ORANGEWOOD BUSINESS CENTER

SANTA ANA, CALIFORNIA

Piedmont Realty Advisors
650 California Street, 22nd Floor
San Francisco, California 94108
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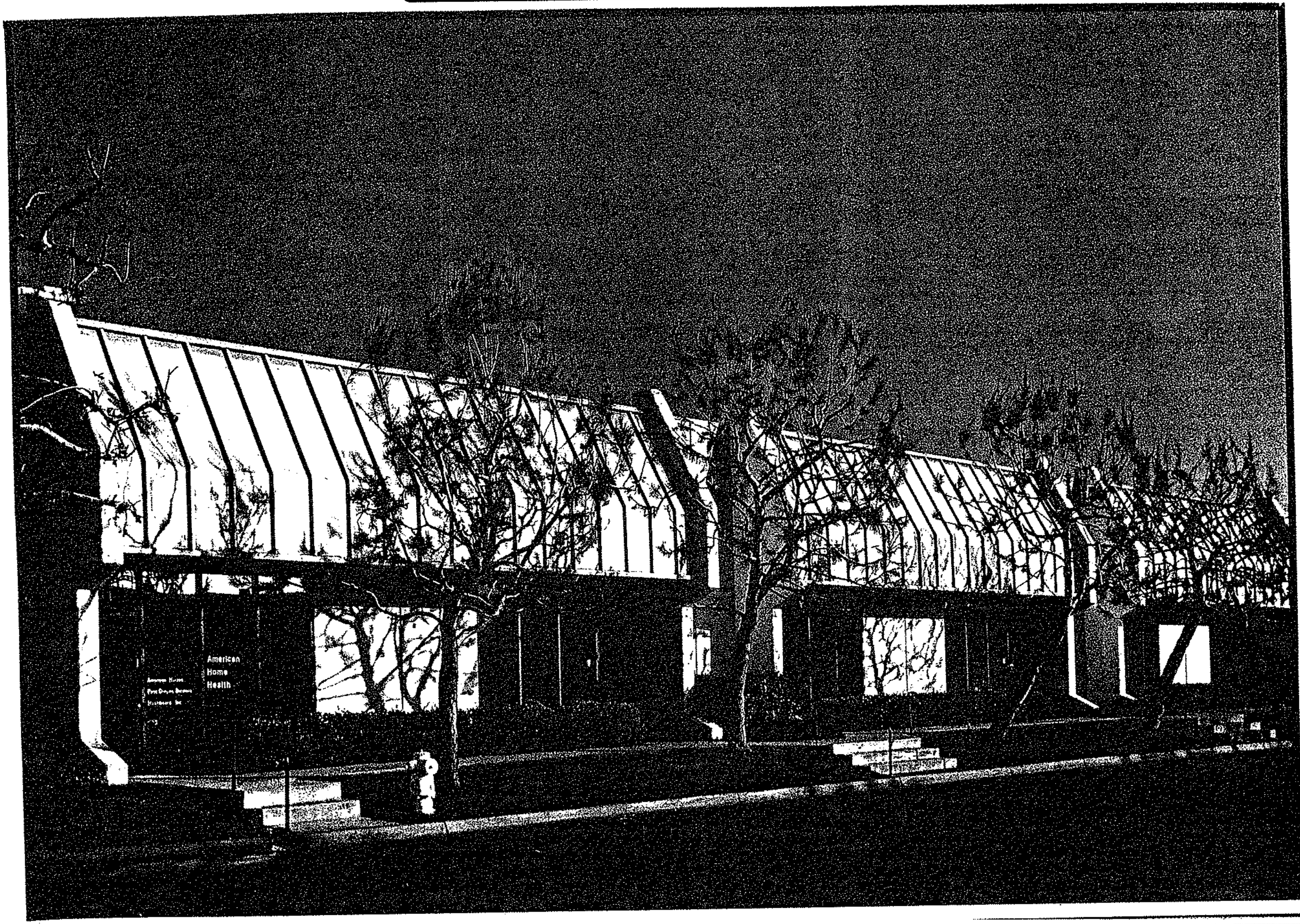
February 2, 1989

ORANGEWOOD BUSINESS CENTER



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EXHIBITS

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

415-433-4100

February 2, 1989

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

Re: **Orangewood Business Center**
Santa Ana, California

Dear Committee Members:

Enclosed for your review is an investment report on Orangewood Business Center located in Santa Ana, California. As part of the proposed transaction, USF&G will enter into a Partnership with the Koll Company on the above captioned property. USF&G's maximum equity investment basis in the property will be $13,665,000 and USF&G shall have the right to obtain permanent mortgage financing for the property at any time.

The Property

Orangewood Business Center is a 184,955 square foot multi-tenant business park consisting of ten single-story detached commercial/industrial buildings. Located at the northeast corner of Edinger Avenue and Lyon Street, the property offers immediate access to the Costa Mesa (55) and Santa Ana (55) Freeways. Orangewood Business Center's immediate location has recently been experiencing an upgrading through the development of high-end office/R&D space and the expansion of retail services into the area. The property, built in 1980, is in good condition having recently been refurbished by the current owner.

The Partner

USF&G's partner will be the Koll Company, the largest management, leasing and development firm in the western United States. Orangewood Business Center is the responsibility of Richard M. Ortwein, the Division President of the Koll Company in Newport Beach. The Newport Beach office is the largest division within the Koll Company, representing 8.5 million square feet of office and industrial space.

The Market

Orangewood Business Center is located in the Santa Ana/Central Orange County multi-tenant industrial submarket. Vacancy rates for this market have historically been extremely low, averaging between two and seven percent over the past three years. Even with the development of new projects, rental rates for multi-tenant space in the Santa Ana area have increased nearly eight percent annually over the last five years. Furthermore, rents should continue to rise as no additional directly competitive supply is expected in the subject property's marketplace. Undeveloped land is scarce and commands land prices which can only be supported by higher-end office, R&D or commercial development.

The occupancy and leasing rates of Orangewood have not achieved the levels obtained in parks managed by the Koll Company. The current owner has been a passive manager with no onsite management presence. In contrast, Koll dominates the multi-tenant business park market in the subject property's area and aggressively manages and maintains its properties through onsite offices. Koll intends to establish an onsite management office at Orangewood and it is anticipated that the rent differential between Orangewood and the competing projects will lessen. In addition, rents at Orangewood should move upward due to the upgrading of its immediate surrounding location, as discussed above.

The Investment

The proposed investment structure incorporates several features that serve to protect USF&G's cash yields. The investment provides USF&G a ten percent cumulative preferred return and an 80 percent ownership position. In addition, USF&G will receive a 12.5 percent internal rate of return priority before residual splits. Furthermore, Koll will guarantee 95 percent occupancy at stipulated rental rates for 18 months. The guarantee applies to any space currently vacant or which may become vacant during the guarantee period. An unleveraged internal rate of return of 12.01 percent over a ten-year holding period is projected for Orangewood Business Center

Piedmont Realty Advisors recommends that United States Fidelity & Guaranty Company approve the proposed investment of $13,665,000 in equity for Orangewood Business Center.

Sincerely,

Susan G. Burrus

Susan G. Burrus
Regional Acquisition Manager

SGB:ar

I. PROPERTY SUMMARY

A. Property:

Orangewood Business Center
1701 East Edinger Avenue
Santa Ana, California

B. Location:

The property is located at the northeast corner of Edinger Avenue and Lyon Street in the southeast quadrant of the City of Santa Ana (see Exhibit II). Edinger is one of the primary surface streets serving Santa Ana and the adjacent cities of Tustin and Irvine. The site is approximately one mile southwest of the intersection of the Costa Mesa (55) and Santa Ana (5) freeways. Access to the Santa Ana Freeway is approximately one-quarter mile from the property. The main entrance to the property is provided via a wide driveway entering the park from Edinger. Two additional entrances are available from Lyon Street (see Exhibit V).

Orangewood Business Center is located four miles northeast of the John Wayne (Orange County) International Airport and forty-five minutes southeast of the Los Angeles International Airport. The cities of Los Angeles and Long Beach are 33 miles to the northwest and 20 miles to the west, respectively (see Exhibit I).

C. Santa Ana Overview:

The City of Santa Ana is in the heart of Orange County, California, the 16th largest Metropolitan Statistical Area (MSA) in the nation. With a population of approximately 2.2 million people, Orange County lies along 42 miles of the Southern California Coast between Los Angeles and San Diego Counties, extending some 25 miles inland. Orange County contains 36 cities, 12 with populations in excess of 50,000. Santa Ana, the County seat, is the second largest city in the County with a population of 226,000.

Santa Ana is the geographic hub of the County with access from the San Diego Freeway (405), Costa Mesa Freeway (55), Santa Ana Freeway (5), Garden Grove Freeway (22) and the Orange Freeway (57) (see Exhibit I). Santa Ana's central location has spurred diverse economic development with over 13,000 firms currently doing business in industries representing a full range of employment opportunities. Santa Ana now employs 115,000 people which represents more than ten percent of the Orange County labor force.

Santa Ana's southwest and southeast quadrants have historically been the primary locations for manufacturing, warehouse and lower-end industrial space in the city. However, the southeast quadrant has recently been experiencing an upgrading through the development of high-end office/R&D space. Immediately south of Orangewood Business Center, across Edinger Avenue, are PacifiCenter and the McDonnell Center, two neighboring business parks spanning 123 acres (see Exhibit III). Santa Fe Pacific Realty is developing the 71 acre PacifiCenter and MDC Realty has master-planned the adjacent 52 acres for the McDonnell Center. Phase I of the McDonnell Center has been completed and serves as the corporate headquarters of McDonnell Douglas Automation Company. The master plan for both parks places special emphasis on upscale campus settings surrounding a one-acre lake. Fifteen office and R&D buildings totalling 2.7 million square feet are anticipated over an eight to ten-year development period. A complete business community is planned including support services such as restaurants, a health club and day care. Landscaping, roads and offsites have been completed for both parks. Orangewood Business Center will benefit directly from this upgrading of its immediate surrounding location and the introduction of more businesses and services to the marketplace. Orangewood is also benefitting from the recent expansion of retail uses into the southeastern portion of Santa Ana. The best example of this is the 50 acre Auto Center which opened in 1986 and features eleven dealers (see Exhibit III).

