

TRAMMELL CROW RESIDENTIAL COMPANIES

IRVING, TEXAS

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

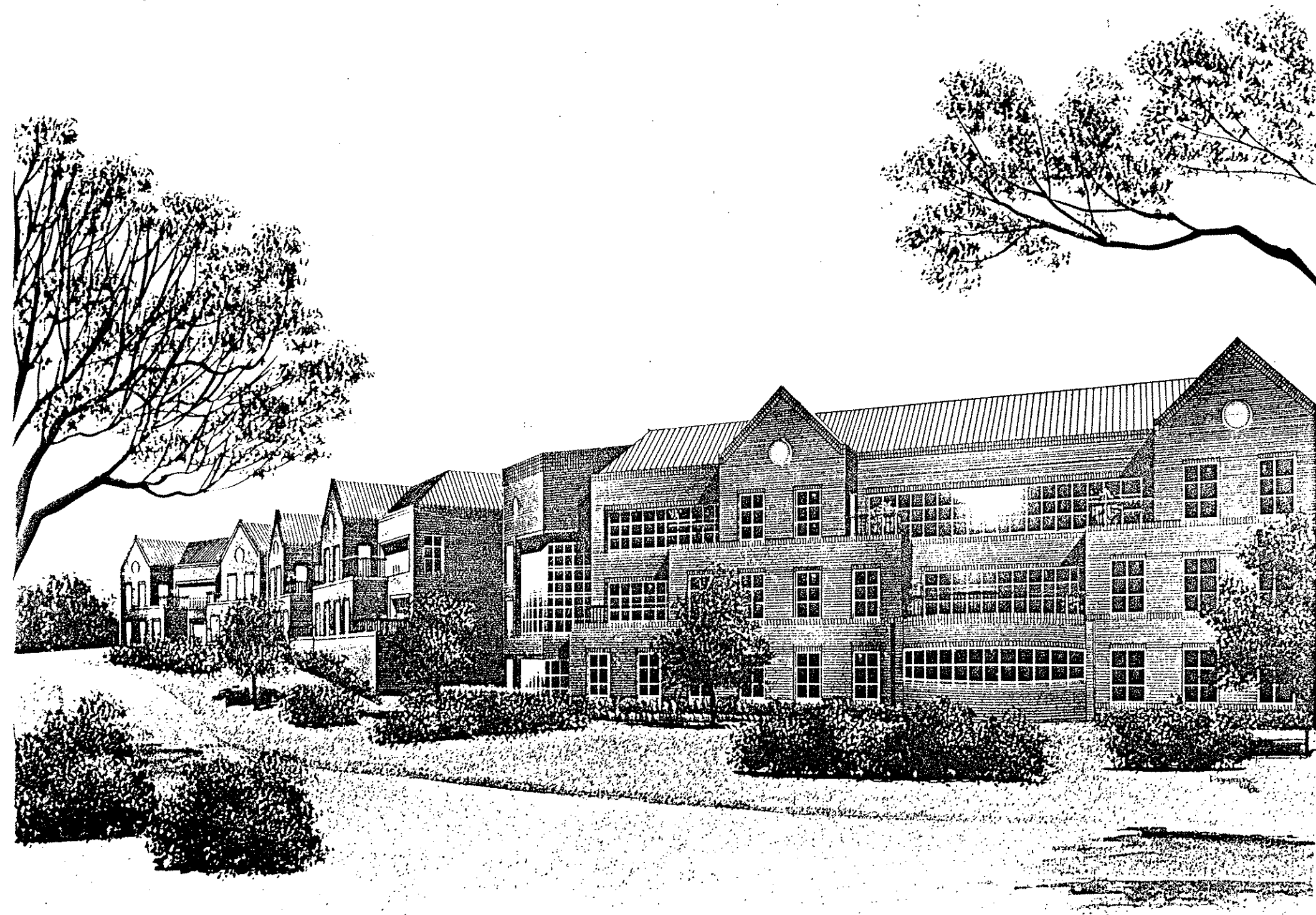


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I.

INTRODUCTION

PIEDMONT REALTY ADVISORS
650 CALIFORNIA STREET
THIRTIETH FLOOR
SAN FRANCISCO, CALIFORNIA 94108

415-433-4100

April 23, 1985

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

Dear Sirs and Madam:

Enclosed for your review is an Investment Report on the Trammell Crow Residential Companies (TCRC) Office Building to be developed by subsidiaries of the Trammell Crow Residential Companies. The TCRC building will be a two-building complex on O'Connor Ridge in the Las Colinas area of Irving, Texas. The buildings will contain 95,533 net rentable square feet adjacent to a parking structure containing 342 spaces (3.6 per 1,000 square feet of net office area). The investment to be considered is a "leveraged" equity joint venture. A summary of the proposed investment structure is shown as Exhibit I-1.

The Property

The TCRC building is located in Las Colinas, a 12,000 acre planned community in Irving, Texas. Las Colinas has become a regional center in the southwestern United States due to its well-conceived master plan, the financial strength of its developers and its central location within the Dallas/Ft. Worth Metroplex. The commercial focus of Las Colinas is the Urban Center which surrounds Lake Carolyn and features high-rise office buildings, hotels and retail development. The TCRC building is 1/2 mile west of the Urban Center.

The TCRC building is located on a 4.67 acre site on the crest of O'Connor Ridge. The property is less than 1/2 mile west of the major freeway interchange for the Las Colinas Urban Center. Prospective tenants will have convenient access to downtown Dallas, the DFW Airport and major residential areas, as well as unimpaired views of the Las Colinas Sports Club golf course.

Real Estate Investment
Committee Members
April 23, 1985
Page 2

The project is designed to take full advantage of the site's physical characteristics. The architectural style of the buildings reflects the residential nature of its major tenant, the Trammell Crow Residential Companies. Building materials will be brick and non-reflective glass. The buildings' features include balconies, bay windows and a pitched metal roof. The north building will consist of 35,800 gross square feet on 2 levels and the south building will have 3 levels totalling 59,800 gross square feet. The two buildings will be joined by a central core/lobby which will connect to a 342 space, two-level parking garage. The buildings' floor plans do not limit the leasing flexibility for non-TCRC tenants. Bay depths are 40 feet from center and there are no special purpose improvements planned for TCRC.

The Office Market

Several subsidiaries of the Trammell Crow Residential Companies will occupy at least 70,628 net rentable square feet or 73.9% of the subject property. The vacant 24,904 net rentable square feet will be leased in an over-supplied Las Colinas office market. Most multi-tenant buildings in Las Colinas have space for lease due to the overbuilding which occurred in 1982 and 1983. Rates have held firm, but rent abatements typically range from 10 to 15 months on 5-year leases. Expense stops range from \$3.50 to \$4.00 per square foot and most leases are based on square footage which includes common area factors between 8% and 14%.

The vacant space in the TCRC building is located on the top floors and oriented toward the golf course. The tenant improvement allowance of \$11.50 per rentable square foot is at the top of the market and should be a desirable lease inducement for small tenants. Based on Piedmont's review of the market, Trammell Crow should be able to lease the vacant space at rates between \$18.80 and \$20.00 per rentable square foot within 12-18 months of building completion.

The Partner

USF&G's partner will be Office Partners at Las Colinas, a Texas limited partnership. USF&G's cogeneral partners will be the principals of the various operating subsidiaries of the Trammell Crow Residential Companies. TCRC has assembled a development team capable of designing, constructing, leasing and managing a first class office building. Their desirability as a partner has attracted a "below market" seven-year loan from Connecticut General and collectively they are considered to be a credit tenant.

Risk and Return

The proposed investment is a development joint venture in which USF&G will become a general partner with the principals of the Trammell Crow Residential Companies. USF&G's equity investment of \$3,500,000 will be leveraged with a \$9,000,000, 12.25% fixed rate mortgage from Connecticut General. USF&G is entitled to 100% of the property's cash flow until a 10% cash return is received for each year of the investment. Thereafter, USF&G will receive a 10% return on its total investment and 50% of any cash flow remaining. At sale, USF&G is entitled to a first priority return of capital and 50% of any proceeds thereafter.

The preleasing and the fixed rate mortgage for the TCRC building are the major factors behind our recommendation to proceed with the investment. We would not recommend a speculative joint venture in Las Colinas at this time. The indicated internal rates of return of 15.6% to 16.3% are lower than the benchmark returns anticipated by investors in speculative joint ventures, but higher than those for all cash buyers and participating lenders. Piedmont Realty Advisors concludes that the indicated returns adequately compensate for the identified risks.

Real Estate Investment
Committee Members
April 23, 1985
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Therefore, we recommend that USF&G invest \$3,500,000 for a general partnership interest in the TCRC Office Building in the Las Colinas area of Dallas, Texas. If you have any questions, please call me.

Sincerely,

A handwritten signature in dark ink, appearing to read "S. Grant", with a stylized flourish at the end.

Stephen L. Grant
Vice President

SLG:jlj

enclosure

Exhibit I-1
INVESTMENT SUMMARY
TCRC BUILDING

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

RECEIVED
JAN 28 1985

January 17, 1985

Mr. Tom Teague
Trammell Crow Residential Company
2001 Bryan Street, Suite 440
Dallas, Texas 75201

Re: TCRC Office Building #119
Las Colinas, Texas

Dear Tom:

Piedmont Realty Advisors is prepared to recommend to its client's Investment Committee that it issue an agreement for a joint venture on the above-captioned property subject to the following terms and conditions.

Property: TCRC Office Building, a 99,703 gross square foot office building located on 4.6717 acres.

Location: O'Connor Ridge Office Center
Las Colinas, Texas

Land Area: 4.6717 acres.

Total Cost: \$12,500,000

Parties: An affiliate of United States Fidelity and Guaranty Company (USF&G) and an affiliate of the Trammell Crow Residential Companies (TCRC).

Ownership Structure: General Partnership

Basic Responsibilities: USF&G
1) Provide equity capital.

TCRC
1) Development of all improvements;
2) Leasing;
3) Property management;

Exhibit I-1
(CONT.)

Mr. Tom Teague
January 17, 1985
Page Two

- 4) Securing fixed rate par loan in the amount of \$9,000,000 for at least 7 years at not more than 12.50% interest rate;
- 5) Primary tenant to occupy 75% of net rentable area with three to five year leases.

Initial Contributions:

USF&G

- 1) \$3,500,000 upon shell completion.

TCRC

- 1) Deliver completed shell structure.

Subsequent
Contributions:

USF&G

- 1) No additional contributions for two years.
- 2) Thereafter, 50% of any capital or operating deficit requirements.

TCRC

- 1) 100% of capital and operating shortfalls for two years.
- 2) Thereafter 50% of any capital or operating deficit requirements.

Distribution of
Cash Flows:

USF&G

- 1) 10% cumulative preferred return on capital investment;
- 2) 50% of cash flow after preferred return is paid.

TCRC

- 1) 50% of cash flow after preferred return is paid to USF&G.

Exhibit I-1
(CONT.)

Mr. Tom Teague
January 17, 1985
Page Three

Allocation of
Profit and Losses:

USF&G
1) 50% of profits and losses.

TCRC
1) 50% of profits and losses.

Distribution of
Sale Proceeds:

USF&G
1) Return of total capital investment;
2) Any additional cash required to provide 10% cumulative return;
3) 50% of any remaining net sale proceeds.

TCRC
1) 50% of net sale proceeds after USF&G receives return of capital plus 10% cumulative return.

Lock In Period:

Unless agreed upon by both partners, there will be no sale of property for five years.

Buy Out Provision:

After five years there will be a buy/sell or other acceptable buy out provision.

Joint Venture Fee:

\$35,000

Contingencies:

A. Engineering:

The Joint Venture Agreement will be contingent upon USF&G receiving engineering reports as to the structural adequacy of the building and its operating systems.

B. Committee
Approval:

This Letter of Intent must be approved by USF&G's Investment Committee.

Mr. Tom Teague
January 17, 1985
Page Four

- C. Plans and Specifications: USF&G reserves the right to approve the plans and specifications for all proposed improvements and to approve any changes, modifications, or corrections to the plans during construction.
- D. Leases: USF&G reserves the right to approve all leases subject to agreed upon leasing standards. Agreed upon leasing standards will be part of the joint venture agreement.

If the terms outlined in this letter are acceptable, please sign below and return this letter with an application fee of \$35,000 by January 25, 1985. The application fee should be wired to a custodial account. Please call me for wiring instructions. Proceeds will be returned if USF&G does not issue an agreement according to the terms of this letter or converted to the joint venture fee if an agreement is issued.

Sincerely,



Robert H. Zerbst
President

RHZ/jmb


SIGNED


TITLE


DATE

II.

