

**ALDEN POND APARTMENTS**

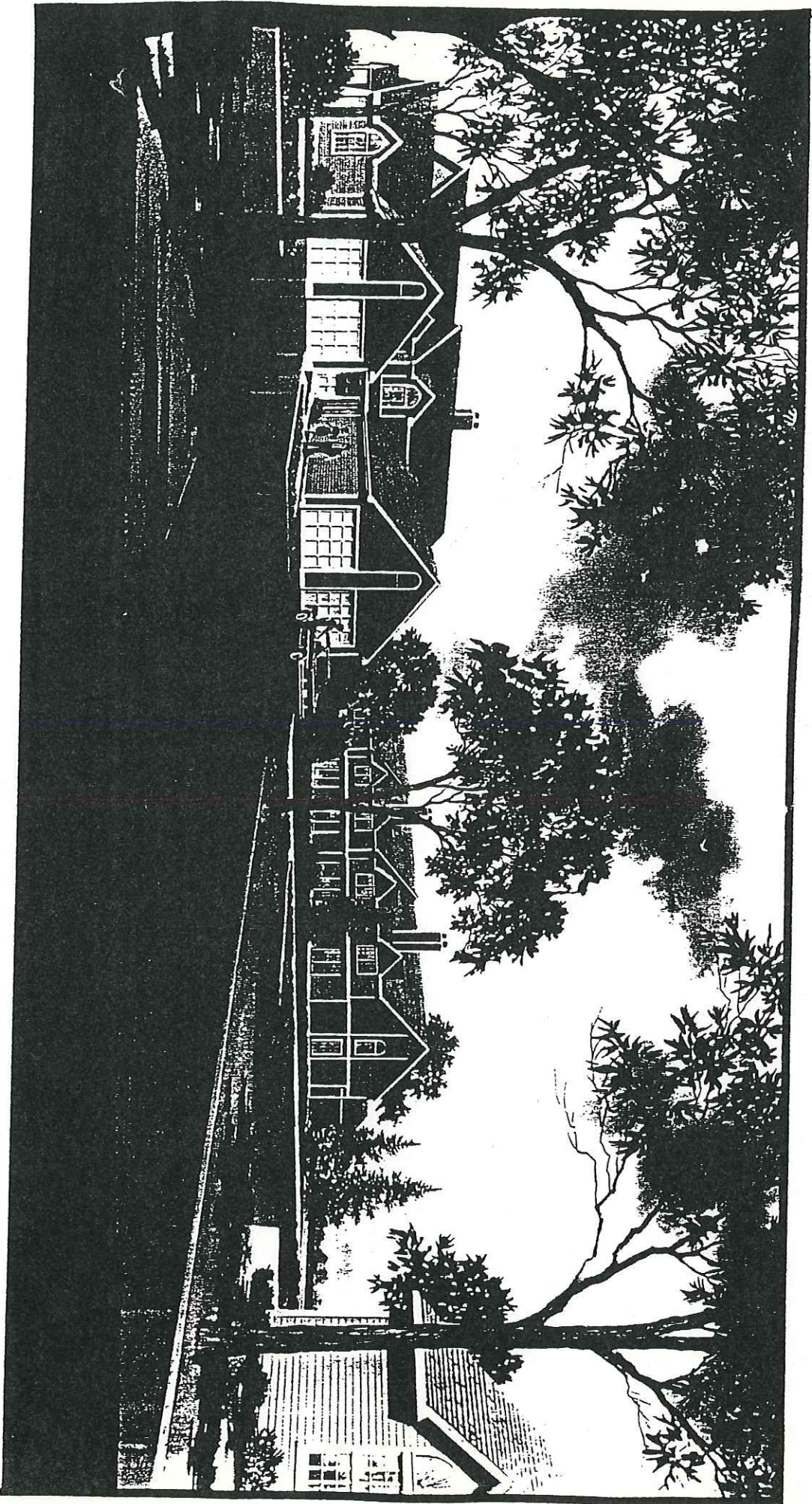
**EAGAN, MINNESOTA**

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

December 12, 1988

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ALDEN POND APARTMENTS



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## I. INTRODUCTION



PIEDMONT REALTY ADVISORS

650 CALIFORNIA STREET

TWENTY-SECOND FLOOR

SAN FRANCISCO, CALIFORNIA 94108

415-433 4100

December 12, 1988

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

Re: Alden Pond Apartments  
Eagan, Minnesota

Dear Committee Members:

Enclosed for your review is an investment report on the Alden Pond Apartment project located in Eagan, Minnesota. The proposed investment is a \$12,840,000 participating mortgage with a 15-month forward commitment to provide the permanent financing for this 213-unit townhouse development. A summary of the proposed investment appears in Exhibit I-1.

**The Property**

The townhouse design and complete amenity package offered by the Alden Pond project will be unique in the Eagan apartment market. The project will feature low density townhomes with separate attached garages, entrances and patios for each unit. Consequently, this project will be constructed as zero-lot line housing providing residents with the "image" of home ownership.

Alden Pond will be composed of 157 two-story, two-bedroom, 1.5 bath units and 56 single level two-bedroom, two-bath units. The project will have a clubhouse, pool, tennis court and five "tot lots". All of the townhomes will feature washer/dryers, fireplaces, vaulted ceilings and upgraded cabinetry and bathrooms. It should be noted that the townhouse design is very efficient and results in lower operating costs because of the individual metering of utilities for each unit and the minimization of common areas. Moreover, this design increases the universe of potential buyers as Alden Pond can either be sold in whole to an institutional investor or easily converted for sale as condominiums.

Alden Pond is located in Eagan, a centrally located suburb in the Twin Cities metropolitan area. Eagan is the fastest growing city in Minnesota having doubled its population between 1980 and 1987. During this time period Eagan's median family income growth rate of 53 percent was also the largest of any community in the Twin Cities area. The primary reason for the impressive development of this city has been the completion of several highway improvement projects that have enhanced the accessibility of Eagan. In particular, the three largest employment centers (i.e. Downtown Minneapolis, Downtown St. Paul and the Interstate 494 corridor) are now all within a 20 minute commute from the subject property. The Minneapolis/St. Paul International Airport and the proposed \$600 million Mall of America are also within ten minutes of Alden Pond. Additionally, the increased accessibility has attracted the world or regional headquarters of several large corporations to Eagan including Northwest Airlines, Unisys, Coca Cola and Blue Cross. The 125 percent increase in the number of jobs in Eagan since 1980 reflects this area's appeal to industrial and service firms.

#### The Market

The Twin Cities' apartment vacancy rate has increased from 1.3 percent in 1984 to 6.7 percent in 1988 due to several tax-exempt bond financing programs which encouraged the introduction of new supply. Since these programs were substantially discontinued in 1985, and the majority of the related developments have already been completed, the introduction of new product is projected to decrease in 1989 and 1990. This factor combined with the steady absorption of new product that has been evidenced during the past five years, should result in a decreasing vacancy rate in the near term.