D. Property Description:

The subject property is an established multi-tenant business park consisting of 184,955 square feet of net rentable area. The project is comprised of ten single-story detached commercial/industrial buildings of concrete tilt-up construction (see Exhibits IV and V). The park was developed in 1980 by Woodview Properties and sold to the Shidler Group in 1984. Orangewood is currently 90 percent leased to 31 tenants.

On average, the buildings in the park are approximately 50 percent improved for office use, with dropped ceilings, air conditioning and carpet. The four buildings facing the public streets (Edinger Avenue and Lyon Street) are suitable for offices and retail outlets. The remaining six buildings are suitable for diverse industrial and workshop activity, warehousing and distribution. Individual units typically include a reception area, executive office, two restrooms and a warehouse area with a 10 ft. x 10 ft. ground-level truck access door in the rear. Interior unfinished clear heights range from 12'-6" to 14'-0" and all building frontages have glass store-front entrances. The park attracts a wide range of tenants by offering diverse unit sizes ranging in size from approximately 1,200 to 8,000 square feet and a variety of bay depths ranging from 60 feet to 123 feet.

The subject property is located on 11 acres with approximately 540 linear feet of frontage along Edinger Avenue and 600 linear feet of frontage along Lyon Street. The parking ratio for the property is comparable to competitive properties at 2.05 spaces per 1,000 rentable square feet. Forty-seven additional spaces are available along the property's interior private street (Orangewood Street), bringing the parking ratio up to 2.3 spaces per 1,000 rentable square feet. The floor area ratio (FAR) is 39 percent. The project is attractively landscaped with grass berms separating the buildings from the public streets.

The property is in good condition and requires only minimal capital improvements subsequent to closing. A budget of $50,000 has been provided for 1989 of which $25,000 will be used for two monument signs and directional signage within the park and $25,000 will be used for preventive roof maintenance. A full re-roofing has been budgeted for in the cash flow projections during years three through five in accordance with a current roof repair report. All buildings were recently repainted (second quarter, 1988) and the parking lot was slurry-coated and re-striped in the fourth quarter, 1987.

E. **Partner:**

The Koll Company is the largest management, leasing and development firm in the Western United States. The Company's real estate portfolio is currently valued at approximately $2.7 billion and includes 5,000 tenants. Multi-tenant industrial properties account for 34 percent of the portfolio. Headquartered in Newport Beach, the Koll Company operates eight division offices throughout the west. Each division is a separate operating center led by a division president. Orangewood Business Center is the responsibility of Richard M. Ortwein, the Division President of the Koll Company, Newport Beach. The Newport Beach office is the largest division within the Koll Company, representing 33 percent of the income property for the Company, or 8.5 million square feet of office and industrial space. The Koll Company has developed extensively in Newport Beach, Irvine and San Diego and is committed to continued development throughout California in the future.

II. MARKET SUMMARY

A. Competitive Market:

Orange County. The Orange County industrial market encompasses 768 square miles and contains a broad array of industrial product types. Industrial space includes R&D, warehouse/distribution, manufacturing, multi-tenant business park and various specialized uses. The entire industrial market is estimated at 175 million square feet, and has experienced steadily increasing annual absorption throughout the 1980s to the current level of over 16 million square feet per year. Vacancy for the entire industrial market is estimated at 12 percent. The majority of this vacancy, however, is in newer R&D and office/service space, two industrial submarkets which together constitute only 20 percent of the Orange County industrial base. This substantial and disproportional R&D vacancy has been caused by Orange County's high land prices which have encouraged the development of higher density R&D projects with higher lease rates and discouraged the introduction of space commanding lower lease rates which would be comparable to Orangewood Business Center and its existing competition. This has caused the current oversupply of high-end space and extremely low vacancy levels for other, lower finish industrial uses.

Santa Ana/Central County. Orangewood Business Center competes within the multi-tenant industrial submarket. Within the Santa Ana/Central County district, multi-tenant space is typically classified by age into two distinct product types. Older projects consist of developments, such as Orangewood Business Center, completed 8-15 years ago which cater to less technologically-oriented users. Vacancy rates for this product type have historically been extremely low, averaging two percent over the past three years. Newer product has included higher cost space with supportive commercial services. Vacancy rates are also low for this product group, averaging less than seven percent over the past three years. Even with the development of new projects, rental rates for both product groups have increased nearly eight percent per year over the last five years per a recent survey by Investor Developer Properties. This rate of rental rate growth is consistent with Koll's experience at two parks which are directly competitive with Orangewood (Koll Business Center-

Tustin and Koll Business Center - Redhill). Furthermore, due to the extremely low vacancy rate in the Santa Ana/Central County multi-tenant submarket, older and newer properties compete directly despite a rental rate spread of approximately $0.10 per month.

Rents for both product types should continue to rise as no additional directly competitive supply is expected in the subject property's immediate marketplace. Undeveloped land is scarce, and is controlled primarily by Santa Fe Realty who plans to develop build-to-suits and corporate user parks. Future product by other developers is also expected to be higher-end office, R&D or commercial space to support high land costs. One remaining large tract of land (17 acres) recently sold for $17.00 per square foot, a price which can only be supported by rents significantly in excess of those at Orangewood and its competition. As such, with absorption remaining reasonably constant, future development of higher-end product should provide upward pressure on rents at Orangewood through restriction of increases in the multi-tenant industrial supply and by a general upgrading of the marketplace.

Competitive Property Overview. The subject property competes directly with six existing business parks (see Exhibit VI). Excluding McFadden Centre, a park recently completed, the average occupancy for these parks is 95 percent. Including McFadden Centre, the occupancy is 88 percent. McFadden Centre, completed 18 months ago, is currently 55 percent leased. According to local brokers, a faster lease-up of this project has been impeded by the developer's (Santa Fe Realty's) inability to negotiate deals quickly. One new project, Grand Commerce Center, is scheduled to open in February 1989 and will offer 101,000 square feet of which 13,000 square feet are already committed. Both of these new projects, McFadden Centre and Grand Commerce Center, are perceived to have inferior locations to Orangewood. As discussed above, no additional competitive supply is anticipated in the property's marketplace due to the scarcity and high cost of land.

Orangewood quotes leases on a triple net basis; the six competitive projects quote industrial gross lease rates where the landlord pays for property taxes, insurance and common area maintenance charges. For comparative purposes, Orangewood rental rates can be converted to an industrial gross basis by adding 1989 budgeted expenses of approximately $0.17 per square foot per month to its triple net rents. The following current asking rents (per square foot per month) are all on an industrial gross basis:

	Orangewood	Competitors
Office	$0.77-$0.97	$0.85-$1.20
Warehouse	$0.62-$0.82	$0.65-$1.05

Orangewood rental rates are currently low compared to its competitors' rates for a variety of reasons. First, two of the competitive projects (3002 Dow and McFadden Centre) are new, having been completed in 1987. Second, two of the projects (Koll Business Center-Redhill and Koll Business Center-Tustin) benefit from Koll's onsite management and leasing. Third, Orangewood is located in Santa Ana which typically results in a slight rent discount relative to industrial projects with an Irvine or Tustin address.

The occupancy and leasing rates of Orangewood have not achieved the levels obtained in parks managed by the Koll Company. Koll dominates the multi-tenant business park market in the subject property's area and aggressively manages and maintains its properties through onsite offices. In contrast, the current owner has been a passive manager with no onsite management presence. Koll intends to establish an onsite management office at Orangewood and it is anticipated that the rent differential between Orangewood and the competing projects will lessen. Similarly, the property should again achieve its average historical occupancy level of 95 percent. The current occupancy of 90 percent reflects the current owner's lack of a cohesive leasing program in light of the pending sale and that none of the vacant suites has been refurbished or cleaned to expedite leasing. Koll, in contrast, intends to "pre-improve" all vacant spaces to maximize leasing potential.

Conclusion In summary, the property is in an extremely tight market with no additional directly competitive supply expected. New multi-tenant product can no longer be justified in this marketplace as its rent structure cannot support today's land prices. Rents have increased steadily and are projected to continue to do so in light of constant absorption and restricted supply. Furthermore, Orangewood Business Center will benefit from the upgrading of its immediate surrounding location and from the Koll Company's onsite management.

III. INVESTMENT SUMMARY

A. **Investment Type:** Equity Joint Venture with the potential for leverage (USF&G/Chapman).

B. **Description of Transaction:** USF&G will purchase an equity joint venture interest in the property. USF&G will receive a ten percent cumulative preferred return and an 80 percent ownership position. In addition, USF&G will receive a 12.5 percent internal rate of return priority before residual splits. Koll will guarantee 95 percent occupancy at stipulated rental rates for 18 months. The guarantee applies to any space currently vacant or which may become vacant during the guarantee period.

C. **Investment Amount:**

$13,230,000	Acquisition Price
90,000	Closing Costs
80,000	Leasing Commission Holdback
215,000	Tenant Improvement Holdback
50,000	Capital Improvement Holdback
$13,665,000	Total Commitment

D. **Cumulative Preferred Rate:** 10% (non-compounding)

E. **Participations:** 80% Operations
80% Residual after a 12.5% IRR
(100% of residual prior to the 12.5%)

F. **Returns**

Price/Square Foot: $73.88

Cap Rate: 8.74%

IRR:

12.01%	All Cash
13.17%	50% Leveraged

G. **Risks:** The risks included in this project are outlined below:

<u>Risk</u>	<u>Mitigating Factor</u>
Tenant	
1. Eagle's Nest, a Christian Fellowship, occupies 30,775 square feet (16.6 percent of the subject) in Buildings B, H and I which expires 4/30/89. The current buildout would be unsuitable for any use other than a church operation.	Eagle's Nest has not yet committed to a renewal but has expressed a strong interest in staying at Orangewood. A tenant improvement budget of $3.50 per square foot has been provided for this space in year one of the projection. This reflects a 50 percent probability of leaving applied against an anticipated cost of $7.00 per square foot should they vacate. If Eagle's Nest does renew its space, the projected internal rate of return increases for the property by approximately 11 basis points. Conversely, if Eagle's Nest vacates, the projected yield declines by a comparable amount and budgeted tenant improvements for this space will need to be increased by possibly over $100,000.
Property	
1. The project has a parking ratio of 2.05 spaces per 1,000 rentable square feet. This ratio restricts additional office buildout which limits the upside to be gained from office rents. In addition, if Eagle's Nest vacates, its space would most likely be leased by a user requiring weekday (not weekend) parking.	The property's parking ratio is comparable to its direct competitors. In addition, 47 spaces are available along the park's interior private street (Orangewood Street)

which increases the parking ratio to 2.30. The park is already, on average, 50 percent built-out for office use and parking appears adequate. An average buildout of 50 percent office has proven to be a highly marketable product as shown by steadily rising rents. In addition, the current excess parking appears adequate to accommodate a different tenant use in Building H should the church leave the park.

