIPAL (8,000,000)  
INVESTOR DIVIDENDS (64,344)  
REPAYMENT OF EQUITY (8,045,000)

NET PROFIT 4,433,423

LENDER PARTICIPATION 3,325,967  
BORROWER PARTICIPATION 1,108,356

TOTAL INVESTMENT \$6,045,000

IRR 14.6%

**Exhibit III-4  
DEAL ASSUMPTIONS**

	<u>Project Assumptions</u>
<b>A. INITIAL LEASE-UP</b>	
1. Funding Date	04/01/89
2. Net Rentable Area	106,584
3. Market Contract	\$12.50
4. Rental Concessions (Free Rent)	10%
5. Other Concessions	None
6. Market Effective	\$11.25
7. Inflation Rate	5%
8. Inflation Start Date (Rents)	End of 6th Month.
<b>B. SPECULATIVE SPACE ASSUMPTIONS</b>	
1. Lease-Up Period (Months)	6 Months
2. Lease Terms:	
(a) % 3 Year	----
(b) % 5 Year	100%
(c) % 10 Year	----
3. Rental Rate (\$/SF or Market)	Market
4. % of Leases Renewed	75%
5. % of Leases Relet	25%
<b>C. LEASE RENEWAL AND OPERATING ASSUMPTIONS</b>	
1. Lag Time on Relet Space	2 Months
2. Rental Concessions	None
3. Lease Term on Relet/Renewal	4 Years
4. New Rental Rate:	
(a) Market	Yes
(b) % of Original Rate	
(c) Specified Amount (\$)	



**Exhibit III-4**  
**DEAL ASSUMPTIONS (cont'd)**

- |     |  |                       |                  |
|-----|--|-----------------------|------------------|
| 5.  | Lease Bumps:                           |                       |                  |
|     | (a) Frequency                          | None                  |                  |
|     | (b) Market                             |                       |                  |
|     | (c) % of Original Rate                 |                       |                  |
|     | (d) Specified Amt. (\$)                |                       |                  |
| 6.  | Leasing Commissions:                   |                       |                  |
|     | (a) Initial Lease-Up                   | 6%                    |                  |
|     | (b) 2nd Generation                     | 4.5%                  |                  |
|     | (c) 3rd Generation                     | 4.5%                  |                  |
| 7.  | Tenant Improvements:                   |                       |                  |
|     | (a) Initial Lease-Up                   | \$15/SF               |                  |
|     | (b) 2nd Generation                     | \$6.00                |                  |
|     | (c) 3rd Generation                     | \$12.00               |                  |
| 8.  | Vacancy Rate                           | 5%                    |                  |
| 9.  | Operating Expenses (\$/SF)             | \$5.20/SF             | on vacant space. |
| 10. | Reserves (\$/SF)                       | \$0.10/SF             |                  |
| 11. | Mgt. Fee (% of Effective Gross Income) | Included in expenses. |                  |
| 12. | Operating Term                         | 7 & 10 Years.         |                  |

**D. SALE ASSUMPTIONS**

- |    |                                     |      |
|----|-------------------------------------|------|
| 1. | Cap Rate at Sale                    | 9.00 |
| 2. | Selling Commissions                 | 2%   |
| 3. | Subtract out LC's and TI's          | Yes  |
| 4. | Lag Time included in Final Year NOI | No   |

**Exhibit III-4**  
**DEAL ASSUMPTIONS (cont'd)**

**E. JOINT DEBT/EQUITY VENTURE**

**1. Preferred Rate**

- |                   |           |
|-------------------|-----------|
| (a) Cum Preferred | 10%       |
| (b) Compounding   | Quarterly |

**2. Debt Amount (\$)**

**\$6M**

- |                         |       |
|-------------------------|-------|
| (a) Interest Only       | Yes   |
| (b) Interest Rate       | 10.5% |
| (c) Amortization Period | None  |
| (d) Amortization Rate   | None  |