The Eagan apartment market is growing rapidly because of the City's central location, improved accessibility and lack of congestion. Since 1984, Eagan has absorbed more units and maintained a lower average vacancy rate than its more established neighbor, Bloomington, even though Bloomington's apartment inventory is 50 percent larger. Alden Pond will be competing with other quality apartment and townhouse projects in the Eagan, Bloomington and Burnsville markets. Townhouse projects have typically received a 10 to 20 percent rental premium due to the increased convenience and home-owner identity they offer over the three-story apartment buildings which are more common in this area. However, proforma rents at Alden Pond, which is the first townhouse development in Eagan, are at levels that have already been achieved at several less desirable projects.



### The Developer

Rosewood Corporation is a successful local firm with an established reputation as a "market-driven" developer. Founded in 1967 by Ted Yoch and Ken Bureau, Rosewood has primarily focused its attention on development in the Twin Cities area. Through its various subsidiaries including Rosewood Construction, Reliance Property Management and Rosewood Properties, it has developed, constructed and managed in excess of \$150 million of real estate. This represents over two million square feet of commercial space and over 600 multi-family housing units. Alden Pond illustrates Rosewood's market-driven approach to development. It has extensively analyzed the Twin Cities apartment market to design the project, to determine the desired amenities, and to establish a marketing strategy. Moreover, Rosewood's commitment to this project is reflected in (1) its contribution of the Alden Pond site, which it has controlled since 1977, at a below-market basis to the development partnership and (2) the project budget which has been negotiated without a development fee to encourage Rosewood's performance in operating the property.

### The Risk/Return

The proposed Alden Pond participating mortgage provides USF&G the opportunity to invest in a quality townhome apartment project in the fastest growing city in Minnesota and at an investment basis that will allow the project to be very competitive in the market. The participating mortgage has been structured with a 10.25 percent coupon rate, a 55 percent participation and an accrual feature to enhance USF&G's return while providing the proper motivations to the Borrower, Rosewood Corporation, to market and manage the property efficiently. Additionally, a six-year call option, economic holdback and debt service guarantee have been incorporated into the transaction to increase USF&G's control of the project and reduce its risk. Piedmont Realty Advisors believes that USF&G's projected return of 13.3 percent will more than adequately compensate it for the associated risk. We therefore recommend that the Real Estate Investment Committee of the United States Fidelity & Guaranty Company approve the issuance of a commitment for a first mortgage of \$12,840,000 for Alden Pond Apartments.

Sincerely,



Bruce N. Dorfman  
Regional Acquisition Manager

BND:ar



**Exhibit I-1**  
**APPLICATION LETTER**

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

December 1, 1988

Mr. E. Ted Yoch  
Chairman and Chief Executive Officer  
Rosewood Corporation  
1711 West County Road B  
Suite 300 South  
Roseville, MN 55113

Re: Alden Pond Apartments  
Eagan, Minnesota

Dear Ted:

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

Real Property:	Alden Pond Apartments - A proposed 213 unit townhouse apartment complex with attached garages, clubhouse and pool.
Personal Property:	All personal property owned by Borrower and used in connection with the improvements.
Location:	Located on Coachman Road in the northwest quadrant of the intersection of Yankee Doodle Road and Interstate 35 East.
Land Area:	Approximately 27.5 acres.
Borrower:	2220 Limited Partnership, the Partners of which are principals of Rosewood Corporation (Rosewood).
Lender:	United States Fidelity and Guaranty Company (USF&G)

Mr. E. Ted Yoch  
December 1, 1988  
Page 2

**Loan Amount:** \$12,840,000.

**Base Interest  
Rate:**

The base interest rate shall be 10.25 percent and shall be paid or accrued and compounded monthly as set forth below, on the Outstanding Loan Balance. The term "Outstanding Loan Balance" shall mean the amount Lender has disbursed and which remains outstanding, plus any accrued and unpaid interest. The Borrower shall make payments on the disbursed amounts during year one and two of the loan, and in all subsequent years shall make payments on the (1) outstanding loan balance at the beginning of the year, plus (2) any disbursed amounts during that year in accordance with the pay rates listed in the following table:

<u>Loan Years</u>	<u>Interest Pay Rate</u>	<u>Base Interest Rate</u>
1-2	8.25%	10.25%
3-5	9.25%	10.25%
6-20	10.25%	10.25%

**Amortization:** Not applicable; interest only.

**Term:** 20 Years.

**Call Option:** Lender has option to call the loan anytime after the 6th year. Lender will give the Borrower 12 months written notice of its intent to call the loan.

**Prepayment:** o No prepayment before the 6th anniversary of initial funding. If a prepayment occurs due to a default by Borrower, Borrower shall pay Lender a prepayment fee which will be the greater of (a) 10 percent of the Outstanding Loan Balance or (b) a yield maintenance fee based on the 10.25 percent interest rate.

Mr. E. Ted Yoch  
December 1, 1988  
Page 3

o Prepayment fee of actual costs incurred by Lender in the reconveyance of the Loan after the 6th anniversary of initial funding.

o No prepayment penalty if Lender exercises its option to call the loan.

**Recourse:**

With the exception of the Lease-up Guarantee, the Loan will be non-recourse to the Borrower.

**Additional Interest**

**A. Operations:**

Borrower shall pay Lender 55 percent of the annual Net Cash Flow from the Property. The term "Net Cash Flow" shall mean (a) collected gross revenue in excess of (b) the sum of (i) approved actual capital expenses and actual operating expenses for the Property and (ii) actual scheduled interest paid.

**B. Sale,  
Refinancing or  
Maturity:**

If Borrower sells the Property in a bona fide sale, Borrower shall pay Lender 55 percent of the excess of (a) the Net Sales Price for the Property (i.e. the gross sales price less third party sales expenses not to exceed two percent of the gross sales price plus customary sales expenses) less (b) the Outstanding Loan Balance. Rosewood subsidiaries will not be prohibited from brokering a sales offer for the purchase of the Property.

If the property is converted to condominiums, the Borrower will arrange an acquisition and conversion loan and repay USF&G's principal balance. Upon actual sales of condominium units, Borrower shall pay Lender 55 percent of the excess of the Net Sales Price less the acquisition and conversion loan basis in each unit.

If Loan is called, refinanced or matures, Borrower shall pay Lender 55 percent of the excess of (a) the fair market value (which will include a deduction of two percent of the gross appraised value for selling expenses) of the Property as determined by appraisal less (b) the Outstanding Loan Balance.



**Commitment Fee:**

\$256,800; \$128,400 to be paid upon acceptance of the Commitment and \$128,400 to be furnished in the form of an unconditional and irrevocable letter of credit acceptable to the Lender. Lender shall return the letter of credit to Borrower at initial funding, or if the Loan does not fund, Lender may cash or retain the letter of credit. The closing date of the Commitment shall occur within 15 months following Borrower's acceptance of the Commitment. Borrower shall have the option to extend the Commitment for three months provided that Borrower notifies Lender of its intention to extend at least 60 days prior to the end of the 15-month Commitment period and pays an extension fee of \$25,680 at the time of notification.