2. The roof survey report indicates the roof is on the "downhill side of the normal life cycle".

The ten-year projection assumes a full re-roofing of the property during years 3-5. The projected cost reflects today's estimate of $1.50 per square foot inflated at five percent.

3. The City of Santa Ana currently requires two restrooms for office space in excess of 500 square feet in multi-tenant business parks.

The City has shown no intention of retroactively applying this code. However, as new permits are requested to rebuild existing space the code is sometimes being applied. Koll recently engaged the R.B. Allen Group to walk the property to determine which spaces may be affected by this code in the future. Per Allen, all space as presently configured is in compliance with the City's current code. The park offers a wide variety of unit sizes and Koll will be reluctant to reconfigure any space in the future, especially given the strength of the multi-tenant industrial market. However, an annual reserve of $0.15 per square foot in 1989, growing thereafter at five percent per year, has been budgeted to cover future refit costs from this code.

4. The project is currently 90 percent leased with approximately 50 percent of the space expiring in year one.

This is not highly unusual for "incubator" properties which typically have shorter term leases. Furthermore, the seller of the property has guaranteed rental rates at stipulated rents for a period of 18 months. Koll dominates the multi-tenant industrial market and is adept at retaining tenants and releasing such space.

EXHIBITS

Exhibit I

REGIONAL LOCATION MAP

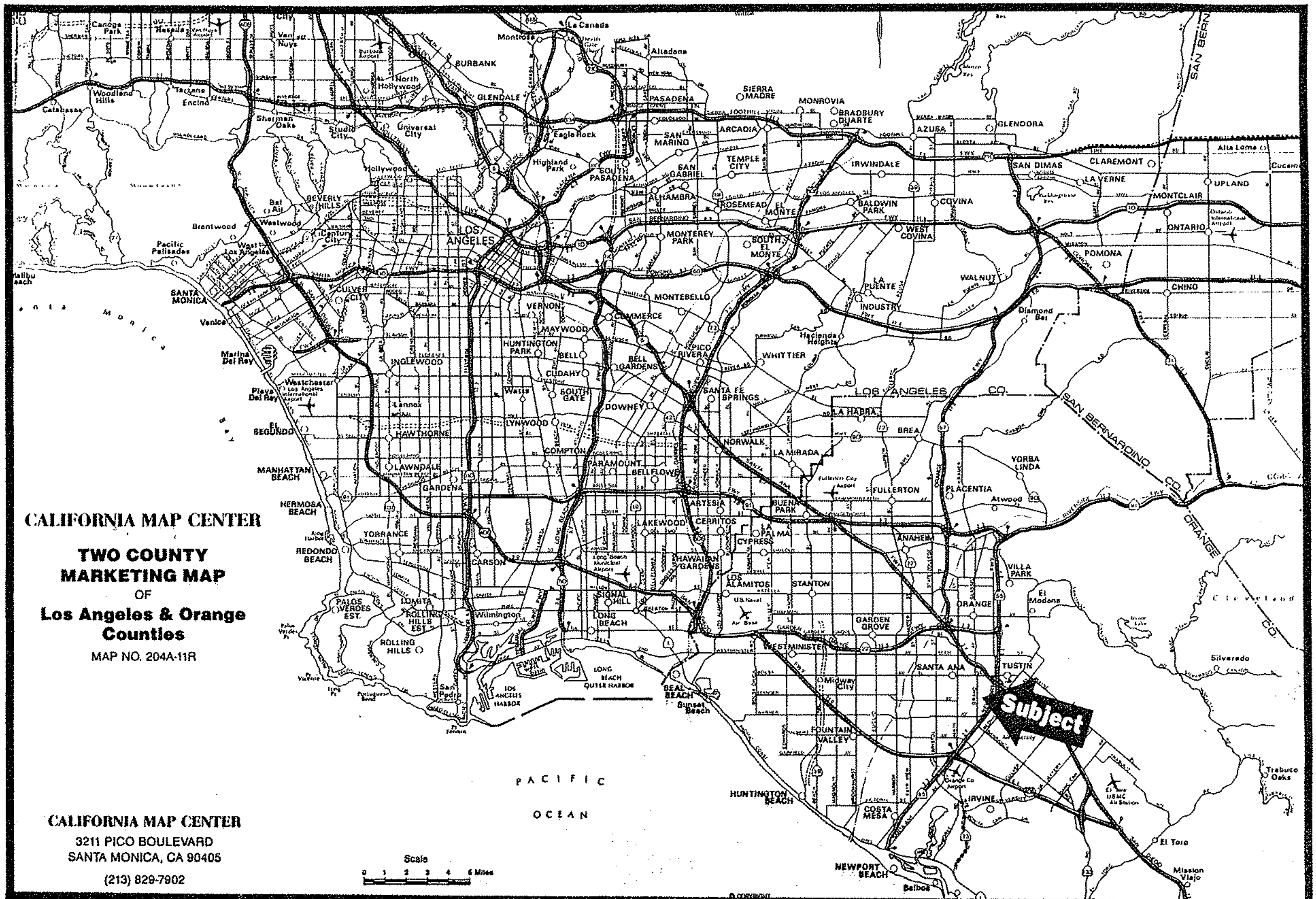


EXHIBIT II
SITE VICINITY MAP

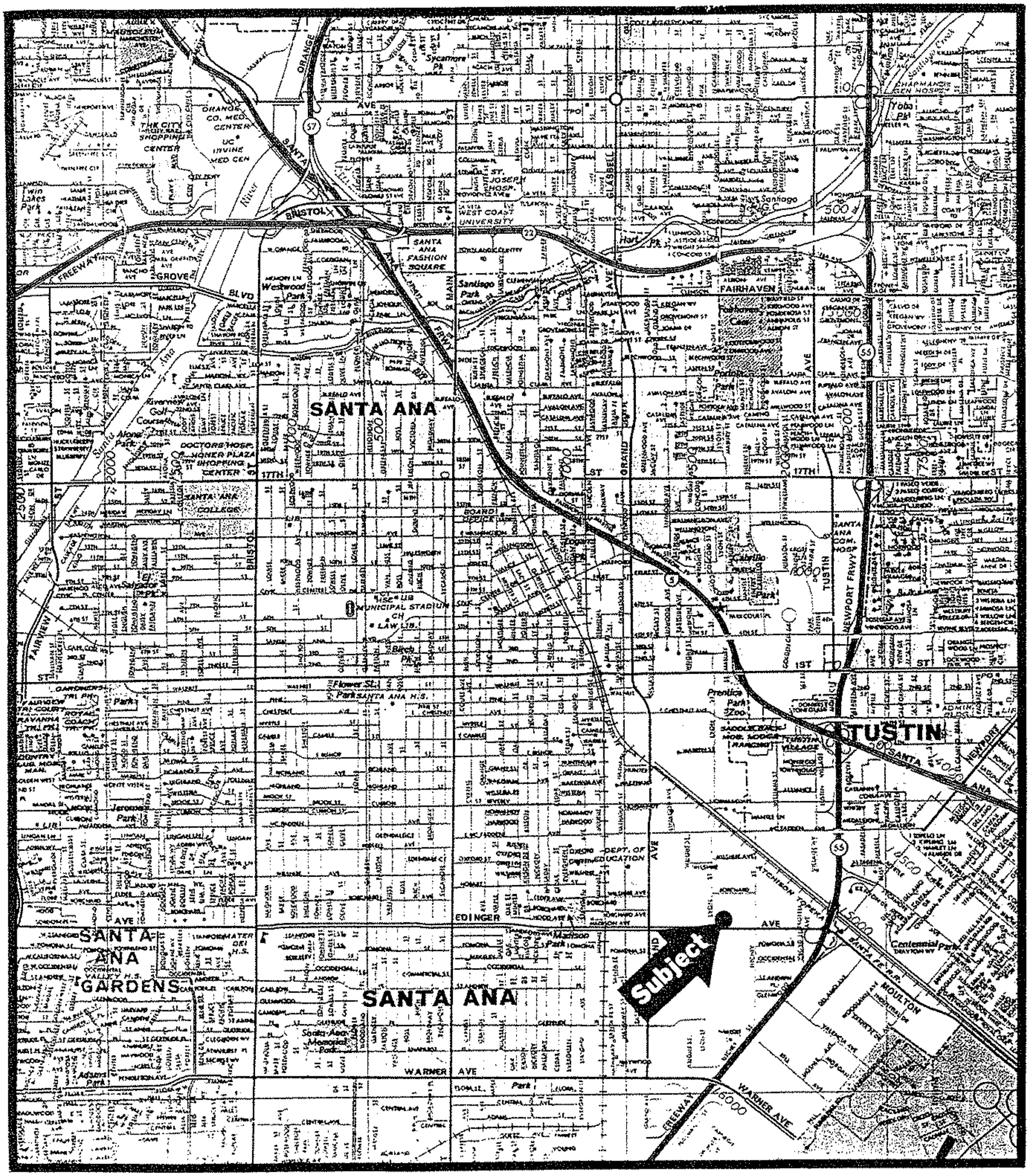
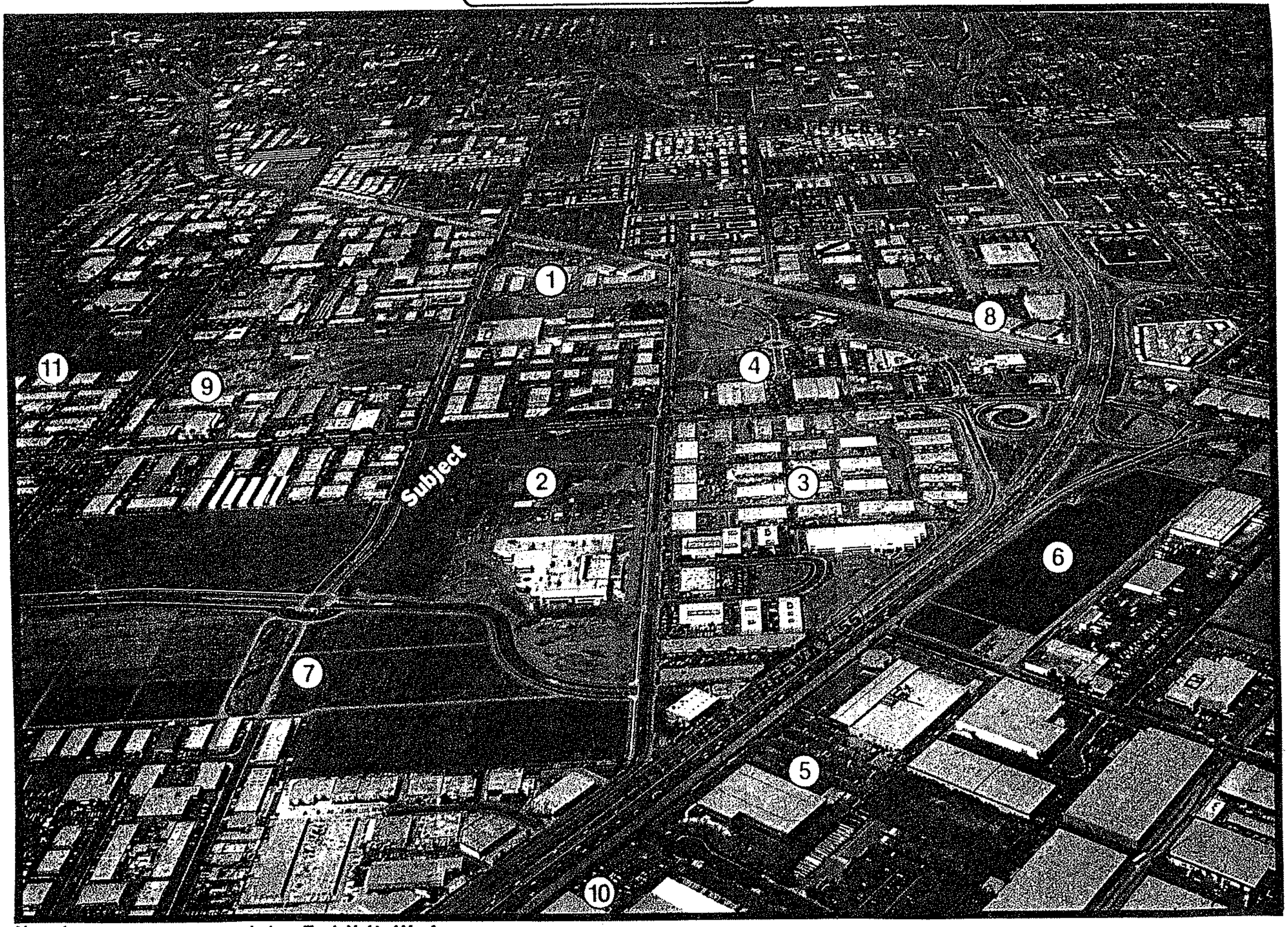