**3. Equity Amount (\$)**

- |                     |       |
|---------------------|-------|
| (a) Pref Rate       | 10.0% |
| (b) % of Operations | 75%   |
| (c) % of Residuals  | 75%   |

**4. Equity Outlays:**      Closing      Year 1      Year 2      Year 3

- |              |              |           |  |  |
|--------------|--------------|-----------|--|--|
| (a) Initial  | \$11,095,000 |           |  |  |
| (b) T.I.'s   |              | \$111,000 |  |  |
| (c) L.C.'s   |              | \$ 29,000 |  |  |
| (d) Deficit  |              |           |  |  |
| (e) Economic |              |           |  |  |

**Exhibit III-5**  
**APPLICATION LETTER**

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

March 6, 1989

Ms. Nadine Raffurty  
Vice President/  
Division Manager  
Linclay Corporation  
30 Merchant Street, Suite 300  
Cincinnati, Ohio 45246

Re: Northmark Business Center III  
Blue Ash, Ohio

Dear Nadine:

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 to enter into a Partnership with the Linclay Corporation on the above-captioned property.

<b>Real Property:</b>	Northmark Business Center III (NBC III). An existing three-story office building containing 106,584 rentable square feet.
<b>Personal Property:</b>	All personal property used in connection with the operation of the Real Property including all materials purchased or stored for tenant improvements. The Real Property and Personal Property shall be referred to as the "Property".
<b>Location:</b>	4501 Erskine Road, Blue Ash, Ohio.
<b>Land Area:</b>	Approximately 9.4 acres of land.
<b>Parties:</b>	An affiliate of United States Fidelity & Guaranty Company (USF&G) and a Linclay Corporation entity (Linclay).

**Ownership Structure:** General partnership to be formed (Partnership) with Linclay as the managing general partner.

**Basic Responsibilities:** USF&G

- (1) Provide equity capital of \$12,045,000.

**LINCLAY**

- (1) Preclosing Responsibilities

- (a) Prepare and submit to USF&G a business plan for the management and leasing of the Property. The plan must include (1) a capital and operating budget for the Property during the first 12 months of the Partnership and (2) a plan for the leasing of current vacant space.
- (b) Coordinate with USF&G regarding formation of the Partnership, conveyance of the Property to the Partnership, and otherwise generally be responsible for organizing the Partnership.

- (2) Operating Responsibilities

- (a) Leasing - Act as exclusive leasing agent for the Property and for which the Partnership shall, subject to USF&G's approval, pay leasing commissions for new leases to Linclay not to exceed 100 percent of market standard rates. If Linclay elects to sign an exclusive listing agreement with a third party agent, USF&G will have the right to review and approve the agreement. In no event will the Partnership pay more than 100 percent of market standard rates unless previously approved in writing by USF&G.
- (b) Property Management - fee equal to four percent (4%) of collected gross income (inclusive of all on-site and off-site general and administrative costs). Gross income will not include expense reimbursement income collected from tenants above the budget expense amount in any given year. Additionally, Linclay will be paid a leasing commission of two

percent (2%) of the base rent for the lease term on any lease renewals. This paragraph (b) represents the total fee paid to Linclay for its management services.

**Initial Contributions: USF&G**

- (1) \$75 at closing.

**LINCLAY**

- (1) \$25 at closing.

**Subsequent Contributions:**

**USF&G**

**(1) Initial Equity Commitment**

Upon satisfaction of Linclay's pre-closing responsibilities and conveyance of the Property to the Partnership, USF&G will contribute \$11,905,000 to cover the actual costs of closing which will include the cost categories outlined in Exhibit A.

**(2) Holdback - Tenant Improvements**

USF&G shall withhold up to \$111,000 for tenant improvements as they are completed for approved first generation leases. The amount of the disbursement will be the lesser of (i) actual costs for (ii) \$15.00 per rentable square foot. The funds will be disbursed as vacant space is leased and tenant improvements completed. Any tenant improvement overruns during the initial leasing of the Property will be solely Linclay's responsibility. These funds must be disbursed within 18 months of the formation of the Partnership.