THE PROPERTY

II. THE PROPERTY

A. INTRODUCTION

The subject property is a 99,703 gross square foot office building under construction in the Las Colinas area of Irving, Texas. It is being developed by the Trammell Crow Residential Companies (TCRC) as its national headquarters. The TCRC building will consist of two connected buildings (one 2-story and one 3-story) and a 2-level parking structure. The property is located in Dallas County, approximately ten miles northwest of downtown Dallas and six miles east of DFW Airport. (See Exhibit II-1.)

The Las Colinas area is a 12,000 acre planned community consisting of a balanced mix of office, commercial, residential and recreational projects. (See Exhibit II-2.) Las Colinas has experienced significant growth since 1980, with new office development averaging 1.9 million square feet per year and new residential development averaging 2,000 units per year. Las Colinas now represents 18.9% of all new office construction in Metro Dallas' office market inventory, and the Las Colinas Urban Center has provided the impetus for substantial residential development. The convenient location and upscale amenities of Las Colinas have attracted such tenants as Xerox, IBM, General Motors, Diamond Shamrock, Zale Corporation, Nippon Electric Corporation and others.

B. LOCATION

1. Accessibility

An important attribute of the Las Colinas area is its outstanding location within the Dallas Metroplex. The John W. Carpenter Freeway, a four-lane limited access highway, was built with the express purpose of connecting the area with major destinations within metropolitan Dallas. Las Colinas is also served by the Stemmons Freeway, the Northwest Highway, and the LBJ Freeway.

The TCRC building will be located less than one-half mile from the major freeway interchange for the Las Colinas Urban Center. (Exhibit II-3.) The Carpenter Freeway provides the site with direct access to major Dallas commercial centers. Downtown Dallas is 20 minutes from the site and the DFW Airport is a 10-minute drive. O'Conner Boulevard provides access from the site to the Northwest Highway (Route 348, 3 miles from subject) and the LBJ Freeway (Route 635, 7 miles from subject). As shown in Exhibit II-4, the site is well located relative to major traffic arteries and highways.

The project will be located on O'Connor Ridge Road, which leads to a residential cul-de-sac scheduled for future development of exclusive country club condominiums and single-family homes. The relatively light traffic flow generated by this cul-de-sac will lessen the likelihood of future congestion and cross traffic in the area surrounding the TCRC building, making entering and exiting the project more convenient.

2. Adjacent Land Uses

The Las Colinas Urban Center is the main focus for highrise office space. This center is bracketed by the Carpenter Freeway, the Northwest Highway, and Rochelle Boulevard, and is one-half mile east of the subject property. Major buildings in the Urban Center include Williams Square (1,350,000 square feet in three buildings), Xerox Center (672,000 square feet in two phases), and the Mandalay Four Seasons, a 424 room luxury hotel. The Urban Center surrounds Lake Carolyn which provides water views and a park-like setting for visitors and office tenants. A "people mover" system which currently connects several commercial buildings in the Urban Center will eventually connect all buildings encircling Lake Carolyn.

The O'Connor Ridge Office Park and the Wingren Office Park are located to the east of the Las Colinas Urban Center and the Carpenter Freeway. (See Exhibit II-2.) Wingren Park, south of O'Connor Ridge, consists primarily of mid-rise and some low-rise office space. Wingren Park is situated on a ridge, providing views of the Las Colinas Country Club's golf course and the residential areas of Fox Glen Village and University Hills Village. Freeway access for Wingren Park is inferior to the O'Connor Ridge Park due to Wingren's layout of access roads.

The site for the subject property is located in the O'Connor Ridge Office Park, which lies north of Wingren Park, and west of the Urban Center. The O'Connor Park contains mainly low rise office space, such as the Atrium (171,000 square foot on 4 floors) and Diamond Shamrock (87,000 on 2 floors). The O'Connor Ridge Park has been planned to take advantage of natural ground contours and provide tenants with views of the Las Colinas Sports Club's tournament golf course. It should be noted that the Las Colinas Sports Club is the home of the Byron Nelson Golf Classic and is considered more prestigious than the Las Colinas Country Club. This additional prestige has a positive effect on leasing activity and rental rates in the O'Connor Ridge Park.

C. THE SITE

The Trammell Crow Residential Companies Office Building will be located on a 4.67 acre tract of land on the crest of O'Connor Ridge, in the southwestern corner of the O'Connor Ridge Business Park. (See Exhibit II-5.) The parcel is contiguous to the 17th tee of the Las Colinas Sports Club golf course. The gradual down-slope of the lot to the south and west enhances the view of the course. The site is zoned CO, for commercial office, and is the last vacant parcel of land in the O'Connor Ridge Park. The geotechnical report, prepared by Mason, Johnson and Associates, found the sub-soil material to be suitable for the proposed improvements.

D. THE IMPROVEMENTS

The proposed project will consist of two connected buildings on 3 levels, and a 2-level parking structure. The elevation of the buildings will follow the natural contour of O'Connor Ridge to maximize the property's view of the golf course. (See Exhibit II-6.) The architectural style of the buildings reflects the residential nature of its major tenant, the Trammell Crow Residential Companies. This residential image will be enhanced by the use of masonry brick facade, bay windows, several separate balconies, and a roof that will utilize a pitched metal design.

The north building will consist of 39,800 gross square feet on 2 levels and the south building will have 3 levels totaling 59,800 gross square feet. The two buildings will be joined by a central core/lobby which will provide access to the 3 office levels by 2 elevators and 3 sets of stairs. (See Exhibit II-7.) This core/lobby will also be connected to both levels of the parking structure by a covered entry bridge. The two level parking structure will provide a total of 342 spaces (3.6/1,000 square feet of net office area) with 173 surface spaces, and 169 covered spaces below grade. Each level will have ramp access to O'Connor Ridge Road.

The buildings' floor plans do not limit the leasing flexibility for other tenants. Bay depths are 40 feet from center, and there are no special purpose improvements planned for the Trammell Crow Residential Companies.

E. THE TENANT

The major tenant for the subject property will be the Trammell Crow Residential Companies and several of their regional operating divisions. Exhibit II-8 is an organizational chart for the Trammell Crow Residential Companies, and indicates the companies that will be headquartered in the subject property. Trammell Crow Residential Companies has a commitment to occupy 70,628 square feet of net rentable area (74% of the total) and the remaining 26% represents speculative space. The Trammell Crow Residential Companies leases will be 5 years and rental rates will average \$18.00 per square foot with a \$3.50 per square foot expense stop.

F. PROJECT BUDGET

The development budget is presented in detail in Exhibit II-9. The budget totals \$12,500,000 which represents \$125 per square foot of gross buildable area. For the Trammell Crow Residential Companies space, no leasing commission will be charged and tenant improvements are budgeted at \$8.00 per gross square foot. The speculative space has an allowance of \$11.50 per net rentable square foot for tenant improvements and \$5 per net rentable square foot for leasing commissions. These budgeted amounts for tenant improvements and leasing commissions are well within the amounts allocated to the budgets of competing office projects in Las Colinas.

G. CONCLUSIONS

Las Colinas has become a premiere development area in the southwest due to its well conceived master plan, the financial strength of its developers and its central location within the Dallas/Ft. Worth Metroplex. The subject site is well located within Las Colinas. Tenants will have convenient access to freeways and the Las Colinas Urban Center, as well as unimpaired views of the most prestigious country club in the area. The buildings are designed to take full advantage of the site's physical characteristics and provide the Trammell Crow Residential Companies with a national headquarters facility. The buildings' striking architecture and quality construction materials will make it the premiere office building in the O'Connor Ridge Office Park.

Exhibit II-1
REGIONAL LOCATION MAP



Exhibit II-3
PROPERTY ACCESS MAP

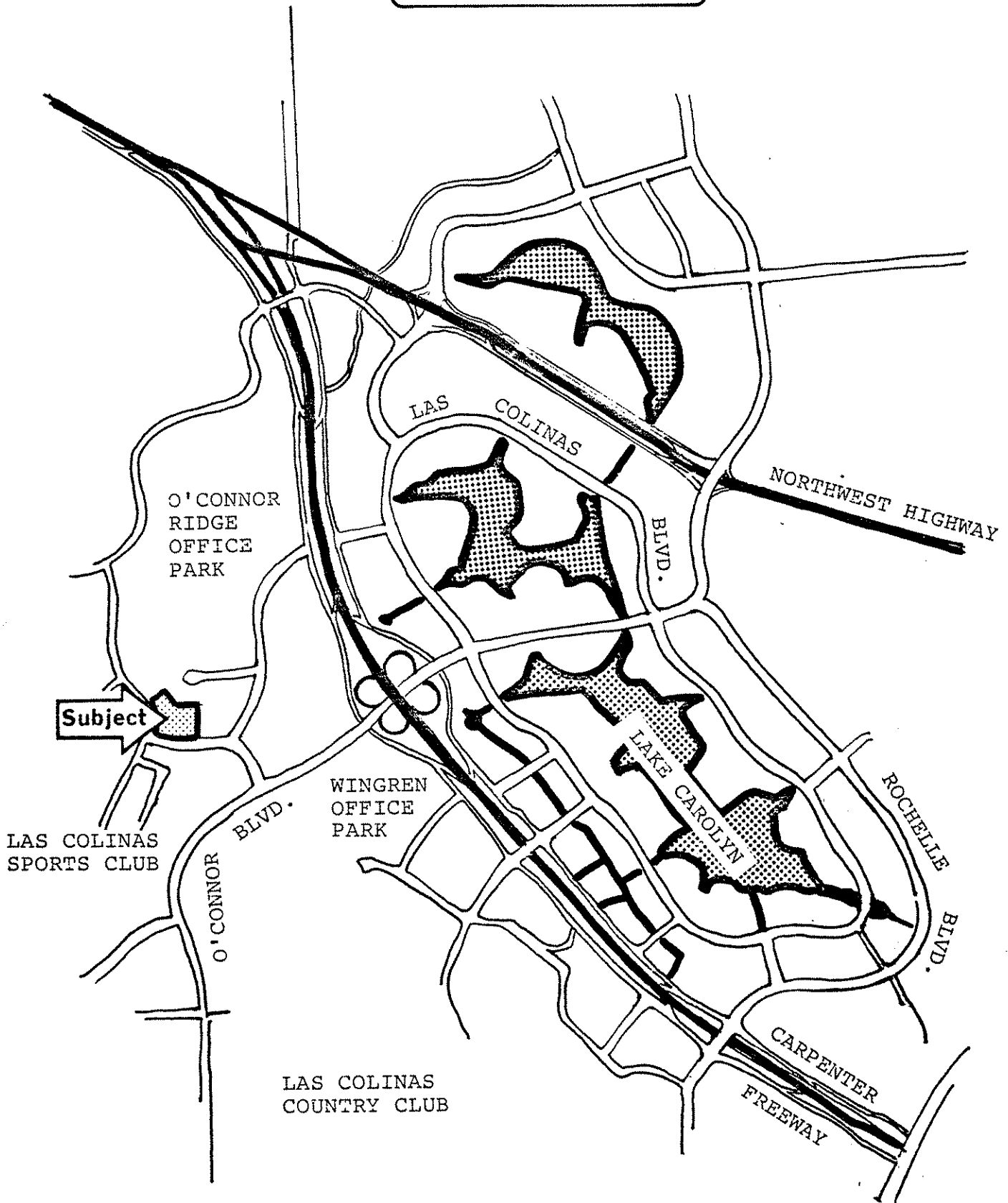
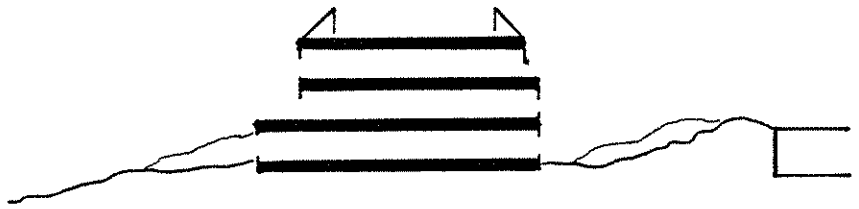