EXHIBIT III
AERIAL PHOTOGRAPH



Numbers correspond to Exhibit III-A

Exhibit III-A

AERIAL KEY

1	McFadden Centre
2	McDonnell Center
3	Boyd Industrial Park
4	Santa Ana Auto Center
5	Ricoh, Inc.
6	Santa Fe Realty Development Site (primarily build-to-suits)
7	PacifiCenter
8	McFadden Commerce Center
9	Century High School
10	Steelcase, Inc.
11	Orange County Transportation Authority Development Site

Note: Numbers correspond to Exhibit III.

EXHIBIT IV
ORANGEWOOD BUSINESS CENTER
BUILDING C

EXHIBIT V
SITE PLAN

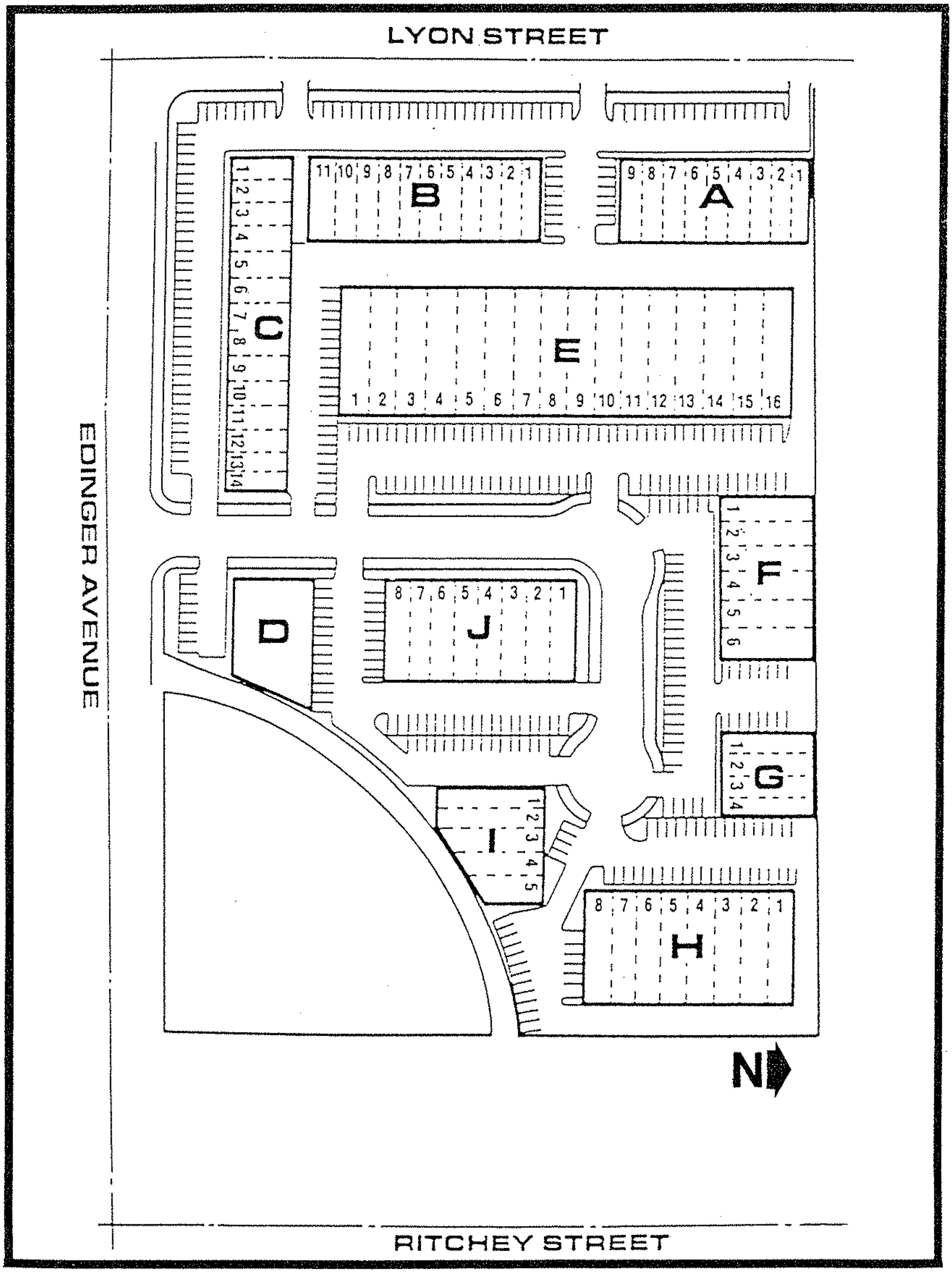


Exhibit V-A

IMPROVEMENT SUMMARY

Building	Building Area	Percent Improved	Percent Office	Existing Tenant Size Range	Building Depth
A	14,963	6,207	41%	1,640-3,403	82'
B	18,493	17,450	94%	3,280-6,765	82'
C	18,960	8,080	43%	1,200-3,480	60'
D	8,770	8,770	100%	8,770	80'
E	52,797	10,600	20%	3,306-16,530	123'
F	14,040	4,312	31%	7,020	90'
G	7,200	1,920	27%	1,800-5,400	90'
H	21,600	21,600	100%	21,600	108'
I	9,992	1,200	12%	4,097-5,895	105'
J	18,140	4,800	26%	2,668-12,504	97'
Totals	184,955	84,939	46%		

EXHIBIT VI
COMPETITIVE PROPERTIES

Property Name/Address	Map Number	Total Square Footage	Occupancy	Asking Rents	Expense Treatment/ Current Expenses	Year Built	Parking Ratio
Orangewood Business Center 1701 East Edinger Avenue Santa Ana, California	Subject	184,955	90%	$0.62-$0.82 Warehouse $0.77-$0.97 Office	NNN $0.17/sf/mo	1980	2:1
Koll Business Center-Redhill 15401-15481 Redhill Avenue Tustin, California	1	119,640	97%	$0.68-$0.85 Warehouse $0.90-$1.05 Office	Base Year $0.16/sf/mo	1978	2:1
Koll Business Center-Tustin 1541 Parkway Loop Tustin, California	2	240,602	95%	$0.70-$0.95 Warehouse $0.85-$1.10 Office	Base Year $0.14/sf/mo	1976	3:1
McFadden Centre 1261-1277 South Lyon Street 1669-1815 Wilshire Avenue Santa Ana, California	3	116,037	55%	$0.65-$0.80 Warehouse $0.97-$1.08 Office	Base Year $0.14/sf/mo	1987	3:1
Tustin Business Center 3640 Walnut Avenue Tustin, California	4	157,466	99%	$0.65-$0.85 Warehouse $0.85-$0.95 Office	Base Year $0.14/sf/mo	1976	2:1
3002 Dow Business Center 3002 Dow Avenue Tustin, California	5	195,125	Phase I 90%	$0.80-$0.97 Warehouse $1.00-$1.15 Office	NNN $0.15/sf/mo	1987	3:1
Airport Business Center 17755 Skypark East Irvine, California	6	1,158,728	94%	$0.75-$1.05 Warehouse $1.00-$1.20 Office	Base Year $0.17/sf/mo	1978	3:1
UNDER CONSTRUCTION Grand Commerce Center 600 South Grand Avenue Santa Ana, California	7	101,447	13%	$0.75-$1.50	Base Year	1989	2.75:1

Note: All asking rents are stated on an industrial gross basis.