**(3) Holdback - Leasing Commissions**

USF&G shall withhold up to \$29,000 for leasing commissions. The funds will be disbursed as vacant space is leased and commissions are paid. These funds must be disbursed within 18 months of the formation of the Partnership.

(4) **Contributed Commitment Amount**

The aggregate amounts contributed by USF&G in accordance with the paragraphs one through three above are hereafter referred to as "USF&G's Contributed Commitment Amount."

(5) **Subsequent Contributions - Following Contribution of Property to Partnership**

USF&G will contribute (a) 75 percent of all Cash Flow Deficits and (b) 75 percent of all Capital Shortfalls after conveyance of the Property to the Partnership.

**NOTE:** The term "Cash Flow Deficit" shall mean the excess of (a) debt service payments and actual operating expenses over (b) revenues actually collected from the Property. The term "Capital Shortfalls" shall mean the amount required in excess of cash flow for tenant improvements, leasing commissions or other approved capital costs.

**LINCLAY**

(1) **Contribute the Property to the Partnership.**

(2) **Subsequent Contributions - Following Contribution of Property to Partnership**

Linclay will contribute 25 percent of all (a) Cash Flow Deficits and (b) Capital Shortfalls after conveyance of the Property to the Partnership.

**NOTE:** The aggregate amount of equity contributed by Linclay in accordance with paragraph (2) above is hereafter referred to as "Linclay's Capital Contributions".

**Percentage Interests: USF&G**

75%

**LINCLAY**

25%

Percentage ownership interest and capital contribution and distribution percentages shall be adjusted in accordance with the Dilution Formula set forth below.

**Distribution of Cash Flows:**

Distributions of Net Cash Flow shall be made quarterly and shall be made in the following order of priority after (1) debt service payments and (2) approved capital expenditures:

**USF&G**

First Priority - Payment of a 10.0 percent cumulative preferred return compounded on a quarterly basis on actual contributions of USF&G's Contributed Commitment Amount;

Second Priority - Prorata with Linclay's Second Priority, payment of a 10.0 percent cumulative preferred return compounded on a quarterly basis on its capital contributions in excess of USF&G's Contributed Commitment Amount;

Third Priority - Prorata with Linclay's Third Priority, 75 percent of the remaining Cash Flow.

**LINCLAY**

Second Priority - Prorata with USF&G's Second Priority, payment of a 10.0 percent cumulative preferred return compounded on a quarterly basis on its Capital Contributions;

Third Priority - Prorata with USF&G's Third Priority, 25 percent of the remaining Cash Flow.

Ms. Nadine Raffurty  
March 6, 1989  
Page 6

**Distribution of  
Capital Proceeds:**

**USF&G**

First Priority - The payment of an amount equal to USF&G's Contributed Commitment Amount;

Second Priority - The payment of any earned, but unpaid cumulative preferred return on the Contributed Commitment Amount;

Third Priority - Prorata with Linclay's Third Priority, payment of an amount equal to capital contributions in excess of USF&G's Contributed Commitment Amount;

Fourth Priority - Prorata with Linclay's Fourth Priority, payment of any earned, but unpaid preferred return on capital contributions in excess of USF&G's Contributed Commitment Amount;

Fifth Priority - Prorata with Linclay's Fifth Priority, 75 percent of the remaining Capital Proceeds.

**LINCLAY**

Third Priority - Prorata with USF&G's Third Priority, payment of an amount equal to Linclay's Capital Contributions.

Fourth Priority - Prorata with USF&G's Fourth Priority, payment of any earned, but unpaid preferred return on Linclay's Capital Contributions.

Fifth Priority - Prorata with USF&G's Fifth Priority, 25 percent of the remaining Capital Proceeds.