**Initial Funding:**

The lesser of (a) \$12,198,000 or (b) 100 percent of the construction loan balance. Initial funding shall occur upon satisfaction of all conditions of the Commitment but no later than 30 days following completion of all buildings and receipt of a certificate of occupancy for the Property. Funding shall occur no later than 15 months following Borrower's acceptance of the Commitment. If initial funding is less than \$12,198,000, the difference between \$12,198,000 and initial funding will be added to holdback A below.

**A. Economic  
Holdback:**

\$642,000; disbursed at a rate of \$1.25 per \$1.00 of Annualized Effective Gross Collected Income from the preceding quarter in excess of \$1,509,345. Annualized Effective Gross Collected Income will be calculated in conformance with Exhibit A. Borrower will have 24 months from initial funding to earn out the economic holdback. Disbursements will be made quarterly.

**Lender  
Approval:**

This application and the transaction contemplated herein must be approved by Lender's Investment Committee.

**Additional Loan Provisions**

- A. Secondary Financing:** No secondary financing permitted.
- B. Right of First Offer:** If the Borrower desires to sell the Property, the Lender shall have the right of first offer to purchase the Property.
- C. Budget Approval:** During the term of the Loan, Borrower shall submit to Lender quarterly operating statements and annual operating and capital budgets for the Property for Lender's review and approval.
- D. Lease-up Guarantee:** The Borrower shall execute a guarantee of Cash Flow Deficits from the Property. The term "Cash Flow Deficits" shall mean the excess of (a) interest payments based on actual scheduled interest paid at pay rate and actual operating and approved capital expenses for the Property over (b) revenues actually collected from the Property. The liability of the guarantee shall terminate upon the earlier to occur of (a) three consecutive months of annualized gross income greater than \$1,900,000 or (b) 24 months following initial funding.
- E. Due on Sale:** Neither the Property nor any interest in the borrowing entity may be sold or otherwise transferred without Lender's prior written consent.
- F. Management:** A management company satisfactory to Lender shall be designated by the Borrower as the Property Manager and shall be entitled to earn a market management fee. The management fee of 4.25 percent will include all general and administrative items.
- G. Condominiums:** Lender will have the right to approve conversion to, and sale of, the Property as condominiums.

**Contingencies**

The Commitment shall have the following contingencies:

**A. Engineering:**

The Borrower will engage an engineer approved by Lender to review the plans and specifications for the Property and perform regular inspections during the construction period of the Property. Lender reserves the right to review and approve the scope and substance of the engineering study. The cost of the engineering study will be paid for by the Borrower. Lender must be satisfied with the results of the engineering study.

**B. Tri-Party Agreement:**

Execution of an acceptable Tri-Party Agreement among Lender, Borrower, and the Interim Lender within ninety (90) days after Borrower's acceptance of the Commitment.

**C. General Contractor:**

Rosewood Construction is solely approved to be the general contractor for the proposed development.

**D. Appraisal:**

Receipt of an appraisal of the Property from an MAI appraiser approved by Lender stating that the market value of the Property assuming stabilized occupancy is at least \$15,100,000.

**E. Environmental Report:**

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

**F. Partnership Documents:**

Approval by Lender of the Partnership Agreement of Borrower.



Mr. E. Ted Yoch  
December 1, 1988  
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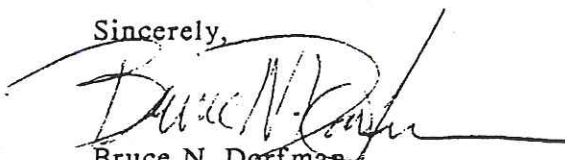
G. Other

Contingencies:

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

If the terms outlined in this letter are acceptable, please sign below and return this letter together with an application fee in the amount of \$50,000. The application fee should be wired to a custodial account. Please call me for wiring instructions. The application fee shall be refundable only if the Lender does not issue a Commitment according to the terms set forth in this letter, in which event Lender shall return the application fee within three (3) business days. If you accept the Commitment, the application fee will be applied to the cash portion of the Commitment Fee. The terms set forth in this letter shall expire if you do not accept and return a signed copy of this letter and wire the application fee by December 2, 1988. You understand that this letter is only an outline of the general terms and conditions of a Commitment and it is not a binding contract for the parties to enter into a Commitment until the time that Lender's Investment Committee approves this transaction.

Sincerely,

  
Bruce N. Dorfman  
Regional Acquisition Manager

Accepted:

By: 

  
Date

  
Title

Conditional Acceptance attached as Exhibit B.

## Exhibit A

### CALCULATION OF ANNUALIZED EFFECTIVE GROSS INCOME

When calculating effective gross collected income for the economic earnout or final participation rate, income will be based on effective rents (net of all concessions, gifts, etc.) and non-refundable fee income will be pro-rated over the term of the lease. Effective rent for individual leases will be calculated as follows:

#### Individual Lease Calculation

<u>Line</u>	<u>Example</u>	
1	Contract Rent for Lease Period (\$750 x 12 mos.)	\$9,000
2	Plus: Application Fee	+ 25
3	Plus: Non-Refundable Fees or Deposits	+ 200
4	Less: Free Rent or Other Concessions from Contract rent in (2 weeks x \$750/month)	- 375
5	Less: Actual Cost of Gifts, Premiums or Services	- 50
6	Less: Cash Bonuses	- 100
7	Equals: Actual Rent for Lease Term	\$8,700
8	Divided By: Lease Term in Months	
9	Equals: Effective Monthly Rent	\$ 725

#### Project Income Calculation

	Total Effective Monthly Rent from Leases in Effect During Preceding Quarter
Plus:	Other Income Approved by Lender
Less:	Bad Debts
Equals:	Effective Quarterly Gross Collected Income
Times:	4
Equals:	Annualized Effective Gross Collected Income

Standard Lease Forms will include the following:

- Initial lease term not less than six months nor greater than 12 months;
- Security deposits not less than one-half month's rent;
- Stipulate any rent concessions, gifts or inducements given;
- Stipulate first month's rent payments net of all fees and deposits.

Standard Lease Forms will prohibit:

- Automatic refund of security deposit;
- Options for renewal of any kind;
- Occupancy of a unit without a lease in force (early occupancy).





## II. THE PROPERTY

## II. THE PROPERTY

### A. INTRODUCTION

The Alden Pond project consists of 213 townhome style apartment units that will feature "subdivision" quality construction, a complete amenity package and offer prospective renters the "identity" of home ownership. The project is located in the northwest quadrant of the intersection formed by Pilot Knob Road, Yankee Doodle Road and Interstate 35 East in the Minneapolis, Minnesota suburb of Eagan (see Exhibit II-1). Eagan is Minnesota's fastest growing city due to improvements to the area's highway infrastructure that have enhanced its accessibility to the major office markets of Minneapolis, St. Paul and the Interstate 494 corridor. The project is also within minutes of the Minneapolis/St. Paul International Airport and the proposed 1.5 million square foot Mall of America.