Exhibit II-4
AERIAL PHOTOGRAPH



Exhibit II-5
SITE PLAN
TCRC BUILDING



ELEVATIONS

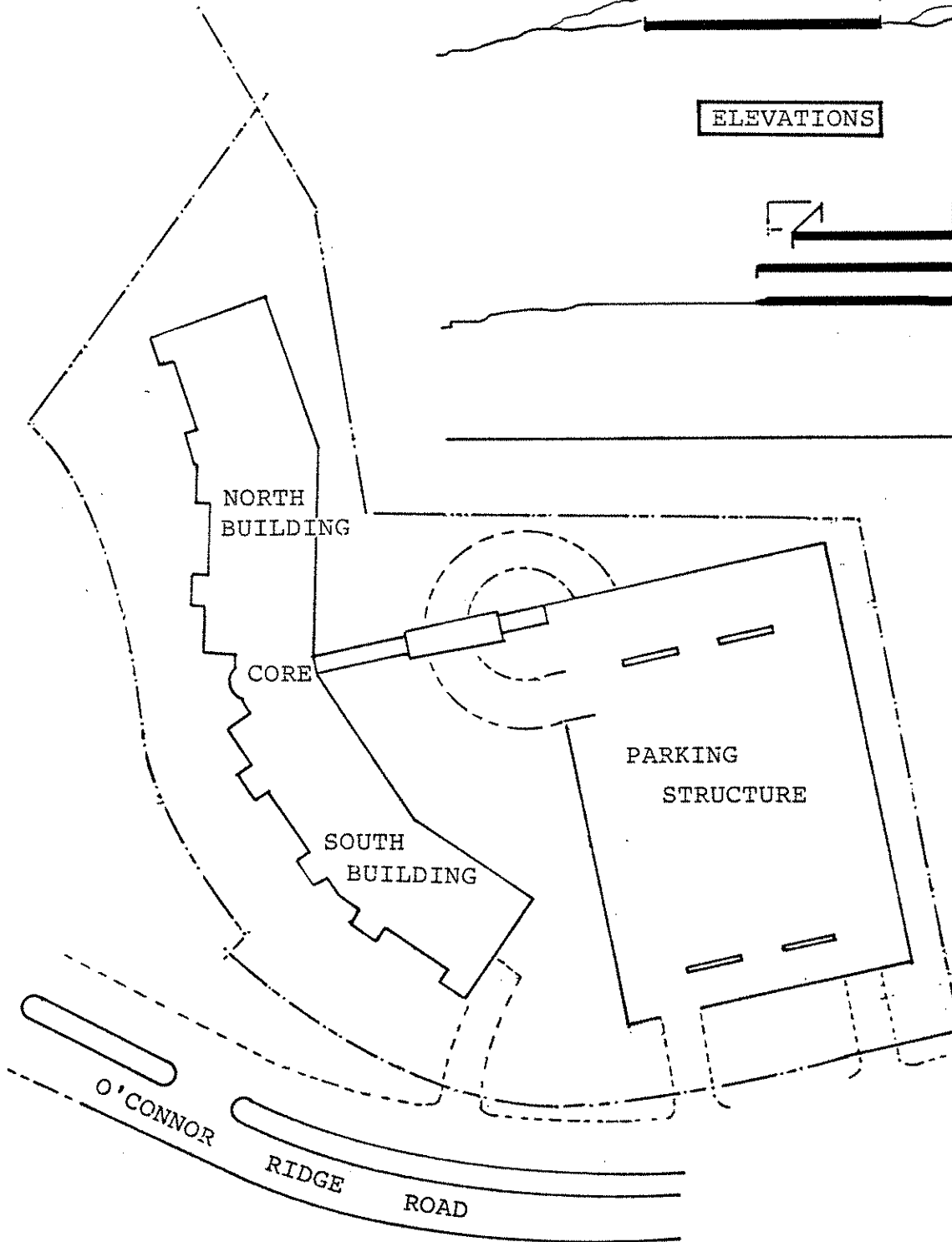
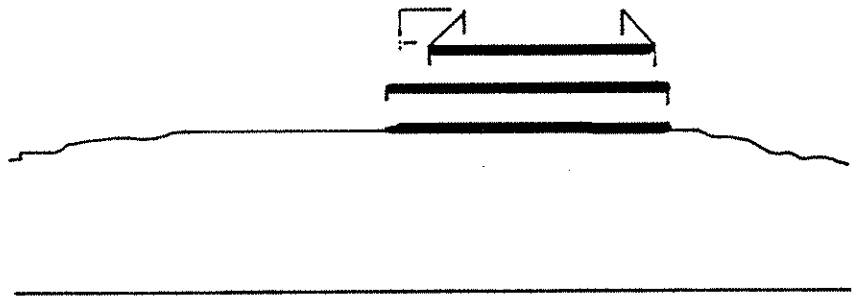


Exhibit II-6
RENDERING
TCRC BUILDING

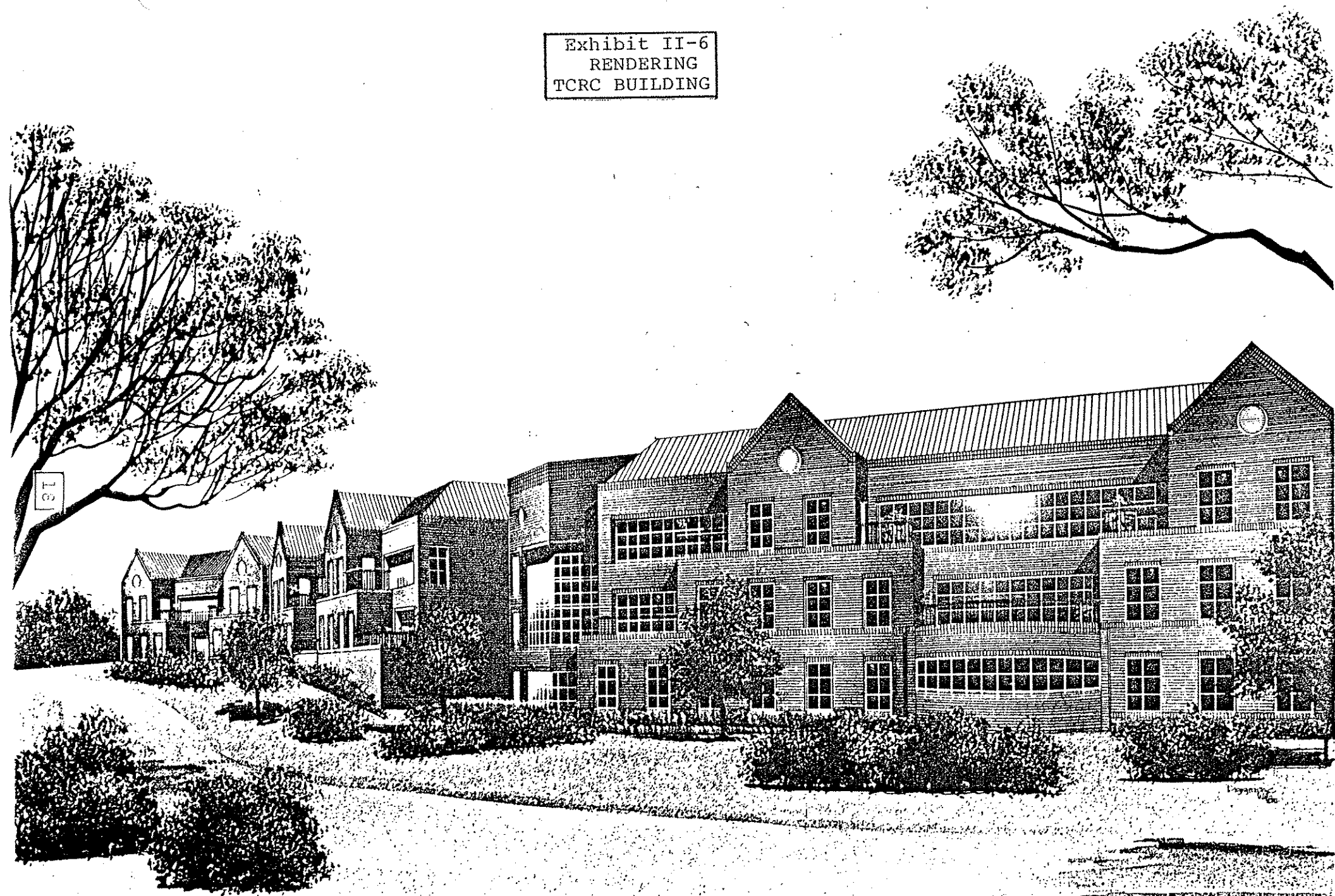
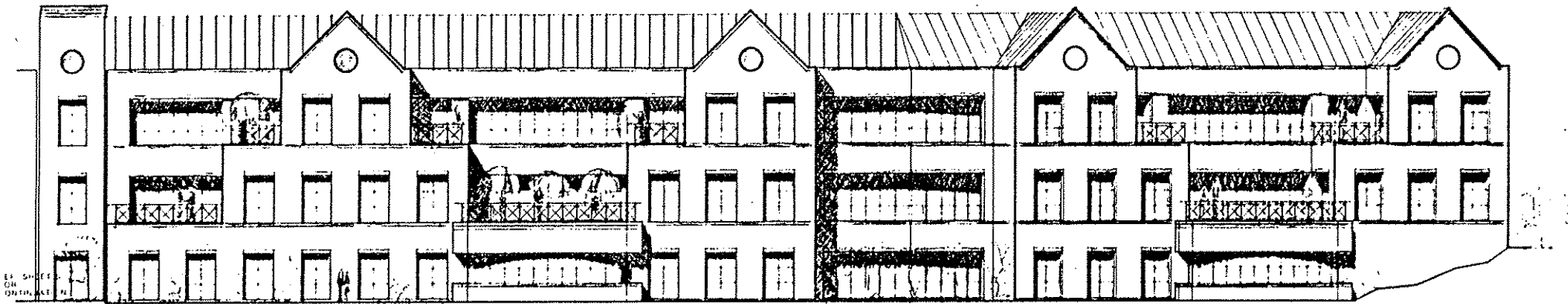
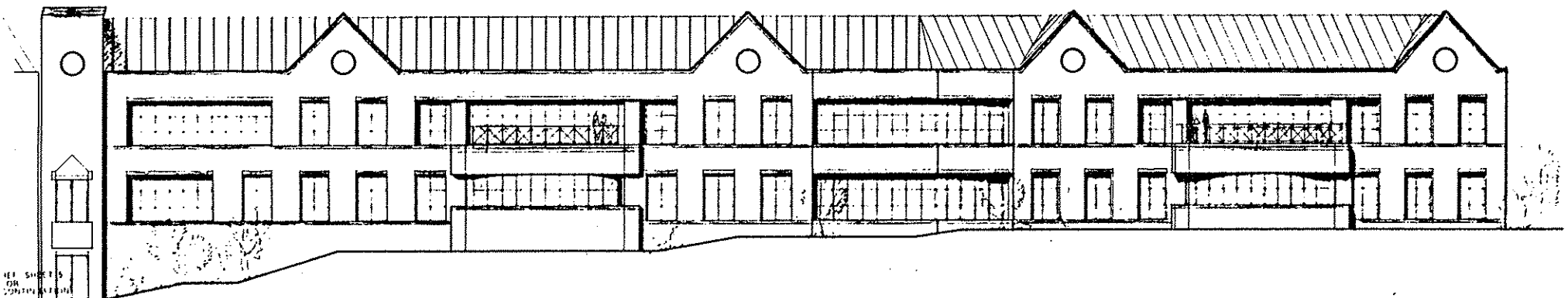


Exhibit II-6
(CONT.)