Map numbers correspond to Exhibit VI-A.

EXHIBIT VI-A
COMPETITIVE BUILDINGS
LOCATION MAP

Numbers correspond to Exhibit VI

Exhibit VII

PROJECT BUDGET
ORANGEWOOD BUSINESS CENTER

SOURCE OF FUNDS		
Initial Funding	$13,320,000	
Leasing Commission Holdback	80,000	
Tenant Improvement Holdback	215,000	
Capital Holdback	50,000	
Total Source of Funds		$13,665,000
USE OF FUNDS		
Legal	$ 50,000	
ALTA Survey	10,000	
Appraisal	10,000	
Audited Financial Statements	10,000	
Contingency	10,000	
Total Closing Costs		$ 90,000
Leasing Commissions	$ 80,000	
Tenant Improvements	215,000	
Capital Holdback	50,000	
Total Holdbacks		345,000
Purchase Price - Partnership Interest		13,230,000
Total		$13,665,000

Exhibit VIII
STABILIZED PROFORMA
ORANGEWOOD BUSINESS CENTER
Year 2

		Per Sq. Ft.
Annual Rental Income		
Existing Leases	$ 298,943	$1.62
Vacant Space	145,698	0.79
Relet Space	873,186	4.72
Reimbursements (1)	383,364	2.07
Gross Potential Income	$1,701,191	$9.20
Vacancy (5%)	(85,060)	(0.46)
Effective Gross Income	$1,616,131	8.74
Operating Expenses	(311,486)	(1.68)
Management Fee (5% of EGI)	(80,807)	(0.44)
Reserves ($0.158 per square foot)	(29,130)	(0.16)
Net Operating Income	$1,194,708	$6.46

(1) Nine tenants currently do not reimburse management fees. Reimbursement income has been reduced by $8,929 in year two in accordance with these leases.

EXHIBIT IX
RENT ROLL

Rec. No.	Tenant	Suite #	Square Feet	Annual Base Rent	Per Sq.Ft.	Current Monthly Rent (p.s.f.)	Current Expense Stop	Lease Term Months	Lease Start Date	Lease Expiration Date	Rent Adjustments	Comments
1	IRVINE WINDOW COVERING	A,1-2	3,403	$22,085	$6.49	$0.54	NET	24	01-Feb-88	31-Jan-90	Annual CPI	
2	VACANT	A,3-4	3,280	$0	$0.00	--	--	--	--	--		
3	CIRCUIT CO-FAB	A,5-6	3,280	$23,157	$7.06	$0.59	NET	24	01-Nov-88	31-Oct-90	Annual CPI	
4	FABTURN MACH.	A,7	1,640	$11,874	$7.24	$0.60	NET	36	16-Nov-88	15-Nov-91	Annual CPI	
5	VACANT	A,8-9	3,360	$0	$0.00	--	--	--	--	--		
6	PIZZA HUT	B,1-2	3,925	$44,078	$11.23	$0.94	NET	120	01-May-82	30-Apr-92	Annual CPI	Tenant vacated 8/31/88. Obligated
7	VACANT	B,3-5	4,523	$0	$0.00	--	--	--	--	--		to pay rent through lease expira-
8	VIDEO PIONEERS CORP.	B,8-11	6,765	$45,190	$6.68	$0.56	(1)	36	01-Nov-88	31-Oct-91	Annual CPI	tion.
9	VACANT	C,1-2	3,480	$0	$0.00	--	--	--	--	--		
10	LINNEX COMPUTERS	C,3	1,200	$10,224	$8.52	$0.71	NET	36	01-Aug-88	31-Jul-91	Annual CPI	
11	VIDEOTECH COMPANY	C,4	1,200	$9,744	$8.12	$0.68	NET	39	01-Apr-87	30-Jun-90	Annual CPI	
12	CARPET DIRECT	C,5	1,200	$9,264	$7.72	$0.64	NET	60	01-Mar-84	28-Feb-89	Annual CPI	As of 1/89 tenant plans to renew;
13	J.V. ENTERPRISES	C,6	1,200	$10,968	$9.14	$0.76	NET	24	01-Oct-87	30-Sep-89	Annual CPI	terms of renewal not yet established.
14	WORD PROS	C,7	1,200	$9,744	$8.12	$0.68	NET	60	01-Jan-86	31-Dec-90	Annual CPI	
15	USASIA	C,8	1,200	$9,000	$7.50	$0.63	(1)	36	01-Mar-87	28-Feb-90	Annual CPI	
16	SIR SPEEDY	C,9	1,200	$11,604	$9.67	$0.81	(1)	60	01-Jan-86	31-Dec-90	Annual CPI	
17	UNIQUE AUTO IMAGES	C,10	1,200	$9,744	$8.12	$0.68	NET	24	01-Apr-87	31-Mar-89	Annual CPI	
18	VACANT	C,11-12	2,400	$0	$0.00	--	--	--	--	--		
19	VACANT	C,13	1,200	$0	$0.00	--	--	--	--	--		
20	TUSTIN DOOR & WINDOW	C,14	2,280	$21,364	$9.37	$0.78	(1)	60	01-Mar-86	28-Feb-91	Annual CPI	
21	GOLDEN STAR TECHNOLOGY	D	8,770	$63,144	$7.20	$0.60	NET	36	01-Jul-88	30-Jun-91	Annual CPI	
22	EUROSPORT	E,1	3,306	$20,629	$6.24	$0.52	NET	36	01-Mar-87	28-Feb-90	Annual CPI	
23	PACIFIC CIRCUIT SERVICE	E,2-3	6,612	$41,986	$6.35	$0.53	(1)	36	01-Jan-87	31-Dec-89		
24	ADVANCED MICRO SYSTEMS	E,4	3,306	$20,762	$6.28	$0.52	NET	38	16-Aug-87	15-Oct-90	Annual CPI	
25	QUALITY SYSTEMS	E,5-9	16,530	$104,139	$6.30	$0.53	NET	12	01-Sep-88	31-Aug-89	Annual CPI	
26	SUPERIOR PRODUCTS	E,10-11	6,374	$40,794	$6.40	$0.53	NET	12	20-Aug-88	19-Aug-89		
27	MARC BERRY ENTERPRISES	E,12	3,445	$21,497	$6.24	$0.52	NET	62	01-Aug-88	30-Sep-93	Annual CPI	
28	ACM DIST/LEASING OFFICE	E,13	3,306	$19,538	$5.91	$0.49	NET	1	01-Jan-89	31-Jan-89	Annual CPI	ACM Distributors is currently on a
29	ACM DISTRIBUTORS	E,14-15	6,612	$39,209	$5.93	$0.49	NET	1	01-Jan-89	31-Jan-89	Annual CPI	month-to month lease as it will be
30	ACM DISTRIBUTORS	E,16	3,306	$23,935	$7.24	$0.60	(1)	1	01-Jan-89	31-Jan-89	Annual CPI	vacating its space during the 1st
31	HOLMES DRAPERY	F,1-3	7,020	$39,663	$5.65	$0.47	(1)	60	01-Jan-87	31-Dec-91	Annual CPI	quarter of 1989.
32	UNISOURCE/PAPER PLUS	F,4-6	7,020	$44,647	$6.36	$0.53	(1)	36	01-Mar-87	28-Feb-90		
33	NATIONAL CIRCUIT TECH	G,1-3	5,400	$29,808	$5.52	$0.46	NET	24	16-Sep-88	15-Sep-90	Annual CPI	
34	HARVEY HART	G,4	1,800	$11,880	$6.60	$0.55	NET	25	01-Nov-88	31-Dec-90	Annual CPI	
35	THE EAGLE'S NEST	B,6-7,H,I,1-3	30,775	$220,657	$7.17	$0.60	NET	12	01-May-88	30-Apr-89		
36	RUDY'S JAGUAR SERVICE	I,4-5	4,097	$24,090	$5.88	$0.49	(1)	60	01-Jul-86	30-Jun-91	Annual CPI	
37	AMERICAN HOME HEALTH	J,1	2,668	$24,012	$9.00	$0.75	NET	60	01-Jul-88	30-Jun-93	Annual CPI	
38	PACIFIC AIR DESIGN	J2F,3	2,968	$18,609	$6.27	$0.52	NET	24	16-Nov-88	30-Nov-90	Annual CPI	
39	THE BAGEL PLACE	J2R,4-8	12,504	$76,650	$6.13	$0.51	NET	36	01-Jun-87	31-May-90	Annual CPI	
			184,955	$1,133,689								

(1) Management Fee is a non-recoverable expense. Leases are assumed to roll into net leases.

Exhibit X

VALUE ESTIMATE

Piedmont Realty Advisors reviewed five comparable business park sales which occurred in the Orange County area since June, 1986. The sales comparables were evaluated in terms of their quality and location within their respective areas (see Exhibit X-A). The comparables were then ranked based on quality and the following range for Orangewood Business Center was estimated:

$13,700,000 - $14,100,000

These values are based on the assumption that stabilized occupancy of the property will occur during the second operating year and that the projected capital improvements are made to the property.