### B. LOCATION

#### 1. Neighborhood Demographics

Eagan is located in the Twin Cities seven county metropolitan area. The 16th largest metropolitan area in the United States is home to over two million Minnesota residents. It has also become the economic hub of the Upper Midwest with a well-diversified economy composed of large agricultural, financial, insurance, manufacturing, technology, education and government sectors.

Eagan is the Twin Cities' fastest growing municipality and is located in the fastest growing county in the State. Eagan's population has doubled to 42,556 people since 1980. Additionally, between 1980 and 1987 Eagan's median family income increased 53 percent to \$39,264; the highest increase of median family income in the Twin Cities. This compares very favorably to the State average of \$30,547. During this same period the number of households in Eagan increased by 229 percent illustrating the desirability of this area for families.

Eagan's growth was triggered by the completion of the I-494 bridge and Cedar Avenue Bridge in the early 1980s and the extension of I-35 East in 1986 which allowed direct access from Eagan to the business centers in Minneapolis, St. Paul and along the I-494 corridor (see Exhibit II-2). As residential growth occurred south and west of I-494 into upper income areas (e.g. Minnetonka, Eden Prairie and Bloomington) and to several middle class communities south of the Minnesota River (e.g. Burnsville and Apple Valley), Eagan's more central location, rolling hills and scenic vistas attracted both upper and middle class residents. Furthermore, its proximity to both the airport and the freeway system promoted significant commercial development by major developers including Trammell Crow, Opus and United Properties. The accessibility of Eagan to both executives, professionals and a large labor base has also attracted a number of world and regional headquarters of Fortune 500 companies including Northwest Airlines, Unisys, Coca Cola and Blue Cross/Blue Shield of Minnesota. Eagan is poised for continued economic and residential growth due to the expansion and movement of companies and residents to this City.

## 2. Accessibility

Alden Pond is centrally located adjacent to the southern portion of the I-494 loop. This location provides convenient access northwest via I-35 West to downtown Minneapolis and northeast via I-35 East to downtown St. Paul. Both business centers are within a 20 minute commute. The subject property is within minutes of the I-494 office market which extends west from Eagan through Bloomington, Edina, Eden Prairie and Minnetonka. The subject property is also ten minutes away from the Minneapolis/St. Paul International Airport and from the site of the 1.5 million square foot Mall of America which is scheduled to begin construction in the Spring of 1989 (see Exhibit II-3).

Access from the subject property to the freeway system allows residents to avoid rush hour congestion by offering several points of egress. Alden Pond is located on Coachman Road approximately one-half mile from Yankee Doodle Road, which provides a direct route to I-35 East (northbound) and to Highway 13. Highway 13 connects the site to Cedar Avenue (Highway 77) which intersects I-494 eight miles from the site. Additionally, Yankee Doodle intersects Pilot Knob Road within one mile of the site. Pilot Knob links I-494 two miles to the north of this intersection and I-35 East (southbound) a quarter mile south of Yankee Doodle. Yankee Doodle and Pilot Knob are also commercial and retail corridors on which several strip centers, office parks and restaurants are located. The most significant of these retail centers is the 200,000 square foot Eagan Town Centre situated less than one mile from the project, which will be expanded to 500,000 square feet when fully developed (see Exhibit II-4).

## 3. Adjacent Land Uses

Alden Pond is surrounded by various land uses, several of which increase the amenities that the project can provide residents. In particular, an 11-acre City owned and maintained park adjoins the subject property along its southern border. The park features a hockey rink, baseball field, warming house and a children's play area. To the east of the project is the scenic, well-landscaped 225-acre Unisys corporate campus. The remainder of the area surrounding the site is fully developed with multi-family housing projects. These include the 200-unit Woodridge Apartments, the 220-unit Coachman Oaks Condominiums and 20 four-unit buildings that are all owner occupied. Rosewood Corporation, the developer of Alden Pond Apartments, developed and marketed the latter two projects.



### C. THE SITE

The 27.5-acre rectangular site will be improved with 213 units, creating a relatively low density project with 7.75 units per acre. Although the site is zoned for higher density, four-story multi-family housing, the developer of this project received a zoning variance to allow for the construction of more heavily demanded townhome units. The site is also quite hilly and rises 35 feet from Coachman Road. This elevation provides the project with not only "marketing" exposure from both Pilot Knob and Yankee Doodle Roads, (the two most heavily travelled thoroughfares in this area), but will also provide the majority of the units with picturesque views. The site work will feature extensive landscaping incorporating a two-acre pond on the southeast corner of the property.

### D. THE IMPROVEMENTS

The Alden Pond project will be composed of 157 two-bedroom, 1.5 bath, two-story units and 56 three-bedroom, two bath, single story units (see Exhibit II-5). The units will be contained in 28 wood framed buildings featuring Cape Cod style architecture with peaked roofs, gables and maintenance free insulated aluminum siding. Although each building will have six or eight units, each unit will have its own separate entrance, separate one car attached garage and separate back patio. This design allows for the creation of a community of zero lot line homes that offers the "identity" of home ownership to residents that is not available in apartment buildings. Additionally, this design reduces the common area in the project and related expenses. It also allows for each unit to be separately metered for electricity, heat (gas), water and sewer, further reducing operating costs. More importantly, the townhome design provides the flexibility and ease of converting the project to "for sale" townhomes.

The units will feature quality craftsmanship and materials throughout. Each unit will have a fireplace, washer/dryer, central heat and air conditioning, vaulted ceilings, European style cabinetry and marble trimmed baths with separate showers trimmed with ceramic tile. The attached garages will also feature electric door openers, a storage area and an entrance directly into the unit. The units will be larger than comparable rental units located in Eagan with the two bedrooms containing 1,160 square feet and the three bedrooms containing 1,220 square feet (see Exhibits II-6A and II-6B). Alden Pond Apartments will also provide tenants with a clubhouse, pool, tennis court and five "tot lots" to appeal to the targeted family rental market.

*High*

#### E. PROJECT BUDGET

The project budget for Alden Pond is \$12,840,000 or \$60,281 per unit and is detailed in Exhibit II-7. The developer's low land basis in the site, which it purchased in 1977, allows for the construction of these units at a cost competitive with other projects in the market, while offering significantly more amenities and a lower density. The project budget has been negotiated without a development fee which encourages performance in operation of the project, the only source of development income for the Borrower, and reduces the cost of these units.