① PARTIAL NORTH-EAST ELEVATION

16



② PARTIAL SOUTH-WEST ELEVATION

Exhibit II-7a
ROOF AND LEVEL 3 PLANS
TCRC BUILDING

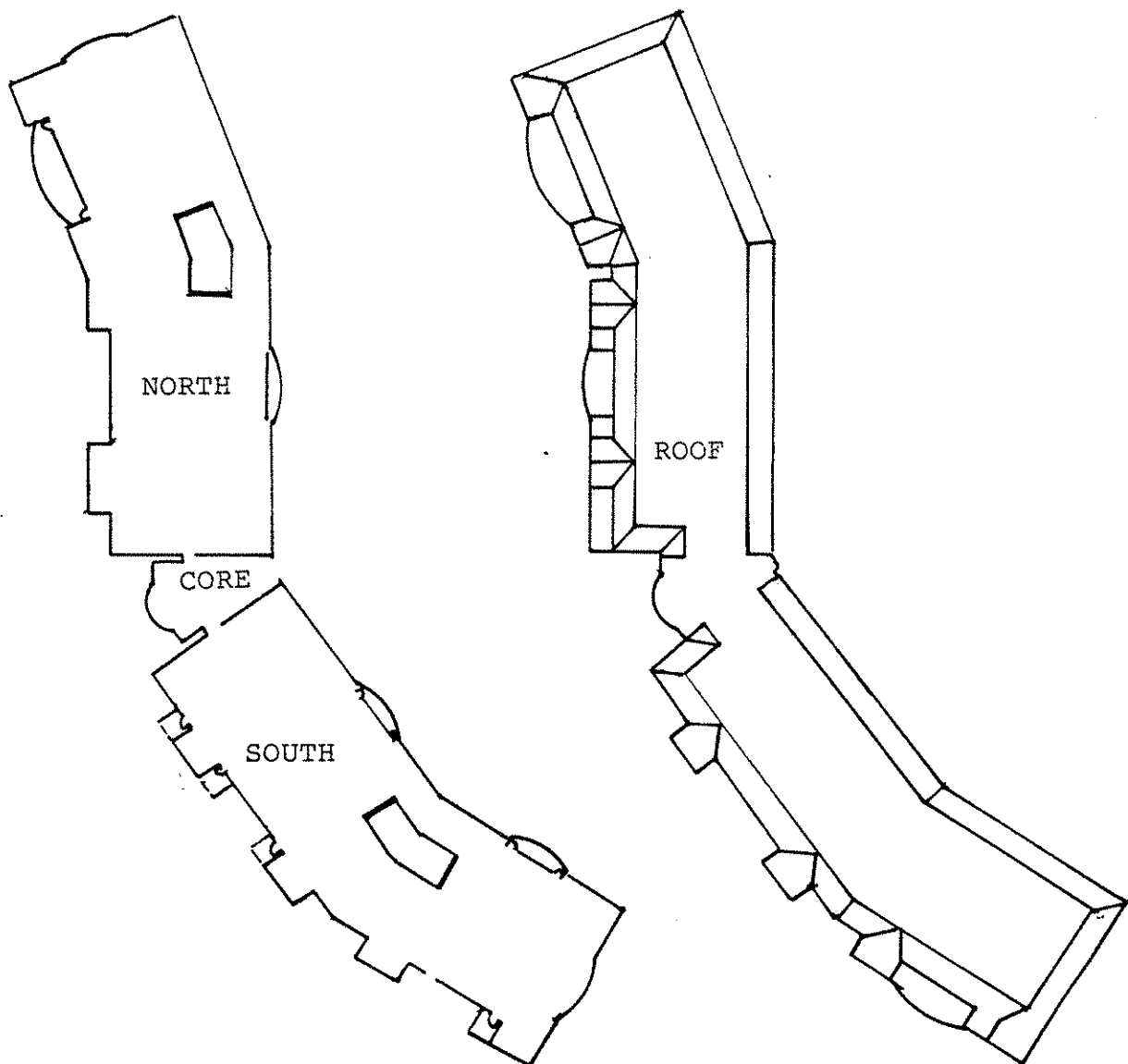


Exhibit II-7b
LEVEL 2 AND PARKING
STRUCTURE PLANS
TCRC BUILDING

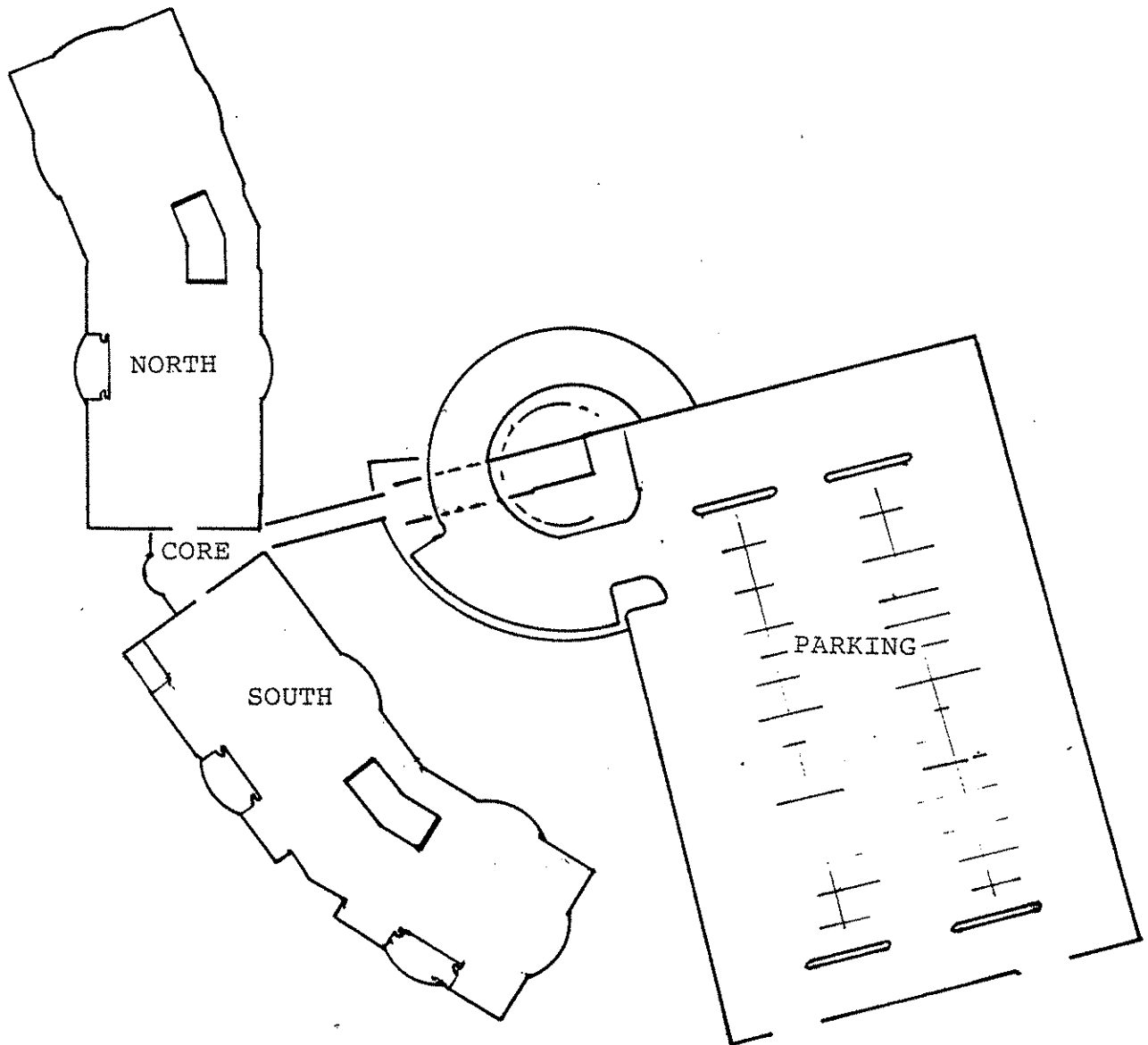
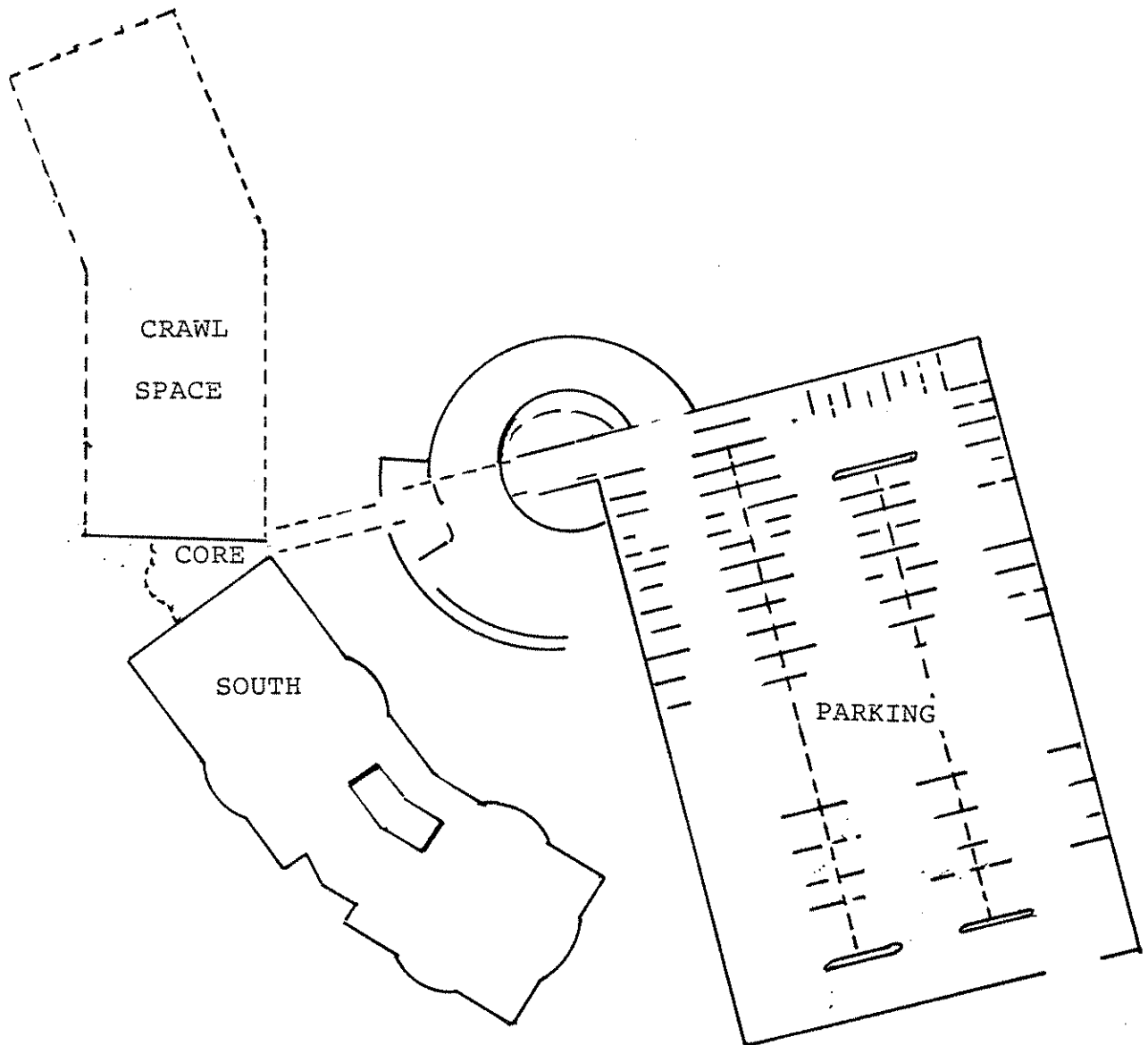


Exhibit II-7c
LEVEL 1 AND PARKING
STRUCTURE PLANS
TCRC BUILDING



**Exhibit II-8
ORGANIZATION CHART**

TRAMMELE CROW RESIDENTIAL COMPANIES
Denny Alberts, President
Michael Crow, Executive Vice President
Gross Assets \$1.5 Billions

CROW-TEAGUE COMPANIES
Thomas Teague
President
Gross Assets \$350 Million

THE CHASEWOOD COMPANY
Charles Holbrook
President
Gross Assets \$450 Million

CROW-TERWILLIGER COMPANY
J. Ronald Terwilliger
President
Gross Assets \$500 Million

CROW DEVELOPMENT COMPANY
David Bagwell
President
Gross Assets \$200 Million

CROW-WESTERN SOUTHWEST
John Carmichael
Partner
Apartment Development

THE CHASEWOOD COMPANY
DALLAS
Robert Gass
Partner
Apartment Development
Condominium Development

CROW-TERWILLIGER PARTNERS
ATLANTA
Marc Bromley
Partner
Apartment Development
Condominium Development

CROW DEVELOPMENT
DALLAS/FORT WORTH
David Bagwell
Partner
Lot Development
Single Family Housing

CROW-WESTERN
HOUSTON
Dennis Elmore
Partner
Apartment Development

THE CHASEWOOD COMPANY
AUSTIN/SAN ANTONIO
David Johnston
Partner
Apartment Development
Condominium Development

CROW, TERWILLIGER & PARROTT
NASHVILLE
Peter Parrott
Partner
Apartment Development
Condominium Development

CROW DEVELOPMENT
OKLAHOMA CITY
Thomas Walker
Partner
Lot Development
Single Family Housing

CROW-WESTERN
PHOENIX
Thomas Lewis
Partner
Apartment Development

THE CHASEWOOD COMPANY
DENVER
Richard Campbell
Partner
Apartment Development
Condominium Development

CROW, TERWILLIGER & MICHAUX
MIDDLE ATLANTIC STATES
Richard Michaux
Partner
Apartment Development
Condominium Development

CROW DEVELOPMENT
AUSTIN
David Johnston
Partner
Lot Development
Single Family Housing

CROW-WESTERN
ALBUQUERQUE
Mark Culwell
Partner
Apartment Development

THE CHASEWOOD COMPANY
CHICAGO
Alfred P. Buettner, Jr.
Partner
Apartment Development
Condominium Development

CROW, TERWILLIGER & DRESSLER
BOSTON
David Dressler
Partner
Apartment Development
Condominium Development

CROW DEVELOPMENT
SAN ANTONIO
Lot Development
Single Family Housing

CROW-WESTERN
SEATTLE
Ronald Yoda
Partner
Apartment Development

THE CHASEWOOD COMPANY
KANSAS CITY
James Kassebaum
Partner
Apartment Development
Condominium Development

CROW, TERWILLIGER & WOOD
NORTHERN FLORIDA
Leonard Wood
Partner
Apartment Development
Condominium Development

HOME BUILDING

CROW-WESTERN
SAN FRANCISCO
William Thompson
Partner
Apartment Development

THE CHASE COMPANY
Michael Hope
President
General Contracting

CROW, TERWILLIGER & SIMPSON
CHARLOTTE
James Simpson
Partner
Apartment Development
Condominium Development

STANFORD HOMES COMPANY
Richard Mildner
President
Single Family Housing

CROW-WESTERN
LOS ANGELES
Kenneth Lipinski
Partner
Apartment Development

CROW, TERWILLIGER & SPEICHER
SOUTHERN FLORIDA
Robert Speicher
Partner
Apartment Development
Condominium Development

PRESTON HOMES COMPANY
Thomas Corbin
President
Single Family Housing

CROW-WESTERN
SAN DIEGO
Daniel Golovato
Partner
Apartment Development

CROW-TERWILLIGER PROPERTIES
James Potts
President
Apartment Acquisitions

BRENTWOOD PROPERTIES
Michael Doramus
President
Property Management
Apartments 28,000 Units
Shopping Centers 3,800,000 sq. ft.