**Allocation of Taxable  
Operating Income and  
Loss:**

Taxable income from operations shall be shared between the Partners in the same ratio as and to the same extent of cash distributions received by the Partners. Taxable income in excess of cash distributions shall be shared between the Partners in accordance with their Percentage Interests.

Taxable losses from operations will be allocated between the Partners in the same ratio as and to the same extent of Capital Account balances of the Partners until such Capital Account balances are zero, then between the Partners in accordance with their Percentage Interests.



**Allocations of Taxable  
Gain or Loss on Sale:**

Gain on the sale or other disposition of all or substantially all Partnership assets will be shared between the Partners so that the Partners Capital Accounts are increased in the same ratio as and to the same extent of the distribution of Capital Proceeds.

Loss on the sale will be shared between the Partners in accordance with their Percentage Interest.

**Required Partnership  
Provisions:**

The following are provisions that shall be incorporated into the Partnership Agreement.

**A. Dilution of  
Ownership:**

If either USF&G or Linclay fails to make any required additional capital contribution, the other party, at its sole option, may either (i) make the required contribution on behalf of the noncontributing party and the dilution formula outlined below shall apply or (ii) refuse to make the required contribution on behalf of the noncontributing party, withdraw its required contribution and direct the Partnership to borrow the entire required contribution from a third party or (iii) the contributing partner may issue an interim loan to the noncontributing party in an amount equal to such party's required contribution by delivery of such amount to the Partnership. Any such interim loan shall be secured by the noncontributing party's interest in Cash Flow and Capital Proceeds, and shall bear an interest rate of prime plus 3.0 percent and shall have a term of one year or less.

**B. Dilution Formula:**

For every \$13,050 (or increment thereof) of required but unfunded contribution, the noncontributing partner's percentage interest in the distribution of Capital Proceeds will reduce by 1.0 percent and the contributing partner's percentage interest in Capital Proceeds will increase correspondingly.

**C. Buy/Sell Agreement:**

The Partnership Agreement shall include a mutual and mandatory buy/sell provision for partnership interests. Neither party may evoke the Buy/Sell Agreement within 36 months of closing ("Lock-in Period").

- D. Sale of the Property:** USF&G shall have the right to offer the Property for sale on a wholly-owned basis at any time. Linclay shall have a Right of First Offer to purchase the Property, prior to any wholly-owned sale offer to any outside parties.
- E. Budget Approval:** USF&G reserves the right to review and reasonably approve all annual operating and capital budgets.
- F. Right of First Offer:** If the Partnership desires to sell the Property, USF&G shall have the Right of First Offer to purchase the Property.
- G. Governing Law:** The Partnership Agreement and the rights and obligations of parties under such agreement shall be interpreted, construed and enforced under Maryland law.
- H. Accountant:** The Partnership Agreement will provide that the Partnership will engage an accounting firm mutually satisfactory to USF&G and Linclay who shall perform an annual audit of the Property.
- I. Leasing Standards:** Agreed upon Leasing Standards will be part of the Partnership Agreement and shall be in accordance with those outlined in Exhibit B.
- J. Approval of Major Decisions:** USF&G shall approve of all major decisions of the Partnership.
- K. Closing Prorations:** Cash balances which exist prior to conveyance of the Property to the Partnership will be prorated as of the date of closing.
- L. Building Expansion:** USF&G reserves the right to review and approve the construction budget, design and financing for any building expansion or construction of additional buildings on the Property.

**Contingencies**

The following are conditions precedent to USF&G's obligation to enter into this Partnership Agreement:

**A. Engineering:**

Linclay will engage an engineer approved by USF&G to review the plans and specifications for the Property and perform a complete mechanical, electrical, and structural components analysis of the property. USF&G 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 Linclay and shall be reimbursed by the Partnership if USF&G enters into the Partnership. USF&G must be satisfied with the results of the engineering study.