#### F. CONCLUSIONS

Alden Pond is a very well conceived project for a number of reasons. First, it is well located in a rapidly growing community and is designed to appeal to the market (i.e. young families) that has been historically attracted to Eagan. Second, the construction and amenities will feature quality craftsmanship and materials and, with respect to the development budget, the units are being built very economically. Third, the townhouse design of the project is not only very desirable in this market, but also reduces the operating expenses for the subject property. Furthermore, the townhouse design increases the universe of potential buyers of Alden Pond because the project can either be sold in whole to an institutional investor or converted and sold as townhomes.



Exhibit II-1

Regional Location Map

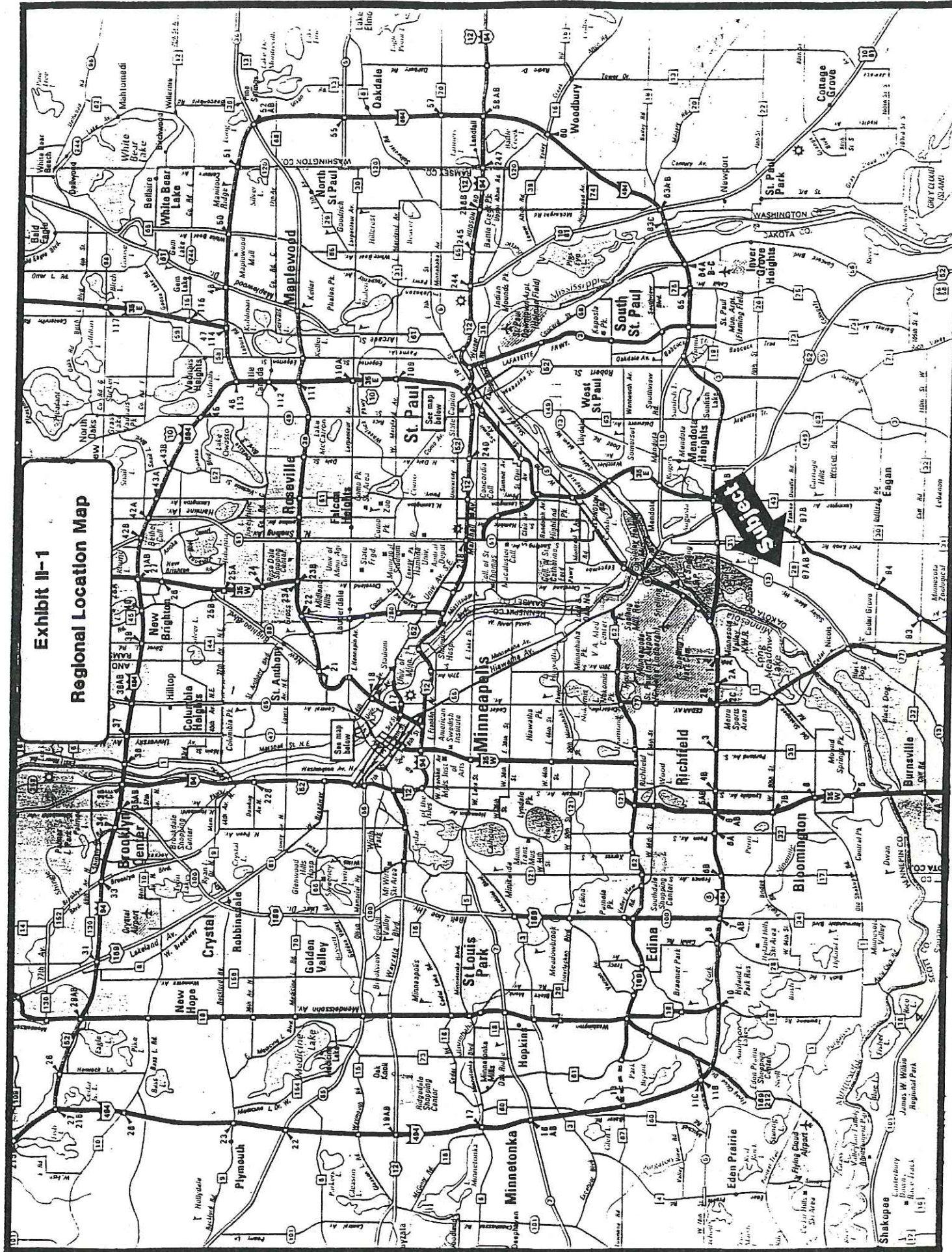




Exhibit II-2

SITE VICINITY MAP

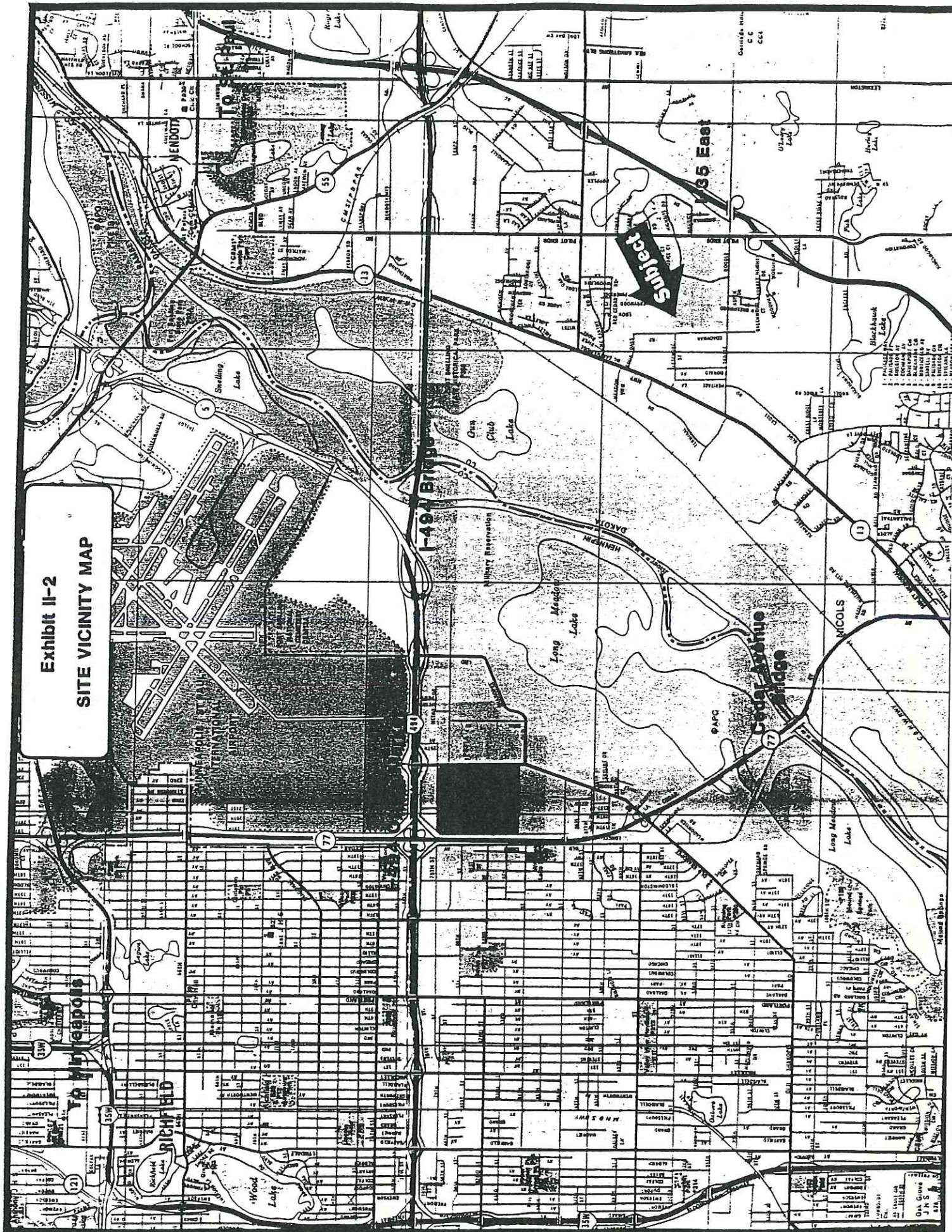




Exhibit II-3  
SITE ACCESS MAP

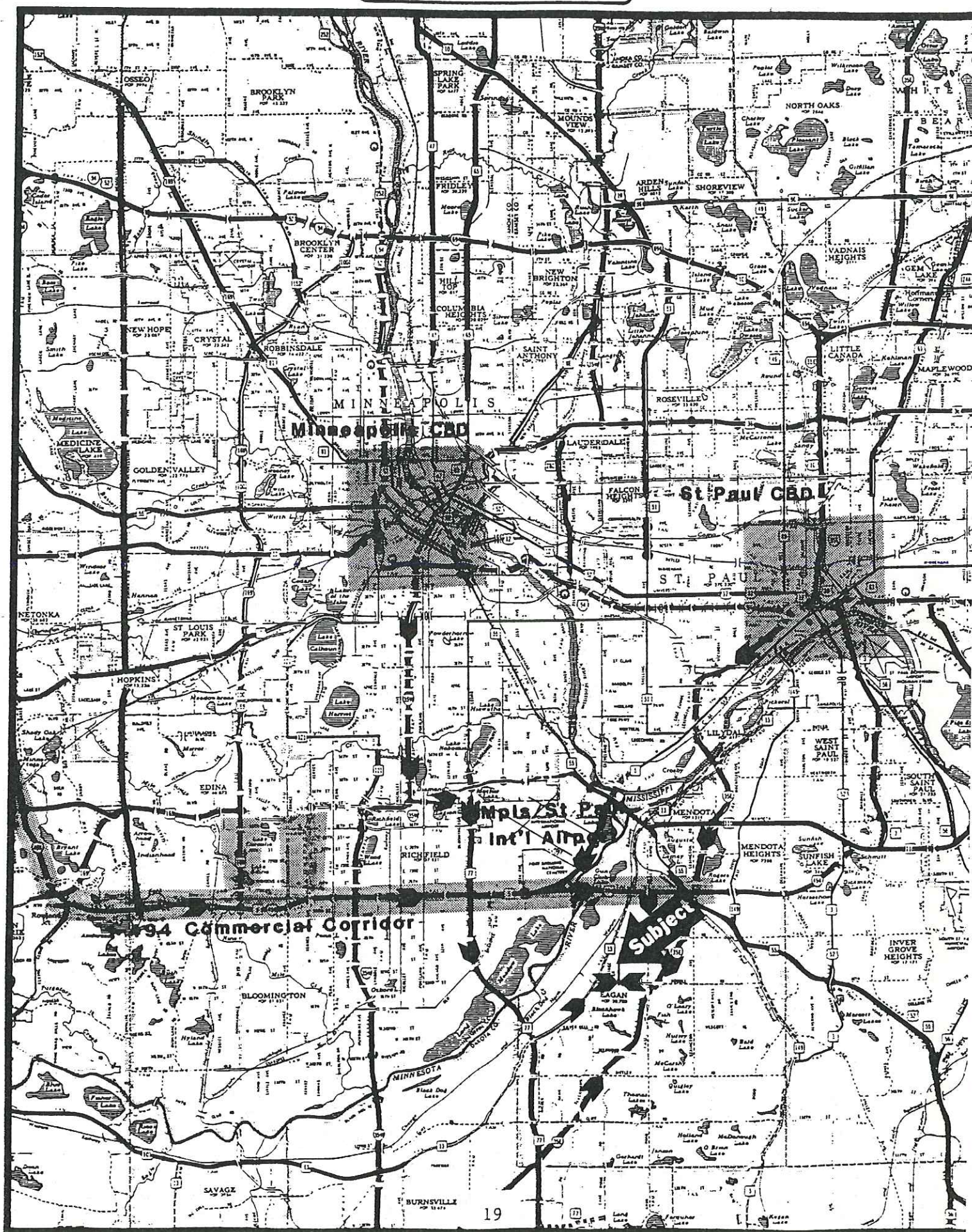
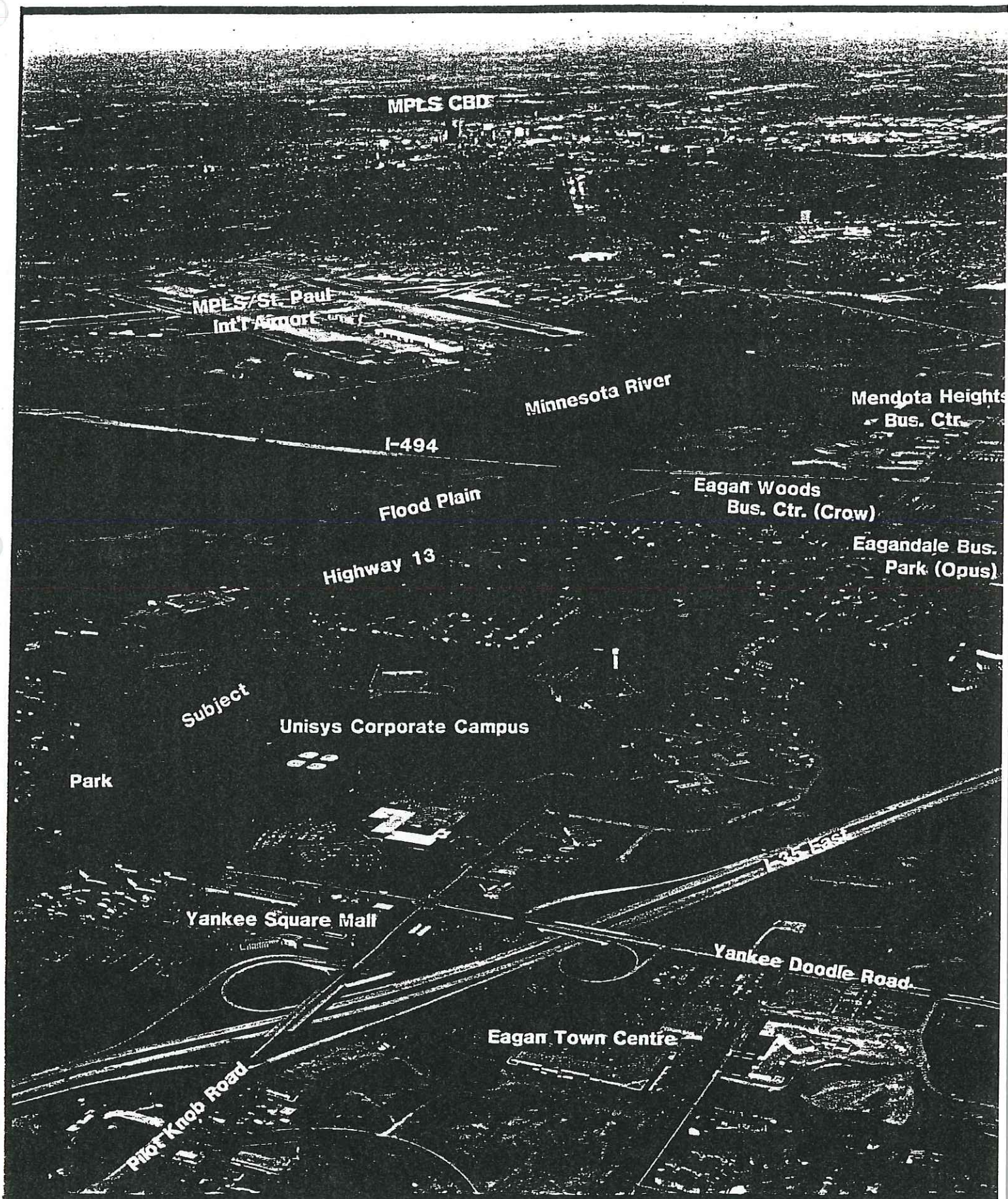