CTY INVESTMENTS
Carl Yates
President
Apartment Brokerage

BRYAN ASSOCIATES
Ronald Colter
President
Apartment Brokerage
Apartment Syndications

Exhibit II-9
PROJECT BUDGET
TCRC BUILDING

<u>Budget Category</u>	<u>Total Cost</u>
LAND	\$ 2,025,000
BUILDING	
Site Preparation (1)	897,000
Building	4,586,000
Parking	1,236,000
Tenant Improvements	<u>922,000</u>
TOTAL BUILDINGS	\$ 7,641,000
SOFT COSTS	
General Construction Fee	535,000
Space Plan, Landscaping	69,000
Architect, Legal, Engineering	231,000
Real Estate Taxes	140,000
Interest	1,650,000
Leasing Commission	175,000
Operating Deficits (2)	<u>63,000</u>
SOFT COSTS TOTAL	\$ 2,863,000
 TOTAL DEVELOPMENT COSTS	 \$12,529,000

(1) Includes offsite costs for the improvement of O'Connor Ridge Road

(2) Based on a 12-month lease up/free rent period.

Source: Bryan Associates
Piedmont Realty Advisors

III. MARKET OVERVIEW

III. MARKET OVERVIEW

A. INTRODUCTION

Dallas has emerged as a preferred location for national and regional firms doing business in the southwest. Dallas has a central location in the southwest, and DFW Airport has become a major transportation hub. With only 15% of businesses in Dallas being dependent on oil, Dallas has a diversified and growing economic base. It is a dynamic office market which consistently fluctuates between oversupplied and undersupplied market conditions. (See Exhibit III-1.)

B. THE DALLAS OFFICE MARKET

The Metropolitan Dallas office market has grown at record levels since 1980. During the late 1970s', Dallas experienced a steady decline in vacancy rates and new space was added at an average rate of 2 to 3 million square feet per year. Annual demand increased markedly, rising from an average of 2.7 million square feet to over 6 million square feet during the period. The tightening market conditions produced a speculative environment where land prices increased by 20% in 1980 and 22% in 1981. In 1981, new office construction rose sharply and continued to accelerate through 1982 and 1983. An average of almost 11 million square feet per year was completed during this period, while the market was absorbing an average of 5.4 million square feet per year. Marketwide office vacancies rose from 6.3% in 1980 to almost 30% in 1984. It was during this boom period in building that the Las Colinas area emerged as a significant market within the Dallas Metroplex.

C. LAS COLINAS

Las Colinas has developed very rapidly to become one of the most desirable areas in the entire Southwest. The area was originally the 12,000 acre ranch of Ben Carpenter. Las Colinas' excellent location within the DFW Metroplex, combined with the effective master plan has created an area that is popular with upscale office, commercial and residential users alike.

1. The Las Colinas Office Market

The Las Colinas office market has been substantially overbuilt in past years. Much of this overbuilding was caused by the way Mr. Carpenter and his Southland Development Corporation sold parcels in Las Colinas. In order to prevent land speculation, Southland required that parcels must be developed within two years or the land would revert to Southland at the original price. Given this narrow window period, developers rushed to build 2.6 million square feet of office space in 1982, 2.9 million square feet

in 1983, and 1.3 million square feet in 1984. As of the 4th quarter of 1984, existing space totalled 8.1 million square feet with 1.3 million square feet under construction.

These major developments were coming on line at a time when Dallas, as well as the rest of the nation, was suffering the effects of a recession. However, as Las Colinas became established, and as the national economy rebounded, office absorption in Las Colinas outpaced the Dallas market as a whole. As shown in Exhibit III-2, 1.0 million square feet of office space were absorbed in Las Colinas during 1982, 2.4 million square feet in 1983, 2.2 million square feet in 1984. Based on Piedmont's review of the Las Colinas office market, the vacancy rate for Las Colinas is projected to drop below the Dallas Metro area's rate of 25% by mid-1985.

D. COMPETITIVE OFFICE SPACE

Due to the rapid expansion of office space in Las Colinas, the market is oversupplied. Most multi-tenant buildings have space available, but this is due more to overbuilding than to lack of demand. Rates have held firm, but rent concessions typically range from 10 to 15 free months on a 5-year lease (a 17% to 25% reduction in contract rent). Roughly 50% of leases signed in Las Colinas have expense stops at \$3.50 to \$4.00 per square foot and 50% of the leases are fully serviced with annual CPI escalators. Recent tenant interest in the Las Colinas area has been very strong and vacancy rates are declining.

Lease rates and vacancy rates vary by area within Las Colinas. The office market rents are set by buildings in the Urban Center. Of a total 4,178,000 square feet in the Urban Center, 2,600,000 (63%) was completed in 1983 or 1984 and another 800,000 square feet are scheduled for completion in 1985. Adding so much space so quickly has left the Urban Center with a 42% vacancy factor, but rents are holding steady. Williams Square Towers leads the market with \$23 - \$24 per net rentable square foot rental rates, with \$55 per month for covered parking. Average rents in the Urban Center are generally in the \$19 to \$21 range.

The Las Colinas Office Center, located three miles northwest of the Urban Center, is not in a central Las Colinas location and represents a secondary office market. Structures are typically low to mid-rise, (average size 94,000 square feet). Rental rates range from \$12 to \$17 per net rentable square foot in this office submarket with free surface parking and \$35 per month for covered parking. The vacancy rate for this area is currently 40%.

The subject property is located in the O'Connor Ridge Office Park which has been combined with the Wingren Office Park for rent survey purposes. Both parks are located immediately west of the Urban Center and benefit from the central location. Buildings are low to mid-rise, with an average size of 125,000 square feet. In contrast to other areas, 74% (1,880,000 square feet) of the 2,525,000 square feet of office space was completed before 1983, making the O'Connor/Wingren area a more established market, with a comparatively low vacancy factor of 30%. Rents in the area range from \$14 per square foot for older, single tenant buildings to \$20 per foot for newly constructed better located multi-tenant space. Surface parking is free, and covered parking costs \$35 per month, if available.

E. CONCLUSION

Based on Piedmont's review, the Las Colinas office market will continue to be very dynamic, with 1985 leasing activity exceeding new supply. The projected rents of \$17.60 to \$20.00 per square foot (\$18.38 average) for the speculative space in the subject property represent the top of the market in the O'Connor Ridge Office Park. However, these rates should be achievable with the use of free rent and an \$11.50 per square foot tenant improvement allowance. The property has a superior location in Las Colinas (golf course views and freeway access) and the timing of the project is good. Las Colinas is not a viable investment market for speculative office projects at the current time. The TCRC prelease provides the joint venture with the financial security to hold an investment in an office market with excellent long term potential.

Exhibit III-1

SUPPLY/DEMAND TRENDS
DALLAS OFFICE MARKET
1976 - 1984

<u>Year</u>	<u>Square Feet Completed</u>	<u>Square Feet Absorbed</u>	<u>Vacancy Rate</u>
1976	980,000	1,750,000	16.3%
1977	780,000	1,875,000	13.0
1978	1,950,000	3,675,000	10.4
1979	3,986,000	3,850,000	7.0
1980	6,650,000	6,025,000	6.3
1981	9,331,000	4,050,000	8.6
1982	9,980,000	4,600,000	10.3
1983	11,870,000	6,900,000	16.3
1984	15,900,000	5,900,000	29.2