**B. Environmental:**

Linclay will arrange for a Phase I environmental study of the Property by a reputable environmental engineering or consulting firm acceptable to USF&G which demonstrates to USF&G's satisfaction that there exists no asbestos or other toxic or hazardous materials contained in the Property nor incorporated into the improvements constructed thereon. If such materials do exist, they must be completely removed prior to USF&G's obligation to enter into the Partnership. The cost of the environmental study will be paid for by Linclay and shall be reimbursed by the Partnership if USF&G enters into the Partnership. USF&G reserves the right to approve the scope and substance of the environmental report.

**C. Leases:**

USF&G reserves the right to review and approve all existing leases (as outlined in Exhibit C) and approve all future leases subject to agreed upon Leasing Standards. Any leases conforming with agreed upon Leasing Standards will be deemed approved. Linclay will not enter any leases not conforming to the attached Leasing Standards or modify any existing leases once this Letter is executed without the prior written approval of Piedmont Realty Advisors or other party designated by USF&G.

**D. Permanent Mortgage:**

The Property shall be contributed to the Partnership without any encumbrances, including any existing mortgages unless such mortgage is approved by USF&G. Subject to approval and acceptance by Linclay, USF&G shall have the right to obtain at any time a permanent mortgage for the Property. It is anticipated that such financing will represent 50 to 60 percent of the value of the Property, will be at market rates and will be for a term of approximately 7 to 10 years.

- E. Building Expansion:** USF&G reserves the right to review and approve Linclay's development plan, including the proposed construction budget, design and required financing, for the potential expansion of the subject property.
- F. Committee Approval:** The Recommendation Letter and the transaction contemplated herein must be approved by USF&G's Investment Committee by March 17, 1989.
- G. Economic Due Diligence:** The issuance of a Partnership Agreement will be contingent upon Piedmont Realty Advisors' being satisfied with the result of its economic due diligence which will be completed within ten (10) business days after receipt of all items on Exhibit D.
- H. Market Value Appraisal:** Linclay will engage an MAI appraiser approved by USF&G to prepare an appraisal stating that the market value of the Property assuming stabilized occupancy is at least \$13,350,000. The cost of the appraisal will be paid for by Linclay and shall be reimbursed by the Partnership if USF&G enters into the Partnership. USF&G must be satisfied with the results of the appraisal.
- I. Title and Survey:** USF&G reserves the right to review and approve the condition of title including all documents creating liens or exceptions to title, an ALTA commitment for title insurance from a title insurance company acceptable to USF&G and an ALTA survey of the Property as part of its legal due diligence, including but not limited to the full compliance with the Subdivision Map Act prior to the funding of its equity commitment to the Partnership.
- J. Management and Leasing Agreement:** The Partnership Agreement will be contingent upon the execution of a management and leasing agreement between the Partnership and Linclay satisfactory to USF&G.
- K. Documents:** Linclay will provide USF&G the information listed in Exhibit D at its sole expense.
- L. Title:** Linclay will provide the title commitment, survey and title insurance at its sole expense.

Ms. Nadine Raffurty  
March 6, 1989  
Page 11.

**M. Other**


**Contingencies:** All other standard contingencies found in the documents as parties mutually consent.

**N. Exhibits and Budget**

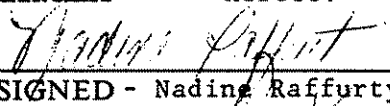
**Line Items:** Exhibits A, B, C & D are a part of this application letter. The line item amounts in the Exhibit A are estimates and any changes shall be subject to reasonable approval of USF&G. USF&G shall use its best efforts to respond quickly to any requests for changes.