Exhibit X-A

COMPARABLE SALES RANKING

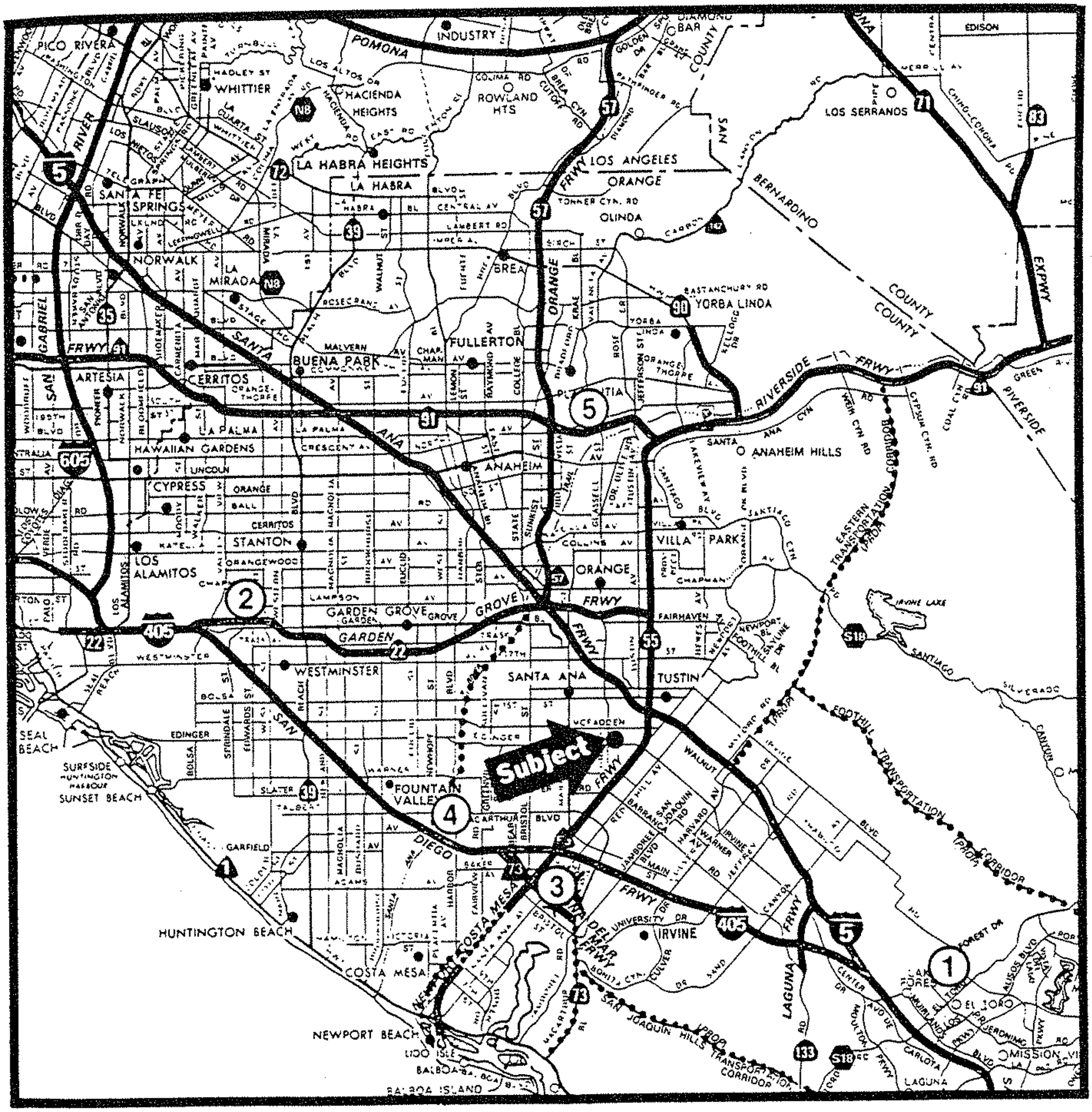
Property Name	No.	Year Completed	Rentable Sq. Ft.	Date of Sale	Price/ Sq. Ft. (1)	Cap Rate
Canada Business Park	1	1975-78	292,097	Pending	$99.28	7.8%
Bridgecreek Business Park	2	1978	143,359	06/23/86	$87.50	7.4%
Stonemill Business Park	3	1978	133,866	12/31/86	$88.06	9.9% (3)
Orangewood Business Park	**Subject**	**1980**	**184,955**	**02/15/89**	**$73.88 (5)**	**8.74%**
Carriage Business Park	4	1975	70,856	12/05/87	$77.02	9.2% (2)
LaPalma Business Park	5	1978	276,327	12/15/87	$72.81	7.6% (4)

Note: The sales are ranked based on quality. Sale number one is the most superior comparable. Sale number five is the most inferior.

(1) All sale prices were adjusted for time by applying a five percent annual change in the CPI to the actual sale price.
(2) Property was not placed on the open market when sold.
(3) Sold subject to a ground lease expiring 2032.
(4) Reflects below market rents at the time of closing.
(5) Reflects full commitment amount of $13,665,000 which includes holdbacks for tenant improvements, leasing commissions and capital improvements.

Sources: The Koll Company;
Investor Developer Properties.

Exhibit X-B
COMPARABLE SALES LOCATION MAP



Numbers correspond to Exhibit X-A.

EXHIBIT XI
CASH FLOW SUMMARY

Orangewood Business Center — Feb-89
Multi-Tenant Business Park 184,955

			OPERATING YEAR 1	2	3	4	5	6	7	8	9	10	11
I. PROPERTY OPERATIONS													
Rental Income			1,189,848	1,297,653	1,364,351	1,377,637	1,480,520	1,564,753	1,593,300	1,710,550	1,811,183	1,849,359	2,028,581
Reimbursements			343,432	379,371	397,303	403,993	430,697	451,202	449,581	483,242	507,699	513,375	546,036
Guaranty Payment			114,648	43,932	0	0	0	0	0	0	0	0	0
Subtotal			1,647,928	1,720,956	1,761,654	1,781,630	1,911,217	2,015,955	2,042,881	2,193,792	2,318,882	2,362,734	2,574,617
Less: Vacancy	5.00%		(82,396)	(86,048)	(88,083)	(89,082)	(95,561)	(100,798)	(102,144)	(109,690)	(115,944)	(118,137)	(128,731)
Effective Gross Income			1,565,532	1,634,908	1,673,571	1,692,549	1,815,656	1,915,157	1,940,737	2,084,102	2,202,938	2,244,597	2,445,886
Less: Operating Expenses			(300,442)	(311,486)	(323,000)	(334,859)	(347,536)	(360,606)	(374,068)	(388,471)	(403,326)	(418,624)	(435,014)
Management Fees	5.00%		(78,277)	(81,745)	(83,679)	(84,627)	(90,783)	(95,758)	(97,037)	(104,205)	(110,147)	(112,230)	(122,294)
Reserves			(27,743)	(29,130)	(30,587)	(32,116)	(33,722)	(35,408)	(37,178)	(39,037)	(40,989)	(43,038)	
Net Operating Income			1,159,070	1,212,547	1,236,306	1,240,946	1,343,616	1,423,386	1,432,454	1,552,389	1,648,476	1,670,705	1,888,578
Less: Leasing Commissions			0	(31,663)	(26,388)	(83,387)	(45,451)	(30,671)	(90,828)	(55,575)	(32,415)	(112,160)	
Tenant Improvements			0	(52,218)	(39,516)	(72,587)	(43,954)	(25,053)	(76,126)	(49,593)	(25,246)	(95,018)	
Roof Repairs			0	0	(101,955)	(107,053)	(112,406)	0	0	0	0	0	
Net Income			1,159,070	1,128,666	1,068,447	977,919	1,141,805	1,367,662	1,265,500	1,447,221	1,590,815	1,463,527	
Less: Debt Service	0.00%	$0	0	0	0	0	0	0	0	0	0	0	
Net Cash Flow			1,159,070	1,128,666	1,068,447	977,919	1,141,805	1,367,662	1,265,500	1,447,221	1,590,815	1,463,527	
II. EQUITY CALCULATIONS													
Average Outstanding Equity Balance			13,492,500	13,665,000	13,665,000	13,665,000	13,665,000	13,665,000	13,665,000	13,665,000	13,665,000	13,665,000	
Preferred Return Due @	10.00%	$13,665,000	1,349,250	1,556,680	1,794,514	2,092,567	2,481,148	2,705,844	2,704,682	2,805,682	2,724,961	2,500,646	
Annual Compounding	0.00%		0	0	0	0	0	0	0	0	0	0	
Cash Flow Available for Distribution			1,159,070	1,128,666	1,068,447	977,919	1,141,805	1,367,662	1,265,500	1,447,221	1,590,815	1,463,527	
Cum Pref Balance			190,180	428,014	726,067	1,114,648	1,339,344	1,338,182	1,439,182	1,358,461	1,134,146	1,037,119	
III. INVESTOR CASH FLOW AND YIELD CALCULATIONS													
Initial Equity Investment		(13,320,000)											
Tenant Improvement Disbursement			(80,000)										
Leasing Commission Disbursement			(215,000)										
Capital Reserve			(50,000)										
Cash Flow from Property Operations													
Preferred Return			1,159,070	1,128,666	1,068,447	977,919	1,141,805	1,367,662	1,265,500	1,447,221	1,590,815	1,463,527	
Outstanding Cum Pref Balance @ Sale			0	0	0	0	0	0	0	0	0	1,037,119	
Repayment of Equity												13,665,000	
Operations Above Cum Pref	80.00%		0	0	0	0	0	0	0	0	0	0	
Preferred Yield	12.50%											6,337,255	
Residual	80.00%											0	
Net Cash Flows to Investor		(13,320,000)	814,070	1,128,666	1,068,447	977,919	1,141,805	1,367,662	1,265,500	1,447,221	1,590,815	22,502,901	
Cash Return			8.59%	8.26%	7.82%	7.16%	8.36%	10.01%	9.26%	10.59%	11.64%	10.71%	

SALES CALCULATION

YR 11 NOI	$1,888,578
CAPITALIZATION RATE	8.75%
GROSS SALES PROCEEDS	21,583,747
CLOSING COSTS	2.00%
NET SALE PROCEEDS	21,152,072
LEASING COMMISSIONS	(59,331)
TENANT IMPROVEMENTS	(53,367)
NET SALE PROCEEDS	21,039,374
REPAYMENT OF DEBT	0
	21,039,374
CUM PREF	1,037,119
	20,002,255
REPAYMENT OF EQUITY	13,665,000
	6,337,255
PREFERRED 12.50% YIELD	6,337,255
	0
RESIDUAL	0
DEV RESIDUAL	0
IRR	12.01%
TOTAL CAPITAL INVESTED	$13,665,000