Source: The REIS Report
Henry S. Miller Company
Piedmont Realty Advisors

Exhibit III-2
ABSORPTION TRENDS
LAS COLINAS
OFFICE MARKET

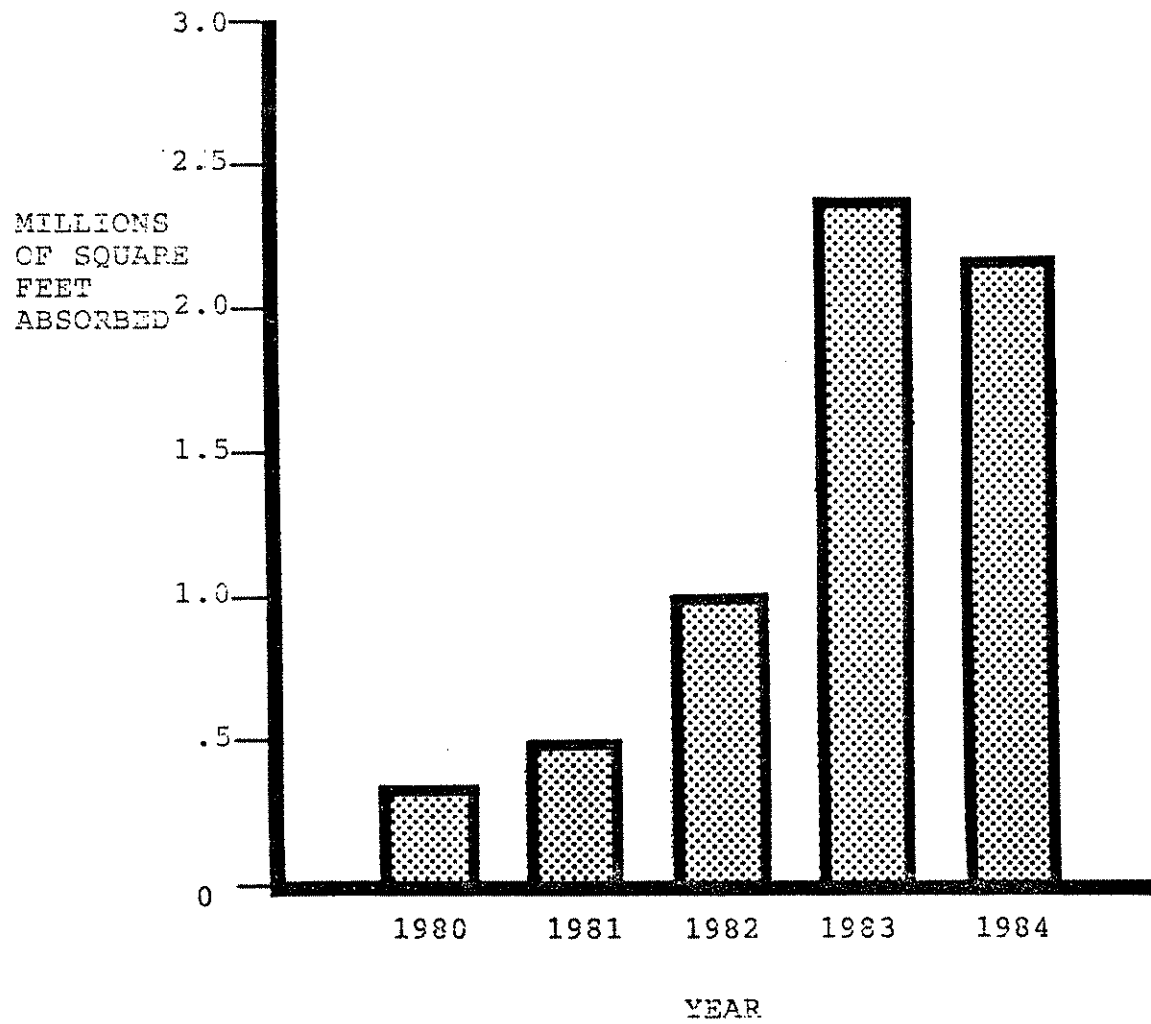


Exhibit III-3

COMPETITIVE PROPERTY SURVEY
TCRC BUILDING

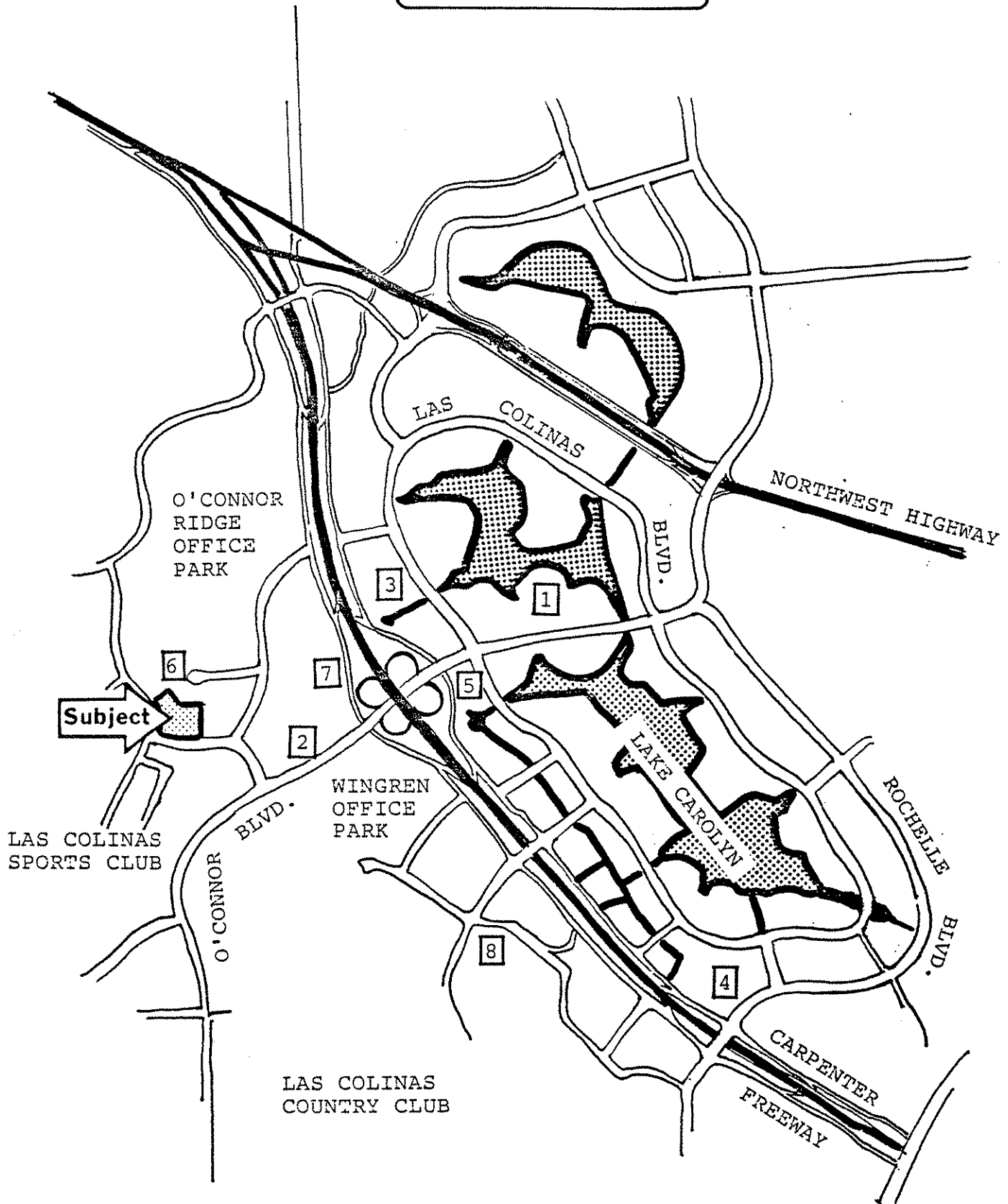
<u>Map #</u>	<u>Name/Address</u>	<u>Floors/ Yr. Built</u>	<u>Total Sq. Ft.</u>	<u>Occ. Rate/ Vacant Sq.Ft.</u>	<u>Rental Rates/ Expense Stop</u>
1	Williams Square 5215 N.O'Connor Blvd	26 1984	618,650	46% 335,000	\$23-24.00 CPI & Elec
2	Corporate Plaza 4953 O'Connor Blvd	2 1978	109,400	99% 810	\$18-20.00 CPI
3	Xerox Center 222 Las Colinas Blvd.	22 1983	451,557	76% 108,000	\$18.50-19.20 \$4.00 \$35/mo, Pkg
4	Waterside Commons Carpenter/Rochelle	3 1985	126,000	40% Preleased 76,000	\$18.50 3.50 \$10 T.I.
5	Las Colinas Tower 125 E.Carpenter Fwy	6 1983	264,000	100% 0	\$22-25.00 CPI & Elec
6	Phelps Court 350 Phelps Court Dr.	4 1981	51,000	80% 10,000	\$17.00 CPI & Elec
7	122 W. Carpenter Fwy 122 W. Carpenter Fwy	6 1982	214,441	50% 107,000	\$16.00 CPI & Elec \$35/mo, Pkg
8	Fairway Plaza 300 Decker Court	2 1980	79,000	100% 0	\$15.50 CPI

CPI = Annual consumer price index adjustment

Elec = Tenant pays electricity

Source: Coldwell Banker
Piedmont Realty Advisors

Exhibit III-4
COMPETITIVE
BUILDINGS MAP



IV.

PARTNER/DEVELOPER

IV. PARTNER/DEVELOPER

A. THE PARTNER

The partner/developer will be the Trammell Crow Residential Companies, an independent affiliate of the Trammell Crow Company, one of the largest private developers in the United States, with gross assets in excess of \$6 billion.

1. Trammell Crow Residential Companies (TCRC)

Trammell Crow Residential Companies was formed 20 years ago to complement the successful Trammell Crow Company's commercial developments. While Trammell Crow Residential Companies is a holding of Mr. Trammell Crow, it is incorporated separately from the Trammell Crow Company (Commercial Development), and the Crow Family Companies (hotel and retail development). (See Exhibit IV-1.)

Trammell Crow Residential Companies controls gross assets of \$1.5 billion, and is comprised of four separate companies that handle development on a regional basis. These regional companies are in turn comprised of several companies that are responsible for development construction and management on a local level. Exhibit IV-2 is the organizational chart for the Trammell Crow Residential Companies.

The Trammell Crow Residential Companies have built over 40,000 apartment and condominium units, with projects in 40 cities. In 1983, the Trammell Crow Residential Companies constructed over 6,500 units, all with condominium conversion potential. Brentwood Properties, the management arm of Trammell Crow Residential Companies, manages the daily operations of over 30,000 apartment units, and more than 5,000,000 square feet of office and shopping center space for a variety of clients.

2. Partnership Entity

The cogeneral partner for the TCRC building will be 'Office Partners at Las Colinas', a Texas limited partnership. Information on the individuals serving as managing General Partners appears in Exhibit IV-3.

B. DEVELOPMENT TEAM

1. Developer

The Chasewood Company is managing the development of the subject property. While the subject property represents Chasewood's first office development, their extensive apartment development experience (6,500 units) and the expertise of the Crow organization should more than compensate for this shortcoming.

2. General Contractor

Chaser Company, the general contracting arm of the Chasewood Company, will provide construction services for the subject property. Chaser's primary work is engaged in bid and negotiated contracting work for third party clients. Chaser will also be a tenant in the proposed building.

3. Property Management

Management services will be performed by Brentwood Properties, an affiliate of TCRC and Crow-Teague. Brentwood manages over 30,000 units and 5,000,000 square feet of office and retail space.

4. Architect

Fisher and Spillman Architects was founded in 1963, and incorporated in 1971. The firm currently employs approximately 50 professionals, and its major projects include the College of the Arts and Performing Arts Center at the University of Texas in Austin, the Dallas Central Library, Parkland Memorial Hospital in Dallas, and the Southland Corporation headquarters.

C. CONCLUSION

The Trammell Crow Residential Companies has assembled a development team capable of designing, constructing, leasing and managing a first class office building. Their desirability as a borrower has attracted a "below market" seven year mortgage from Connecticut General which will benefit USF&G as joint venture partner.

Exhibit IV-1
ORGANIZATION CHART
TRAMMELL CROW COMPANIES

TRAMMELL CROW COMPANY

1983 Construction Starts \$1.2 Billion
Gross Assets \$5 Billion
J. McDonald Williams
Managing Partner
Joel Peterson
Partner/Chief Financial Officer
Philip Norwood
Partner/Administration
86 Operating Partners

53 Offices

Albuquerque	Chicago	Kansas City	Oklahoma City	San Antonio
Atlanta	Cincinnati	Las Vegas	Orange County	San Diego
Arlington, TX	Dallas/4	Little Rock	Orlando	San Francisco
Austin	Denver	Los Angeles	Pasadena	Santa Fe
Baltimore	Dusseldorf	Louisville	Phoenix	Sao Paulo
Baton Rouge	Fort Worth	Memphis	Portland	Seattle
Birmingham	Frankfurt	Miami	Richmond	Tampa
Boise	Hobbs	Milwaukee	Roswell, NM	Tucson
Boston	Houston	Minneapolis	St. Louis	Tulsa
Charlotte	Jackson, MS	New Orleans	Salt Lake City	Washington D.C.

Office Buildings

21,046,438 square feet

Shopping Centers

5,988,415 square feet

**Service Centers
Industrial Parks**

112,063,941 square feet

**TRAMMELL CROW
RESIDENTIAL COMPANIES**

Gross Assets \$1.27 Billion
Denny Alberts
President
Michael Crow
Executive Vice President

CGT COMPANIES

Property Management
Apartments 28,000 units
Shopping Centers 3,800,000 sq. ft.
Apartment Development
Apartment Brokerage
Gross Assets \$310 Million
Tom Teague, President

CROW DEVELOPMENT COMPANY

Lot Development
Single Family Housing
Gross Assets \$153 Million
David Bagwell, President

CHASEWOOD COMPANY

Apartment Development
Condominium Development
Gross Assets \$412 Million
Charles Holbrook, President

CROW-TERWILLIGER COMPANY

Apartment Development
Condominium Development
Apartment Brokerage
Gross Assets \$400 Million
J. Ronald Terwilliger, President

CROW FAMILY COMPANIES

**DALLAS MARKET
CENTER COMPANY**

Gross Assets \$1.75 Billion
Trammell S. Crow, Chairman
Lucy Crow Billingsley, President

Dallas

**Communications Complex
at Las Colinas**

Harry Friedman, Gen. Manager

Dallas Market Center

World Trade Center
Apparel Mart
Market Hall
Furniture Mart
InfoMart

Crow Hotel Companies

Kirk Kinsell
Allen Cullum
Peter Streit

Miscellaneous

Lincoln Property Company
Crow Foody
Carter & Associates
Medical City
Agriculture
Linpro (NE)

MAY 1984

**Exhibit IV-2
ORGANIZATION CHART**

TRAMMELL CROW RESIDENTIAL COMPANIES
Denny Alberts, President
Michael Crow, Executive Vice President
Gross Assets \$1.5 Billion

CROW-TEAGUE COMPANIES
 Thomas Teague
 President
 Gross Assets \$350 Million

THE CHASEWOOD COMPANY
 Charles Holbrook
 President
 Gross Assets \$450 Million

CROW-TERWILLIGER COMPANY
 J. Ronald Terwilliger
 President
 Gross Assets \$500 Million

CROW DEVELOPMENT COMPANY
 David Bagwell
 President
 Gross Assets \$200 Million

CROW-WESTERN SOUTHWEST
 John Carmichael
 Partner
 Apartment Development

THE CHASEWOOD COMPANY
 DALLAS
 Robert Gass
 Partner
 Apartment Development
 Condominium Development

CROW-TERWILLIGER PARTNERS
 ATLANTA
 Marc Bromley
 Partner
 Apartment Development
 Condominium Development

CROW DEVELOPMENT
 DALLAS/FORT WORTH
 David Bagwell
 Partner
 Lot Development
 Single Family Housing

CROW-WESTERN
 HOUSTON
 Dennis Elmore
 Partner
 Apartment Development

THE CHASEWOOD COMPANY
 AUSTIN/SAN ANTONIO
 David Johnston
 Partner
 Apartment Development
 Condominium Development

CROW, TERWILLIGER & PARROTT
 NASHVILLE
 Peter Parrott
 Partner
 Apartment Development
 Condominium Development

CROW DEVELOPMENT
 OKLAHOMA CITY
 Thomas Walker
 Partner
 Lot Development
 Single Family Housing

CROW-WESTERN
 PHOENIX
 Thomas Lewis
 Partner
 Apartment Development

THE CHASEWOOD COMPANY
 DENVER
 Richard Campbell
 Partner
 Apartment Development
 Condominium Development

CROW, TERWILLIGER & MICHAUX
 MIDDLE ATLANTIC STATES
 Richard Michaux
 Partner
 Apartment Development
 Condominium Development

CROW DEVELOPMENT
 ALSTIN
 David Johnston
 Partner
 Lot Development
 Single Family Housing