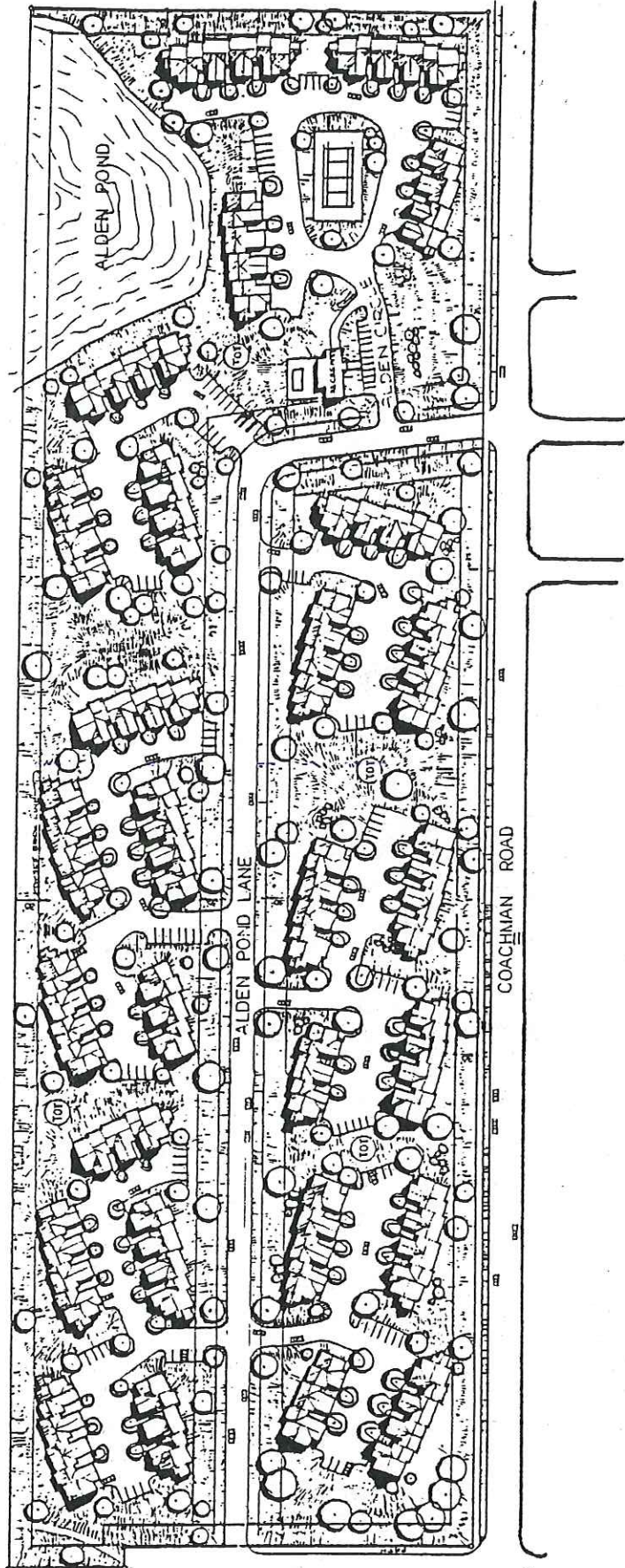


Exhibit 11-4  
AERIAL

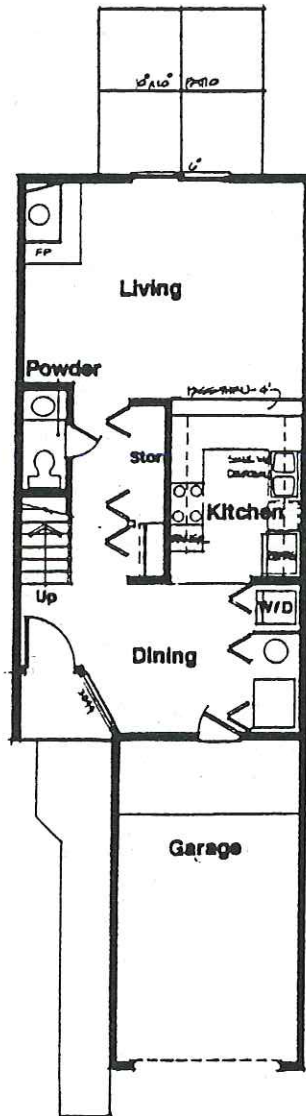




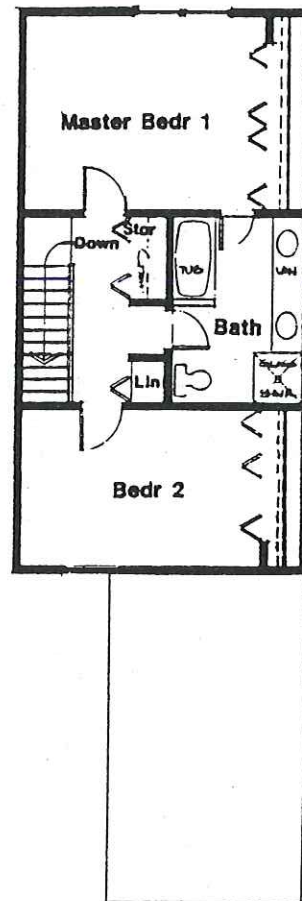
**Exhibit 11-5  
SITE PLAN**



**Exhibit II-6A**  
**TWO-BEDROOM FLOOR PLAN**



**First Floor**



**Second Floor**

Exhibit II-6B  
THREE-BEDROOM FLOOR PLAN

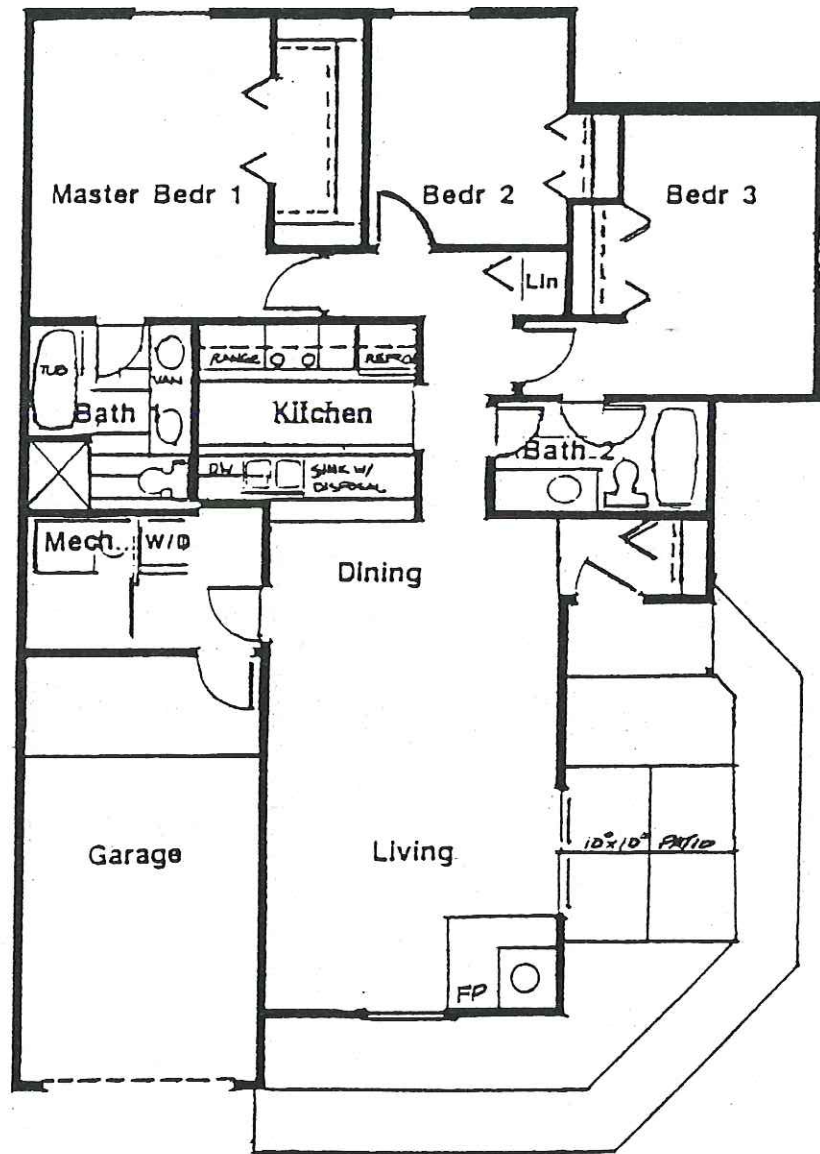




Exhibit II-7  
PROJECT BUDGET

			<u>\$/Unit</u>
Land	\$ 875,000		
Offsite Improvements	<u>35,000</u>		
Total Land Costs		\$ 910,000	\$ 4,272
Hard Costs:			
General Requirements	\$ 440,635		
Site Work	965,345		
Concrete	678,130		
Metals	724,449		
Carpentry	2,031,124		
Thermal and Moisture Protection	145,000		
Doors and Windows	269,350		
Finishes	1,407,603		
Specialties	238,594		
Equipment	200,000		
Mechanical	1,163,142		
Electrical	577,400		
Utilities, Curbs & Street	640,229		
Construction Management	314,000		
Recreation Center	150,000		
Contingency	<u>60,000</u>		
Total Hard Costs		\$10,005,000	\$46,972
Soft Costs:			
Architect & Engineer	\$ 119,000		
SAC/WAC	122,000		
Hook Up Fees	196,000		
Taxes & Assessments	38,000		
Mortgage Registration Tax	25,000		
Platting Fee	5,000		
Title Insurance	10,000		
Survey	10,000		
Misc. Closing Costs	3,000		
Soil Testing	15,000		
Builders Risk Insurance	22,000		
Legal Fees	25,000		
Appraisal & Market Study	7,000		
Advertising & Marketing	165,000		
Finance Fees	385,000		
Major Sub Contractor Bonds	120,000		
Park Dedication	85,000		
Construction Interest & Carry	<u>573,000</u>		
Total Soft Costs		\$ <u>1,925,000</u>	\$ <u>9,037</u>
Total Development Costs		\$ <u>12,840,000</u>	\$ <u>60,281</u>

Source: Rosewood Corporation;  
Eberhardt Commercial Real Estate;  
Piedmont Realty Advisors.