EXHIBIT XI-A
CASH FLOW SUMMARY
LEVERAGED

Orangewood Business Center — Feb-89
Multi-Tenant Business Park 184,955

			OPERATING YEAR 1	2	3	4	5	6	7	8	9	10	11
I. PROPERTY OPERATIONS													
Rental Income			1,189,848	1,297,653	1,364,351	1,377,637	1,480,520	1,564,753	1,593,300	1,710,550	1,811,183	1,849,359	2,028,581
Reimbursements			343,432	379,371	397,303	403,993	430,697	451,202	449,581	483,242	507,699	513,375	546,036
Guaranty Payment			114,648	43,932	0	0	0	0	0	0	0	0	0
Subtotal			1,647,928	1,720,956	1,761,654	1,781,630	1,911,217	2,015,955	2,042,881	2,193,792	2,318,882	2,362,734	2,574,617
Less: Vacancy	5.00%		(82,396)	(86,048)	(88,083)	(89,082)	(95,561)	(100,798)	(102,144)	(109,690)	(115,944)	(118,137)	(128,731)
Effective Gross Income			1,565,532	1,634,908	1,673,571	1,692,549	1,815,656	1,915,157	1,940,737	2,084,102	2,202,938	2,244,597	2,445,886
Less: Operating Expenses			(300,442)	(311,486)	(323,000)	(334,859)	(347,536)	(360,606)	(374,068)	(388,471)	(403,326)	(418,624)	(435,014)
Management Fees	5.00%		(78,277)	(81,745)	(83,679)	(84,627)	(90,783)	(95,758)	(97,037)	(104,205)	(110,147)	(112,230)	(122,294)
Reserves			(27,743)	(29,130)	(30,587)	(32,116)	(33,722)	(35,408)	(37,178)	(39,037)	(40,989)	(43,038)	
Net Operating Income			1,159,070	1,212,547	1,236,306	1,240,946	1,343,616	1,423,386	1,432,454	1,552,389	1,648,476	1,670,705	1,888,578
Less: Leasing Commissions			0	(31,663)	(26,388)	(83,387)	(45,451)	(30,671)	(90,828)	(55,575)	(32,415)	(112,160)	
Tenant Improvements			0	(52,218)	(39,516)	(72,587)	(43,954)	(25,053)	(76,126)	(49,593)	(25,246)	(95,018)	
Roof Repairs			0	0	(101,955)	(107,053)	(112,406)	0	0	0	0	0	
Net Income			1,159,070	1,128,666	1,068,447	977,919	1,141,805	1,367,662	1,265,500	1,447,221	1,590,815	1,463,527	
Less: Debt Service	10.25%	$6,832,500	(700,331)	(700,331)	(700,331)	(700,331)	(700,331)	(700,331)	(700,331)	(700,331)	(700,331)	(700,331)	
Net Cash Flow			458,739	428,334	368,116	277,588	441,473	667,330	565,169	746,890	890,484	763,196	
II. EQUITY CALCULATIONS													
Average Outstanding Equity Balance			6,660,000	6,832,500	6,832,500	6,832,500	6,832,500	6,832,500	6,832,500	6,832,500	6,832,500	6,832,500	
Preferred Return Due @	10.00%	$6,832,500	666,000	890,511	1,145,427	1,460,561	1,866,223	2,108,000	2,123,920	2,242,001	2,178,361	1,971,127	
Annual Compounding	0.00%		0	0	0	0	0	0	0	0	0	0	
Cash Flow Available for Distribution			458,739	428,334	368,116	277,588	441,473	667,330	565,169	746,890	890,484	763,196	
Cum Pref Balance			207,261	462,177	777,311	1,182,973	1,424,750	1,440,670	1,558,751	1,495,111	1,287,877	1,207,932	
III. INVESTOR CASH FLOW AND YIELD CALCULATIONS													
Initial Equity Investment		(6,487,500)											
Tenant Improvement Disbursement			(80,000)										
Leasing Commission Disbursement			(215,000)										
Capital Reserve			(50,000)										
Cash Flow from Property Operations													
Preferred Return			458,739	428,334	368,116	277,588	441,473	667,330	565,169	746,890	890,484	763,196	
Outstanding Cum Pref Balance @ Sale			0	0	0	0	0	0	0	0	0	1,207,932	
Repayment of Equity												6,832,500	
Operations Above Cum Pref	80.00%		0	0	0	0	0	0	0	0	0	0	
Preferred Yield	12.50%											4,820,000	
Residual	80.00%											1,077,154	
Net Cash Flows to Investor		(6,487,500)	113,739	428,334	368,116	277,588	441,473	667,330	565,169	746,890	890,484	14,700,781	
Cash Return			6.89%	6.27%	5.39%	4.06%	6.46%	9.77%	8.27%	10.93%	13.03%	11.17%	

SALES CALCULATION

YR 11 NOI	$1,888,578
CAPITALIZATION RATE	8.75%
GROSS SALES PROCEEDS	21,583,747
CLOSING COSTS	2.00%
NET SALE PROCEEDS	21,152,072
LEASING COMMISSIONS	(59,331)
TENANT IMPROVEMENTS	(53,367)
NET SALE PROCEEDS	21,039,374
REPAYMENT OF DEBT	6,832,500
	14,206,874
CUM PREF	1,207,932
	12,998,942
REPAYMENT OF EQUITY	6,832,500
	6,166,442
PREFERRED 12.50% YIELD	4,820,000
	1,346,442
RESIDUAL	1,077,154
DEV RESIDUAL	269,288
IRR	13.17%
TOTAL CAPITAL INVESTED	$13,665,000

Exhibit XI-B

SENSITIVITY ANALYSIS

Market Rent and Tenant Improvement Cost Growth Rate (1)	Capitalization Rate at Sale		
	8.50%	8.75%	9.00%
5%	12.23%	12.01% *	11.80%
6%	13.11%	12.93%	12.76%
7%	13.93%	13.75%	13.57%
8%	14.75%	14.56%	14.38%

* Base Case

(1) Growth rate of expenses is held constant at five percent per year.

Note: All returns are on an unleveraged basis.

Source: Piedmont Realty Advisors.

Exhibit XII
DEAL ASSUMPTIONS
ORANGEWOOD BUSINESS CENTER

A. INITIAL LEASE-UP

1. Funding Date	4/1/89		
2. Net Rentable Area (Total)	184,955		
3. Market Contract (Depends on location and percent office buildout)	Monthly Rental Rates		
	Building A:	$0.52	
	Building B:	$0.65	
	Building C:	$0.75	
	Building D:	$0.60	
	Building E:	$0.52	
	Building F:	$0.48	
	Building G:	G,1-3:	$0.45
		G-4	$0.50
	Building H:	$0.55	
	Building I:	I,1-3:	$0.55
		I,4-5:	$0.50
	Building J:	J-1:	$0.75
		J-2-8:	$0.52
4. Rental Concessions	None		
5. Inflation Rate	5% (1)		
6. Inflation Start Date (Rents)	Day 1		

B. SPECULATIVE SPACE ASSUMPTIONS

1. Lease-Up Period (Months)	3 Months
2. Lease Terms:	
(a) % 3 Year	100%
3. Rental Rate ($/SF or Market)	Market
4. % of Leases Renewed	60%
5. % of Leases Relet	40%

(1) Except for real estate taxes, which are assumed to grow two percent per year in accordance with California law.

DEAL ASSUMPTIONS (cont'd)

C. LEASE RENEWAL AND OPERATING ASSUMPTIONS

1. Lag Time on Relet Space	3 Months
2. Rental Concessions	None
3. Lease Term on Relet/Renewal	36 months
4. New Rental Rate:	
(a) Market	Market
5. Lease Bumps:	
(a) Frequency	12 mos.
(b) Market	Full CPI
6. Leasing Commissions:	
(a) Initial Lease-Up	5%
(b) 2nd Generation	3.5%
(c) 3rd Generation	3.5%
7. Tenant Improvements:	
(a) Initial Lease-Up	\$2.75 per square foot (1)
(b) 2nd Generation	\$1.10 per square foot (2)
(c) 3rd Generation	\$0.60 per square foot (3)
(d) Other	Eagle's Nest: \$3.50 per square foot. ACM Distributors: \$1.20 per square foot.
8. Vacancy Rate	5%
9. Operating Expenses (\$/SF)	\$2.05 per year or \$0.17 per month. Includes management fee.
10. Reserves (\$/SF)	\$0.15
11. Mgt. Fee (% of Effective Gross Income)	5%
12. Operating Term	10 years

(1) \$5.00 for improved space and \$0.50 for warehouse space, assuming each space on average is 50 percent improved.
(2) Same as note one except a 40 percent relet assumption is applied.
(3) \$2.50 for improved space and \$0.50 for warehouse space, assuming each space on average is 50 percent improved and a 40 percent relet assumption.

DEAL ASSUMPTIONS (cont'd)

13. Guarantee Payment — 18 months
    - (a) Year 1 — $114,648
    - (b) Year 2 — $43,932. Seller to guarantee 95% occupancy at stipulated rental rates for eighteen months. Applies to any space currently vacant or which may become vacant.

D. SALE ASSUMPTIONS

1. Cap Rate at Sale — 8.75%
2. Selling Commissions — 2%
3. Subtract out Year 11 LC's and TI's — Yes

E. JOINT DEBT/EQUITY VENTURE

1. Preferred Rate — 10%
    - (a) Cum Preferred — Yes
    - (b) Compounding — No
2. Debt Amount (only in leveraged scenario) — $6,832,500
    - (a) Interest Only — 10.25
    - (b) Amortization Period — N/A
3. Equity Amount — $13,665,000
    - (a) Pref Rate — 10%
    - (b) % of Operations — 80%
    - (c) % of Residuals — 80%
4. Equity Outlays: (assuming unleveraged)

	Closing	Year 1	Year 2	Year 3
(a) Initial	$13,320,000			
(b) T.I.'s		$215,000		
(c) L.C.'s		80,000		
(d) Capital		50,000		

EXHIBIT XIII
APPLICATION LETTER

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

415-433-4100

January 25, 1989

Mr. Richard M. Ortwein
The Koll Company
4343 Von Karman Avenue
Newport Beach, CA 92660

Re: Orangewood Business Center
Santa Ana, California

Dear Dick:

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 Koll Company on the above-captioned property subject.

Real Property:	Orangewood Business Center. An existing multi-tenant business park containing 184,955 rentable square feet.
Personal Property:	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".
Location:	1701 East Edinger Avenue in Santa Ana, California.
Land Area:	Approximately 11.0 acres of land.
Parties:	An affiliate of United States Fidelity & Guaranty Company (USF&G) and a Koll Company entity (Koll).
Ownership Structure:	General partnership to be formed (Partnership) with Koll as the managing general partner.