The foregoing is a brief summary statement of our present intent and is not binding on either USF&G or Linclay. However, if the terms outlined in this Letter are acceptable to you, please sign below and return this letter with an application fee of \$100,000 by March 8, 1989. The application fee shall be in the form of a letter of credit. The application fee will be fully refunded if USF&G does not approve the terms of this Letter by March 17, 1989, in which event the application fee shall be returned within three (3) business days. Upon execution of this Letter, Linclay shall refrain from offering the Property until the Investment Committee meets to review this transaction, but at least through March 17, 1989. Once USF&G's Investment Committee approves the transaction as contemplated herein, the application fee, less any fees and costs incurred by USF&G and its legal counsel, will be returned to you if Linclay and USF&G does not enter into a Partnership Agreement in accordance with the terms of this Letter. If USF&G Investment Committee Approval is received, Seller will refrain from offering the Property for a period of 30 days while the provisions of the Partnership Agreement pursuant to this Letter are being negotiated. In any event both parties shall use best efforts to close the Partnership Agreement by April 28, 1989. Upon conveyance of the Property, the application fee will be refunded.

Sincerely,

  
Bruce N. Dorfman  
Regional Acquisition Manager

ACCEPTED: Subject to the conditions set forth on Exhibit E attached  
LINCLAY hereto.

  
SIGNED - Nadine Raffurty

  
\_\_\_\_\_  
DATE

\_\_\_\_\_  
TITLE - Vice President

**Exhibit A**

**PROJECT BUDGET  
NORTHMARK BUSINESS CENTER III**

**SOURCE OF FUNDS**

Initial Funding	\$11,905,000	
Leasing Commissions	29,000	
Tenant Improvements	<u>111,000</u>	
Total Source of Funds		<u>\$12,045,000</u>

**USE OF FUNDS**

Leasing Commissions	\$ 29,000	
Tenant Improvements	<u>111,000</u>	
Total Holdbacks		\$ 140,000
Closing Costs:		
Appraisal	\$ 7,500	
Engineering Report	7,500	
Environmental Report	5,000	
Title Insurance	28,000	
USF&G Legal Fees	25,000	
Survey	<u>2,000</u>	
Total Closing Costs		75,000
Purchase Price - Partnership Interest		<u>11,830,000</u>
Total Use Of Funds		<u>\$12,045,000</u>

## EXHIBIT B

### LEASING STANDARDS

All leases for space in the Property shall conform with the conditions set forth below (the "Leasing Standards") or upon such other terms as USF&G 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 percent of the base rent at the end of the fifth lease year or 100 percent 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 twelve (12) months following the initial disbursement date (the "lease-up period"), the leases shall provide for an average effective annual base triple net rent at a rate not less than \$12.50 per square foot for office space.

After the lease-up 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. Potential tenants are to provide financial statements, must be an ongoing business for at least three years and have a net worth of at least three times the total rental obligation of the lease.
5. The standard form of lease, including those standard modifications previously approved by USF&G (subsequent to approval of USF&G), shall not be materially altered or amended without the prior written consent of USF&G.
6. All leases shall be duly authorized and properly executed by Linclay pursuant to all necessary corporate or partnership action.
7. Amounts allocated for tenant finish work, as provided in a work letter from Linclay to each tenant, shall not be more than \$15.00 per square foot of net rentable area for office space.

## **EXHIBIT B**

### **LEASING STANDARDS (CONTINUED)**

8. The term of any executed lease must commence within three (3) months of the signing of such lease.

Leases conforming to the above standards shall be deemed automatically approved. All other leases shall be subject to USF&G's reasonable approval within 10 business days. If USF&G does not respond within ten business days, the leases will be deemed approved. These leasing standards shall apply from the date of this letter until the date 12 months after the date of initial disbursement. Thereafter the parties shall revise such standards annually by submission by Linclay to USF&G during the 10th month following initial disbursement and each 12th month thereafter of 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 Blue Ash, Ohio area. The leasing standards shall be subject to USF&G's approval, such approval not to be unreasonably withheld. USF&G shall respond to the initial annual submission of leasing standards within 20 business days and within 10 business days to subsequent revised submission of leasing standards.