CROW-WESTERN
 ALBUQUERQUE
 Mark Culwell
 Partner
 Apartment Development

THE CHASEWOOD COMPANY
 CHICAGO
 Alfred P. Buettner, Jr.
 Partner
 Apartment Development
 Condominium Development

CROW, TERWILLIGER & DRESSLER
 BOSTON
 David Dressler
 Partner
 Apartment Development
 Condominium Development

CROW DEVELOPMENT
 SAN ANTONIO
 Lot Development
 Single Family Housing

CROW-WESTERN
 SEATTLE
 Ronald Yoda
 Partner
 Apartment Development

THE CHASEWOOD COMPANY
 KANSAS CITY
 James Kassebaum
 Partner
 Apartment Development
 Condominium Development

CROW, TERWILLIGER & WOOD
 NORTHERN FLORIDA
 Leonard Wood
 Partner
 Apartment Development
 Condominium Development

HOME BUILDING

CROW-WESTERN
 SAN FRANCISCO
 William Thompson
 Partner
 Apartment Development

THE CHASER COMPANY
 Michael Hope
 President
 General Contracting

CROW, TERWILLIGER & SIMPSON
 CHARLOTTE
 James Simpson
 Partner
 Apartment Development
 Condominium Development

STANFORD HOMES COMPANY
 Richard Mildner
 President
 Single Family Housing

CROW-WESTERN
 LOS ANGELES
 Kenneth Lipinski
 Partner
 Apartment Development

CROW, TERWILLIGER & SPEICHER
 SOUTHERN FLORIDA
 Robert Speicher
 Partner
 Apartment Development
 Condominium Development

PRESTON HOMES COMPANY
 Thomas Corbin
 President
 Single Family Housing

CROW-WESTERN
 SAN DIEGO
 Daniel Golovato
 Partner
 Apartment Development

CROW-TERWILLIGER PROPERTIES
 James Potts
 President
 Apartment Acquisitions

BRENTWOOD PROPERTIES
 Michael Doramus
 President
 Property Management
 Apartments 28,000 Units
 Shopping Centers 3,800,000 sq. ft.

CTY INVESTMENTS
 Carl Yates
 President
 Apartment Brokerage

BRYAN ASSOCIATES
 Ronald Colter
 President
 Apartment Brokerage
 Apartment Syndications

Exhibit IV-3

OFFICE PARTNERS AT LAS COLINAS
BIOGRAPHICAL SKETCHES

TRAMMELL S. CROW is a graduate of Yale University where he was founder of the Yale Business Forum. He has been with the Trammell Crow Company since 1975 and has experience in retail lot development and leasing of commercial and industrial space. Mr. Crow is currently part owner and Chairman of the Board of the Dallas Market Center Company, where he has been involved in the planning, design and development of some 2.2 million square feet of new space in the World Trade Center and Apparel Mart, and the development of the 1,600 room Loew's Anatole Hotel. Mr. Crow is also involved in the 1,500,000 square foot Infomart, a facility designed to complement The Dallas Market Center with the purpose of marketing computer related software, hardware, and services.

MICHAEL CROW was promoted to Executive Vice President of the Trammell Crow Residential Companies in May of 1984. In this role, he oversees all activities of the Trammell Crow Residential Companies. Michael acted as President of Crow Development Company from 1967 to 1984. Under the leadership of Michael Crow, the company has developed more than 77 projects and planned unit developments comprising over 8,000 acres. In addition to these development activities, the company's diversified activities include the development of subdivisions for custom builders, community development, the building of duplexes, quadruplexes and condominiums, and the construction of single family housing.

TOM TEAGUE is managing partner of the Crow-Teague Companies which include Crow-Western Co., Brentwood Properties, and Bryan Associates, all part of the Trammell Crow Residential Companies. A 1971 graduate of Abilene Christian University, he received a masters degree in business administration from Texas A & M University in 1974. Mr. Teague, who joined Trammell Crow in 1973, advanced to the Presidency of Brentwood Properties, serving in this capacity from 1976 to 1982. He was a founding partner of The Chasewood Company, another Crow residential company.

CHARLES M. HOLBROOK is President of The Chasewood Company, a multi-family development company and one of the Trammell Crow Residential Companies. Charles is a 1965 graduate of The University of Texas, and has been active in residential development and construction since that time. From 1969 to 1975 he was associated with Deal Development Company as Vice President of Construction, directly responsible for the construction of more than 4,000 apartment and condominium units in ten states. Prior to the creation of The Chasewood

Company, Mr. Holbrook was President of GreenMark, Inc., a subsidiary of Gerald D. Hines Interests. He is a member of the Urban Land Institute and the National Association of Home Builders.

TERENCE C. GOLDEN was Executive Vice President of Trammell Crow Residential Companies until 1984, when he left to head the General Services Administration in Washington, D.C. He will remain a general partner in the 'Office Partners at Las Colinas'.

DENNY ALBERTS is the President of the Trammell Crow Residential Companies. As head of the Trammell Crow Residential Companies, Denny is involved in single and multi-family residential construction and land development nationwide. Mr. Alberts received a Masters degree in business administration with a major in finance in 1972 from The University of Missouri. In 1973 Denny joined InterFirst Bank Dallas, where he served as Vice President in the Southwest Corporate Banking Division until 1979, and served as Executive Vice President and Division Head in the Real Estate Division from 1979 to March of 1984. Mr. Alberts is not a general partner in 'Office Partners at Las Colinas'.

V.

RISK AND RETURN

V. RISK AND RETURN

A. INTRODUCTION

The equity joint venture, if structured properly, is a safe and high yielding investment, particularly in low interest rate environments. The proposed joint venture with TCRC is structured as a general partnership in which both partners will have the ability to control decisions relative to the operation of the property. Trammell Crow will have the responsibility for actually managing the property and implementing this business plan. The TCRC building is currently under construction and is scheduled for completion in June/July, 1985. The building is currently 74% preleased and TCRC has secured a 7-year, fixed rate (12.25%) mortgage of \$9,000,000.

B. VALUATION

The development joint venture enables the equity investor to commit to a project at a wholesale level (cost) and immediately realize 50% of the spread between cost and value when the building is complete. Therefore, the estimation of value is an important part of the investment consideration. Piedmont Realty Advisors evaluated the TCRC building using the three methods of value accepted by the American Institute of Real Estate Appraisers.

- * cost approach
- * market comparison
- * income capitalization

A summary of Piedmont's estimate of value is shown in Exhibit V-1.

1. Investment Considerations

Piedmont estimates the value of the TCRC building at \$14,000,000 or approximately \$146 per net rentable square foot. Piedmont reviewed all comparable land and building sales which have occurred in the Las Colinas office market during 1984 and 1985 to make this determination. Full funding of the \$3,500,000 equity commitment plus the \$9,000,000 fixed rate loan indicates an investment cost to value ratio of 89%. The loan to value ratio for the \$9,000,000 is estimated at 64%.

As shown in Exhibit V-1, Piedmont estimates the stabilized net operating income of the TCRC building at \$1,401,421. Scheduled debt service on the mortgage is \$1,102,500 indicating a 8.5% cash on cash return for the \$3,500,000 equity investment.

C. RETURN

The detailed terms of the recommended equity joint venture are summarized in Exhibit I-1. Proforma income and expenses are presented in Exhibit V-1. The cash flows which contribute to the investment yield include:

- * A cumulative preferred return of 10% on invested capital. USF&G will receive 100% of the pretax cash flow until a 10% return is distributed for every year of the investment period.
- * A residual participation in 50% of the pretax cash flow after the preferred return has been paid.
- * A first priority return of capital at the sale of the property.
- * A residual participation in 50% of the net sales proceeds after the first priority return of capital has been paid.
- * A commitment fee of \$35,000.

Additional safeguards to the investor include:

- * The property is currently 74% preleased and the breakeven occupancy rate for the fixed rate mortgage is 76%.
- * TCRC has provided USF&G with a 2-year guarantee against additional capital contributions.
- * The initial equity contribution will occur only when the property has been constructed according to the approved plans and specifications and a certificate of occupancy has been issued. There will be no construction risk. A consulting architect for USF&G will inspect the property and plans during construction and prior to the funding date.
- * All of the legal aspects of the joint venture will be handled by Piper Marbury.

Cash flows from the operation of the TCRC building were estimated under the following scenarios:

1. Base case -- The 12.25%, fixed rate mortgage, scheduled for reconveyance in year 8, is extended until the end of the 12-year period.
2. Worst case -- The 12.25%, fixed rate mortgage, is paid off in year 8 with additional capital contributions by the partners (50%/50%). The additional capital required to pay off the mortgage is returned out of the proceeds of sale.

The cash flow assumptions are outlined in Exhibit V-2, and the twelve year cash flows for both scenarios are shown in Exhibit V-3. The yield for scenario 1 is estimated at 16.3%. The yield for scenario 2 is estimated at 15.6%. (See Exhibit V-4.)

D. RISK

In this investment proposal, USF&G will be exposed to all of the general partnership risks associated with owning and operating an office building. These risks are identified as property risks, financial risks, market risks, and partnership risks.

1. Property Risks

The major property risk is that there may be extraordinary expenses and/or property losses. This risk will be reduced by leases with expense stops (landlord pays all expenses up to a specified amount), adequate insurance protection, and reserves for contingencies. While the TCRC prelease provides security to the joint venture, there is vacancy risk associated with a tenant which occupies 74% of the buildings' area. This risk should be mitigated because the principals of the TCRC subsidiaries are also general partners in the joint venture.

26% of the rentable area of the TCRC building will be vacant at the time of the investment. One risk is that the lease up period will extend beyond the projected 12-month horizon. If this occurred, the cumulative preferred return period would extend beyond the current estimate of six years. The cumulative preferred return period would also extend beyond six years if the vacant space leased at rental rates below the proforma levels. In both cases, USF&G's internal rate of return would be reduced.

The property must be efficiently and effectively managed to further minimize the property risks. Brentwood Properties has substantial experience in managing both residential and office properties. However, if this management becomes unsatisfactory, the firm may be unilaterally removed by USF&G.

2. Financial Risk

The fixed rate loan for the TCRC building has an estimated loan to value ratio of 64% and a debt coverage ratio of 1.34. The breakeven occupancy for the property is 76%, slightly above the occupancy rate achieved with the TCRC prelease. There is no prepayment penalty for the Connecticut General loan. If interest rates fall, the partnership can refinance the property. If interest rates rise, the partnership has a below market loan. There is only a moderate amount of risk associated with the use of this particular loan to leverage the joint venture's investment position.

3. Market Risks

The market risk is that the future rents will not be realized because of general economic conditions or additional competition in the Las Colinas office market. The lack of land in the O'Connor Ridge Office Park combined with the anticipated future population and employment growth in Las Colinas, should result in upward pressure on rental rates, but the prospect of overbuilding in Las Colinas remains a market risk. The projected rental increases averaging 6 percent annually may be achievable during the holding period. Piedmont has tempered its projections of income by capitalizing the net operating income in the year of sale at only 10%.

4. Partnership Risks

As a general partner in the TCRC joint venture, USF&G will be exposed to a higher degree of liability than their typical exposure as lender. Under the proposed joint venture structure, USF&G will assume a passive position with the right to review and approve all major property operation issues. There will be a 5-year lock-in period for sale of the building to third parties or sale of general partnership interests between USF&G and TCRC. Thereafter, the buy-sell agreement is standard for equity joint ventures.

E. CONCLUSIONS

The intent and structure of the equity joint venture are similar to those of a participating mortgage. There is no development risk, the managing partner is an experienced developer familiar with the local real estate market and leasing risk is minimized by the guaranty of no additional capital contributions during the first two years of the investment. The preleasing and the fixed rate mortgage for the TCRC building are the major factors behind our recommendation to proceed with this investment. We would not recommend a speculative joint venture in Las Colinas at this time. The indicated internal rates of return of 15.6% to 16.3% are lower than the benchmark returns anticipated by investors in speculative joint ventures, but higher than both a cash buyer or a participating lender. Piedmont Realty Advisors concludes that the indicated returns adequately compensate for the identified risks and therefore recommends that the Real Estate Investment Committee of the United States Fidelity and Guarantee Company approve the \$3,500,000 equity investment in the TCRC joint venture.

Exhibit V-1

VALUATION ESTIMATE
TCRC BUILDING

Cost to Reproduce (1)

Land:	\$2,441,000	\$12 per square foot of land area (4.67 acres)
Site Work:	900,000	Budget
Building:	4,183,000	\$42 per gross buildable area of building.
Parking:	1,236,000	\$4,200 per parking space.
Tenant Improvements:	1,050,000	\$11.00 per net rentable square foot
Leasing Commissions:	477,665	\$5.00 per net rentable square foot
Soft Costs:	561,900	10% of Parking and Building Costs
Interest/Fee	1,420,000	Various Assumptions
Operating Deficits	992,000	18 month lease up from 0% to 95%
Contingency	280,950	5% of Parking and Building Costs
TOTAL	\$13,742,500	without developer's profit
	<u>561,900</u>	10% Profit on Hard Costs
VALUE	\$14,104,415	
SAY	\$14,100,000	

(1) Cost based on a survey of construction budgets in the Dallas office market conducted by Piedmont Realty Advisors, March 1985.