Basic Responsibilities: **USF&G**

(1) Provide equity capital of ~~$13,620,000~~. $13,665,000 SK

KOLL

(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 Koll not to exceed 50 percent of market standard rates. If Koll 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 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. This paragraph (b) represents the total fee paid to Koll for its management services.~~ See attached Addendum.

Description of Transaction:

Koll will contribute the Property to a partnership in which USF&G and Koll are general partners to own and operate Orangewood Business Center. USF&G will be entitled to a return on and of its invested capital before cash flow and residual proceeds will be split 80 percent to USF&G and 20 percent to Koll.

USF&G will fund the transaction with a ~~$13,620,000~~ $13,665,000 equity commitment which includes holdback funds for tenant improvements and leasing commissions for lease expirations and existing vacant space in the property as well as a capital improvement budget for the physical improvement of the existing deferred maintenance items affecting the property.

Initial Contributions:

USF&G

(1) $80 at closing.

KOLL

(1) $20 at closing.

Subsequent Contributions:

USF&G

(1) **Initial Equity Commitment**

Upon satisfaction of Koll's pre-closing responsibilities and conveyance of the Property to the Partnership USF&G will contribute the lesser of (i) the actual costs of closing which will include the cost categories outlined in Exhibit A or (ii) $13,320,000.

(2) **Holdback - Tenant Improvements**

USF&G shall withhold up to ~~$165,000~~ $215,000 for tenant improvements for leases expiring during the first 12 months after formation of the Partnership. The lesser of actual costs or ~~$1.50~~ $2.75 per rentable square foot will be disbursed as vacant space is leased and tenant improvements completed. Any fundings in excess of ~~$1.50~~ $2.75 per rentable square foot must be previously approved in writing by USF&G. Holdback funds must be disbursed within 18 months of the formation of the Partnership. All undisbursed amounts will be retained by USF&G.

(3) **Holdback - Leasing Commissions** $80,000 SR

USF&G shall withhold up to ~~$85,000~~ for leasing commissions for leases expiring during the first 12 months after formation of the Partnership. The funds will be disbursed as vacant space is leased and commissions are paid. Holdback funds must be disbursed within 18 months of the formation of the Partnership. All undisbursed amounts will be retained by USF&G.

(4) **Holdback - Capital Improvements**

USF&G shall withhold $50,000 for the implementation of the capital improvement budget. The funds will be disbursed as each phase of the capital improvement plan is implemented. These funds must be disbursed within 18 months of the formation of the partnership. All undisbursed amounts will be retained by USF&G.

(5) **Contributed Commitment Amount**

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

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

USF&G will contribute (a) 80 percent of all Cash Flow Deficits and (b) 80 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 for 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.

KOLL

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

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

Koll will contribute 20 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 Koll in accordance with paragraph (2) above is hereafter referred to as "Koll's Capital Contributions".

Percentage Interests:

USF&G

80%

KOLL

20%

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 Cash Flow shall be made quarterly and shall be made in the following order of priority:

USF&G

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

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

Third Priority - Prorata with Koll's Third Priority, 80 percent of the remaining Cash Flow.

KOLL

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

Third Priority - Prorata with USF&G's Third Priority, 20 percent of the remaining Cash Flow.

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 the amount necessary to provide USF&G a 12.5 percent internal rate of return on its Contributed Commitment Amount in accordance with the formula in Exhibit D.

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

Fourth Priority - Prorata with Koll'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 Koll's Fifth Priority, 80 percent of the remaining Capital Proceeds.

KOLL

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

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

Fifth Priority - Prorata with USF&G's Fifth Priority, 20 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 Koll 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 $6,500 (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. Koll shall have a Right of First Offer to purchase the Property.

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 satisfactory to USF&G 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. Assignment of Rental Guarantee: Koll will assign to the partnership any guarantee of rental income obtained from any previous owner of the Property.

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

A. Engineering: Koll 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 Koll 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: Koll will arrange for an 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 Koll 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 all existing leases (as outlined in Exhibit C) and approve all future leases subject to agreed upon leasing standards. Agreed upon leasing standards will be part of the Partnership Agreement. Any leases conforming with agreed upon leasing standards will be deemed approved. Any leases not conforming to agreed upon leasing standards will require the written approval of Piedmont Realty Advisors or other party designated by USF&G.

D. Permanent Mortgage: USF&G shall have the right to obtain at any time non-participating permanent mortgage financing 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. ~~See attached Addendum~~.

SB

E. Committee Approval: The Recommendation Letter and the transaction contemplated herein must be approved by USF&G's Investment Committee.

F. 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.

G. Market Value Appraisal: Koll 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 ~~$13,620,000~~ $13,665,000 SB. The cost of the appraisal will be paid for by Koll 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.

H. 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.

I. Management and Leasing Agreement: The Partnership Agreement will be contingent upon the execution of a management and leasing agreement between the Partnership and Koll satisfactory to USF&G.

J. Other Contingencies: All other standard contingencies found in the documents.

K. Exhibits and Budget Line Items: Exhibits A, B, C and 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 does not constitute a commitment and is not binding on either USF&G or Koll. However, if the terms outlined in this letter are acceptable to you, please sign below and return this letter with an application fee of $50,000 by ~~January 27,~~ February 1, 1989. The application fee should be wired to a custodial account. Please call me for wiring instructions. The application fee, less any fees and costs incurred by USF&G and its legal counsel, will be returned to you if USF&G does not enter into a partnership agreement in accordance with the terms of this letter or if USF&G approval is not provided to Koll by February 15, 1989. Upon USF&G committee approval, this letter will be considered a binding agreement on both USF&G and Koll. If the proposed transaction does not close within 45 days of USF&G committee approval, the application fee will be retained by USF&G and this letter will cease to be binding. Upon conveyance of the Property, the application fee will be refunded.

CR

Sincerely,

Susan G. Burrus

Susan G. Burrus
Regional Acquisition Manager

W. Notte
SIGNED

1/31/89
DATE

BB

V.P.
TITLE

The terms and conditions of the foregoing Commitment Letter dated January ~~24~~ 25, 1989 are hereby accepted and approved subject to the modifications set forth in the attached Addendum.

ADDENDUM TO COMMITMENT LETTER DATED JANUARY 2~~4~~5, 1989

Page two item (2) (b) substitute the following:

(b) Property Management - fee equal to five percent (5%) of effective gross income (inclusive of all on-site general and administrative costs). Effective Gross Income means collected gross income plus Shidler income guarantee payments, and operating expense reimbursements. Such management fee shall be payable monthly from monies received in the operation of the property. This paragraph (b) represents the total fee paid to Koll for its management services.

Exhibit A

PROJECT BUDGET
ORANGEWOOD BUSINESS CENTER

SOURCE OF FUNDS

Initial Funding	$13,320,000	
Leasing Commission Holdback	80,000	
Tenant Improvement Holdback	215,000	
Capital Holdback	50,000	
Total Source of Funds		$13,665,000

USE OF FUNDS

Legal	$ 50,000	
ALTA Survey	10,000	
Appraisal	10,000	
Audited Financial Statements	10,000	
Contingency	10,000	
Total Closing Costs		$ 90,000
Leasing Commissions	$ 80,000	
Tenant Improvements	215,000	
Capital Holdback	50,000	
Total Holdbacks		345,000
Purchase Price - Partnership Interest		13,230,000
Total		$13,665,000

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 annual effective (adjusted for free rent concessions) base triple net rents in accordance with the following table:

Building A:	$0.52	
Building B:	$0.65	
Building C:	$0.75	
Building D:	$0.60	
Building E:	$0.52	
Building F:	$0.48	
Building G:	G-1,3:	$0.45
	G-4:	$0.50
Building H:	$0.55	
Building I:	I-1,3:	$0.55
	I-4,5:	$0.50
Building J:	J-1:	$0.75
	J-2,8:	$0.52

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 audited 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.

EXHIBIT B

LEASING STANDARDS (CONTINUED)

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

7. Amounts allocated for tenant finish work, as provided in a work letter from Koll to each tenant, shall not be more than $2.50 per square foot of* net rentable area for office space and $0.50 per square foot for warehouse space.

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. 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 Koll to USF&G during the 22nd 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 Santa Ana, California 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.

*$5.00 per square foot of net rentable area for office space for years one, two and three and $3.50 per square foot for Eagle's Nest space of 30,775 square feet.

Exhibit C

RENT ROLL

[To Be Attached]

EXHIBIT D

ALLOCATION OF SALE PROCEEDS
IRR CALCULATION

Sale proceeds shall be allocated in the following manner:

1. USF&G shall receive all sale proceeds if its internal rate of return (IRR) given such proceeds on its Contributed Commitment Amount is less than or equal to 12.5 percent.

2. If the sale proceeds generate an internal rate of return in excess of 12.5 percent on USF&G's Contributed Commitment Amount, USF&G shall receive the amount of the proceeds required to equal a 12.5 percent IRR and 80 percent of the remaining sale proceeds. Koll shall receive 20 percent of the sale proceeds in excess of the amount required to yield USF&G a 12.5 percent IRR on its Contributed Commitment Amount.

Note: All calculations are based on before-tax cash flows and yields. The initial investment is assumed to occur at the beginning of year one for purposes of the above calculation. All cash inflows to and outflows from USF&G after closing which occur during a calendar year are assumed to occur at year-end.

EXHIBIT D (Continued)

EXAMPLES:

Assumption: Sale occurs in 1992.

1. Sale Proceeds do not yield 12.5 percent to USF&G

	Time 0	12/31/89	12/31/90	12/31/91	12/31/92
USF&G inflows(outflows)	($1,000)	$80	$90	$95	$ 100
Sale Proceeds	—	—	—	—	1,100
	($1,000)	$80	$90	$95	$1,200

IRR: 11.16%

Sale Proceeds Allocation:

USF&G: $1,100
Koll: $0

2. Sale Proceeds exceed level required to yield USF&G a 12.5 percent IRR.

	Time 0	12/31/89	12/31/90	12/31/91	12/31/92
USF&G inflows(outflows)	($1,000)	$80	$90	$95	$ 100
Sale Proceeds	—	—	—	—	1,400
	($1,000)	$80	$90	$95	$1,500

IRR: 16.80%

Sale Proceeds Necessary to Yield 12.5% IRR: $1,165

Sales Proceeds Allocation:

USF&G: $1,165 + ($1,400-1,165) x .80 = $1,353.00
Koll: ($1,400-1,165) x .20 = $47.00