## Exhibit C

## RENT ROLL

<u>Tenant</u>	<u>R.S.F.</u>	<u>Rate</u>	<u>Term</u>
Hewlett Packard	35,320	\$12.35	8 years
Honey Baked Ham	8,296	\$12.50	5 years
Merrell Dow	3,359	\$ 7.78	3 years
Metropolitan Life	17,044	\$12.50	3 years
Computer Associates	4,820	\$12.50	5 years
Toyota	6,755	\$12.50	5 years
Amdahl	6,010	\$12.50	5 years
Paychex	7,348	\$12.50	4 years
Linclay (leasing suite)	981	\$12.50	5 years
Hibbard Brown	9,252	\$12.50	3 years

## Exhibit D

### PROPERTY DOCUMENTS

1. Copies of all the leases, licenses, concessionaire agreements and other agreements for use or occupancy, including without limitation all riders, exhibits, amendments and supplements thereto (the same, together with all oral tenancies and rights for use or occupancy, being herein collectively referred to as "Leases and Tenancies").
2. A certified rent roll setting forth all pertinent financial and business terms, in summary form, of all the Leases and Tenancies, including without limitation: the name of each tenant; the space occupied; the rents and other sums and charges payable by each tenant and the date through which such rents and other sums and charges have been paid; the date of expiration of the term of each of the Leases and Tenancies; options to renew or extend the Leases and Tenancies and all the terms thereof, including rents and terms; the security and other deposits held under or pursuant to the Leases and Tenancies; options to purchase all or any part of the Property; any delinquencies and defaults by tenants under the Leases and Tenancies and the nature and amounts thereof; and any notices of bankruptcy, insolvency or other impairment of credit in respect of tenants under the Leases and Tenancies.
3. Copies of all service, maintenance, utility, scavenger, management and other similar contracts and agreements including without limitation, all riders, exhibits, amendments and supplements thereof, related or pertaining to the operation, maintenance and management of the Property, other than "Labor Agreements" (as such term is defined in paragraph 4 below), all such contracts and agreements, other than Labor Agreements, being herein referred to as "Operating Contracts."
4. Copies of all union, employment, compensation and other similar contracts and agreements, including without limitation all riders, exhibits, amendments and supplements thereto (all such contracts and agreements being herein referred to as "Labor Agreements").
5. Copies of all mortgages and other instruments of lien or security interest for borrowed money, all evidences of indebtedness thereby secured and all other documents and instruments securing, guaranteeing, or perfecting the security interest therein created to secure such borrowed money, including without limitation all renewals, extensions, amendments and supplements thereto (collectively, the "Existing Financing Documents").
6. Audited financial statements of the operation of the Property for the calendar years 1986, 1987, and 1988, showing in reasonable detail all income and expenses of the Property for each of the aforementioned periods, prepared by certified public accountants together with copies of the 1986, 1987 and 1988 real estate tax bills, the most current statements for water and sewer, and all policies of insurance.

7. Copies of all certificates of occupancy or use and all other permits, licenses, consents and authorizations required or held in connection with the ownership, use, occupancy and operation of the Property.
8. Copies of all warranties, guarantees and agreements relating or pertaining to the Property.
9. Reproductions of all drawings, plans, specifications and renderings in respect to the Property.
10. A current ALTA title insurance commitment and survey covering the Property.
11. Copies of all notices, complaints, answers, interrogatories, depositions and other papers and documents filed in or pertaining to any suit, action or proceeding by or against the Property, the Seller, or any of the partners thereof in respect of or affecting the Property.
12. Copies of all notices, citations and other papers from any Federal, state or local government authority or agency, or from any insurer or underwriter's fire, safety, environmental, health or other laws, ordinances, rules, regulations or requirements or of rules or requirements for insurance coverage, in respect of the Property, its operations, leasing, maintenance, use and management, whether or not heretofore corrected or otherwise resolved.
13. Conditions, covenants and restrictions covering the Property.
14. Copies of all existing environmental or engineering reports and appraisals relating to the Property.