Exhibit V-1 (Continued)

COMPARABLE SALES METHOD

<u>Sale</u>	<u>Date</u>	<u>Sales Price</u>	<u>Area Sq. Ft.</u>	<u>Price/ Sq. Ft.</u>	<u>Adjust-ments</u>	<u>Price/ Sq. Ft.</u>	<u>Cap. Rate</u>
122 W.Carpenter	9/84	\$28,000,000	214,441	\$130.50	\$10.25(1)	\$140.75	9.5%
Diamond Shamrock	6/84	\$13,200,000	86,690	\$152.25	(\$13.00)	\$139.25	10.0%
(2) GM Bldg.(3)	For Sale	\$10,000,000	69,000	\$145.00	(\$5.00)	\$140.00	9.3%
Subject	3/85	\$13,375,000	95,533			\$140.00	10.0%
	7/85	\$13,575,239				\$142.10(4)	
VALUE BY MARKET COMPARISON		\$13,575,000					

-
- (1) Adjustment of 4% for time of sale.
- (2) Valued by Chuck Dannis M.A.I. for collateralization of debt used to purchase Natomas. Downward adjustment of \$18 per square foot due to excess land. Upward adjustment of \$5 per square foot due to time of appraisal.
- (3) Valued by Kathleen Price M.A.I. to establish price for a request for proposal. \$5.00 downward adjustment due to the superior location of the GM Building on Carpenter Freeway.
- (4) Time adjustment of 1.5%.

INCOME CAPITALIZATION

Gross Income (95,533 X \$18.38)	\$1,756,200
Parking Income (169 X \$35/mo.)	<u>70,980</u>
Potential Gross Income	1,827,180
Less: Vacancy @ 5%	<u>91,350</u>
Effective Gross Income	1,735,821
Less: Expenses (95,533 X \$3.50)	<u>334,400</u>
Net Operating Income	1,401,421
Divided by .10 (Cap. Rate)	14,014,421
Say	14,000,000

VALUE SUMMARY

Cost to Reproduce	\$14,100,000
Market Comparison	\$13,575,000
Income Capitalization	\$14,000,000
Value Estimate	\$14,000,000

LOAN TO VALUE RATIO

$$\$9,000,000 / \$14,000,000 = 64\%$$

INVESTMENT TO VALUE RATIO

$$\$12,500,000 / \$14,000,000 = 89\%$$

Sources: Kathleen Price M.A.I.;
Chuck Dannis M.A.I.;
Piedmont Realty Advisors

Exhibit V-2

CASH FLOW ASSUMPTIONS TCRC OFFICE BUILDINGS

OFFICE INCOME:

The TCRC building has been divided into zones. Each zone rental rate is based on the position in the building and the view orientation of the suite. The following is a summary of the Trammell Crow leases:

Tenant	Sq. Ft.	Rental Rate	Expense Stop	
Brentwood	9,593	\$17.00	\$3.50	163,081
Brentwood	10,617	17.60	3.50	186,859
Chaser	3,543	17.60	3.50	62,357
Chasewood	5,507	17.60	3.50	96,923
Chasewood	10,689	18.20	3.50	194,540
Crow Devco	5,162	17.60	3.50	90,851
Crow Devco	2,664	18.20	3.50	48,480
Crow Devco	5,231	18.80	3.50	98,343
TCRC	2,390	18.80	3.50	44,932
Vacant	2,335	18.80	3.50	
Stanford Homes	2,258	17.60	3.50	39,741
Stanford Homes	3,803	18.20	3.50	69,215
Stanford Homes (1)	2,728	18.80	3.50	51,286
Vacant	5,005	18.80	3.50	
Bryan	3,727	19.40	3.50	72,304
Vacant	2,123	19.40	3.50	108,860
Teague	5,443	20.00	3.50	
Vacant	6,632	20.00	3.50	
Vacant	3,683	19.40	3.50	
Vacant	2,399	18.80	3.50	

Handwritten notes:
 20,135 (next to Brentwood)
 19,739 (next to Chasewood)
 8784 (next to Stanford Homes)
 Total hand 33,32-
 1327,770
 18.10

All TCRC leases are 5-year terms. All vacant space is initially leased at 3 years and released to TCRC on a 5-year term. All lease renewals are based on a 6% annual appreciation rate. There are vacancy rates of 5% on all vacant space; there is no vacancy charged to the TCRC space. A lease up period of 12 months for vacant space.

PARKING INCOME:

169 covered spaces at \$35 per space per month. Rate increases every 3 years based on a 6% inflation rate. Occupancy rate is 95%.

MORTGAGE PAYMENTS:

\$1,102,500 annually. Based on a 12.25% fixed rate, interest only, mortgage. 7-year term.

Scenario 1 - mortgage is extended with the same term until year 13.

Scenario 2 - Mortgage is paid off with additional capital contributions by the general partners in year 8.

Exhibit V-2 (Continued)

SALES ASSUMPTIONS:

- * 10% capitalization rate is applied to the year 12 net operating income.
- * Sales expenses equal to 2.0% of the gross sales price.

PARTNERSHIP ASSUMPTIONS:

- * USF&G receives a 10% cumulative preferred return on the \$3,500,000 investment.
- * After the cumulative return accrued from prior year has been paid off, USF&G will receive the first \$350,000 of cash flow and then 50% of the remaining cash flow.
- * TCRC will receive 50% of the cash flow remaining after USF&G receives all of its cumulative preferred return and the first \$350,000 of cash flow.
- * USF&G will receive a first priority return of capital out of sales proceeds. This would be equal to \$3,500,000 in Scenario 1 and \$8,000,000 in Scenario 2.
- * TCRC will receive a second priority return of capital out of sale proceeds to the extent it has contributed capital to the joint venture.
- * USF&G and TCRC will split (50/50) any sales proceeds remaining after the return of capital.
- * USF&G has no obligation for additional investment during the first two years of the analysis. Thereafter, USF&G must cover 50% of all shortfalls.
- * TCRC must cover 100% of all shortfalls in year 1 and 2 and 50% thereafter.

(1) Right of first refusal

Source: Piedmont Realty Advisors
Bryan Associates

Exhibit V-3
SUMMARY OF CASH FLOWS
TCRC OFFICE BUILDING
SCENARIO 1

***PARTNERSHIP CASHFLOW SUMMARY

TCRC HDQTRS

PRIOR EQUITY REQUIRED from PARTNER:

3500000

PRIOR CASH CONTRIBUTION:
>USFG

3500000
3500000

year	01	02	03	04	05	06	07	08	09	10	11	12
EXPECTED												
OPERATING REVENUE	1403065	1741370	1799041	1900415	1900415	2266896	2281514	2281514	2418425	2435835	2903464	2903464
minus												
OPERATING EXPENSE	334368	334368	334368	349193	349193	435973	435973	435973	467222	467222	583334	583334
FINANCING PAYMENT	1102500	1102500	1102500	1102500	1102500	1102500	1102500	1102500	1102500	1102500	1102500	1102500
OPERATING												
CASH BEFORE TAXES	-33803	304502	362172	448722	448722	728423	743041	743041	848703	866113	1217630	1217630
plus												
REVERSION	0	0	0	0	0	0	0	0	0	0	0	13737274
NET												
CASH BEFORE TAXES	-33803	304502	362172	448722	448722	728423	743041	743041	848703	866113	1217630	14954904
plus												
CONTRIBUTION:												
>TCRC	33803	0	0	0	0	0	0	0	0	0	0	0
>USFG	0	0	0	0	0	0	0	0	0	0	0	0
CASH for												
DISTRIBUTION	0	304502	362172	448722	448722	728423	743041	743041	848703	866113	1217630	14954904
DISTRIBUTION												
PREFERRED												
>TCRC	0	0	0	0	0	0	0	0	0	0	0	0
>USFG	0	304502	362172	448722	448722	535881	350000	350000	350000	350000	350000	350000
RESIDUAL												
>TCRC	0	0	0	0	0	96271	196520	196520	249351	258056	433815	433815
>USFG	0	0	0	0	0	96271	196520	196520	249351	258056	433815	433815
REVERSION												
>TCRC	0	0	0	0	0	0	0	0	0	0	0	5118637
>USFG	0	0	0	0	0	0	0	0	0	0	0	8618637

Exhibit V-3
SUMMARY OF CASH FLOWS
TCRC OFFICE BUILDING
SCENARIO 2

***PARTNERSHIP CASHFLOW SUMMARY

TCRC HDQTRS

PRIOR EQUITY REQUIRED from PARTNERS

3500000

PRIOR CASH CONTRIBUTIONS
>USFG

3500000
3500000

year	01	02	03	04	05	06	07	08	09	10	11	12
EXPECTED												
OPERATING REVENUE	1403065	1741370	1799041	1900415	1900415	2266896	2281514	2281514	2418425	2435835	2903464	2903464
minus												
OPERATING EXPENSES	334368	334368	334368	349193	349193	435973	435973	435973	467222	467222	583334	583334
FINANCING PAYMENTS	1102500	1102500	1102500	1102500	1102500	1102500	1102500	91875	0	0	0	0
OPERATING												
CASH BEFORE TAXES	-33803	304502	362172	448722	448722	728423	743041	1753666	1951203	1968613	2320130	2320130
plus												
NET FUNDS RECEIVED	0	0	0	0	0	0	0	-9000000	0	0	0	0
REVERSION	0	0	0	0	0	0	0	0	0	0	0	22737274
NET												
CASH BEFORE TAXES	-33803	304502	362172	448722	448722	728423	743041	-7246334	1951203	1968613	2320130	25057404
plus												
CONTRIBUTIONS												
>TCRC	33803	0	0	0	0	0	0	4469040	0	0	0	0
>USFG	0	0	0	0	0	0	0	4469040	0	0	0	0
CASH for												
DISTRIBUTION	0	304502	362172	448722	448722	728423	743041	1691746	1951203	1968613	2320130	25057404
DISTRIBUTION												
PREFERRED												
>TCRC	0	0	0	0	0	0	0	0	0	0	0	0
>USFG	0	304502	362172	448722	448722	535881	350000	0	0	0	0	0
RESIDUAL												
>TCRC	0	0	0	0	0	96271	196520	845873	975602	984306	1160065	1160065
>USFG	0	0	0	0	0	96271	196520	845873	975602	984306	1160065	1160065
REVERSION												
>TCRC	0	0	0	0	0	0	0	0	0	0	0	9604054
>USFG	0	0	0	0	0	0	0	0	0	0	0	13133220

Exhibit V-4

INVESTOR'S YIELD SUMMARY
SCENARIO NUMBER 1

<u>Year</u>	<u>Cash Flow Operations</u>	<u>Cash Flow Sale</u>	<u>Total</u>
1	\$ 0		0
2	304,502		304,502
3	362,172		362,172
4	448,722		448,722
5	448,722		448,722
6	632,152		632,152
7	546,520		546,520
8	546,520		546,520
9	599,351		599,351
10	608,056		608,056
11	783,815		783,815
12	783,815	8,618,637(1)	9,402,452

Estimated Yield (2) . . . 16.3

-
- (1) Net sales price of \$22,737,274 less outstanding loan balance of \$9,000,000 equals a residual of \$13,737,274. Investor receives the first \$3,500,000 plus 50% of remaining net proceeds.
- (2) Internal rate of return calculated using \$3,500,000 as the investor's initial investment.

Exhibit V-4

INVESTOR'S YIELD SUMMARY
SCENARIO NUMBER 2

<u>Year</u>	<u>Cash Flow Operations</u>	<u>Cash Flow Sale</u>	<u>Total</u>
1	\$ 0		\$ 0
2	304,502		304,502
3	362,172		362,172
4	448,722		448,722
5	448,722		448,722
6	632,152		632,152
7	546,520		546,520
8	845,873	(4,500,000) (1)	(3,654,127)
9	975,602		975,602
10	984,306		984,306
11	1,160,065		1,160,065
12	1,160,065	13,118,637 (2)	14,278,702

Estimated Yield (3) . . . 15.6%

-
- (1) 50% of capital required to pay off the \$9,000,000 mortgage.
 - (2) Net sales price of \$22,737,274. USF&G receives the first \$8,000,000 and 50% of the remaining net sales proceeds after TCRC is paid \$4,500,000.
 - (3) Internal rate of return calculated using \$3,500,000 as the investor's initial investment.