**EXHIBIT "E"**

**Page 1 of 3**

March 7, 1989

Mr. Bruce N. Dorfman  
Regional Acquisition Manager  
Piedmont Realty Advisors  
650 California Street  
San Francisco, California 94108

RE: Northmark Business Center III  
Blue Ash, Ohio

Dear Bruce:

Pursuant to Piedmont Realty Advisors' letter of intent dated March 6, 1989, to structure a USF&G/Linclay 75/25 Partnership to acquire the above-referenced property, to which this letter is attached and incorporated as Exhibit E, the following represents the conditional basis upon which Linclay accepts and enters into said letter of intent.

- (1) USF&G's initial equity contribution will be \$12,045,000, versus the \$11,905,000 referenced on page three of the letter, as a result of funding at closing the items referenced in numbers (2) and (3) below.
- (2) Rather than hold back from the initial equity funding the cost for tenant improvements, Linclay guarantees to fund tenant improvement costs up to \$15.00 per rentable square foot (up to \$111,000) for the remaining 7,399 rentable square feet of first generation office space in the building. In the event that the cost of tenant improvements is less than \$15.00 per rentable square foot, Linclay shall fund only the actual costs.
- (3) Rather than hold back from the initial equity funding the cost for leasing commissions, Linclay guarantees to fund leasing commissions of \$4.00 per rentable square foot (\$29,000) for the remaining 7,399 rentable square feet of first generation office space in the building. In the event that the leasing commissions are less than \$4.00 per rentable square foot, Linclay shall fund only the actual costs.

Exhibit "E"

Page 2 of 3

- (4) In the event that the initial permanent mortgage for a term of seven (7) years or greater is obtained at less than 10.5%, then in that event, the cumulative preferred return for either Partner shall be reduced on a basis point-for-basis point ratio, only if such initial permanent mortgage is secured prior to closing of this transaction; provided, however, in no event shall the cumulative preferred return be reduced to less than eight percent (8%). Additionally, the Partnership, or either Partner, may obtain additional third party debt.
- (5) The Partnership Agreement will provide for USF&G's \$12,045,000 equity contribution to be paid to, or as directed by, Linclay.
- (6) At Linclay's option, the Linclay Partner in the Partnership to be formed will be BA Development Limited Partnership (the present owner of the Property), an Ohio limited partnership, wherein Linclay is the sole general partner.
- (7) The Partnership will recognize a right of first offer to purchase the Property in favor of Public Employees Retirement Association of Colorado until May 22, 1990.
- (8) If this transaction is not closed by April 30, 1989 (the "Outside Date"), then this transaction shall terminate; provided, however, that either party shall have the option to extend the Outside Date to May 15, 1989, by giving notice (the "Extension Notice") to the other party on or before April 30, 1989, which Extension Notice shall state that (a) in the judgment of the notifying party there are no irreconcilable differences that would hinder the closing of this transaction, (b) the notifying party believes that this transaction can be closed by May 15, 1989, if both parties act diligently in an effort to bring about such closing, and (c) the notifying party agrees that it will make a good faith effort to expedite the resolution of the unresolved issues in an effort to enable this transaction to be closed by May 15, 1989. If this transaction is not closed by April 30, 1989, and no Extension Notice is given, or if the Extension Notice is given and this transaction does not close by May 15, 1989, then in either such event, this transaction shall terminate, whereupon the application fee will be fully refunded, less the fees and costs incurred by USF&G and its legal counsel, and neither party shall have any further rights or obligations hereunder.

expansion  
only or  
improve-  
ment

Exhibit "E"

Page 3 of 3

Please evidence your agreement and acceptance with the above-referenced terms of conditional acceptance to the letter of intent by signing in the space provided below.

Sincerely,

LINCLAY



Nadine Raffurty  
Division Manager/Vice President

AGREED AND ACCEPTED

By: ~~Piedmont Realty Advisors~~

By: 

3/8/89

Date