### III. THE MARKET OVERVIEW

### III. THE MARKET OVERVIEW

#### A. INTRODUCTION

The Twin Cities metropolitan area, with a population of over 2.2 million (see Exhibit III-1), is the 16th largest SMSA in the United States. Comprised of seven counties, the Twin Cities area has experienced continual population growth and has grown by nearly 11 percent since 1980. However, the region has experienced two significant changes over the past 20 years that impacted the direction of this growth. The first has been the completion of several highway projects that have greatly increased the accessibility of previously isolated areas. The second has been the residential movement of executives and professionals, as well as the corporate relocation of several firms, from downtown to suburban addresses. These changes have directly benefitted the City of Eagan and Dakota County, which have become the fastest growing city and the fastest growing county in Minnesota. Moreover, this population growth trend is projected to continue through the year 2000.

The economic outlook for the Twin Cities area continues to be bright due to this region's strong and diversified economy. Home of 17 Fortune 500 industrial firms, the Twin Cities is the fourth largest corporate headquarters center in the United States (see Exhibit III-2). The area is also home to 13 Fortune 500 service companies, the Federal Reserve Bank's Upper Midwest district office, the largest self-contained university campus in the country (The University of Minnesota), and St. Paul, the capital of Minnesota and the hub of state government. Eagan and Dakota County exemplify this economic strength by exhibiting the SMSA's highest growth in job formation according to the Metropolitan Council for the Twin Cities area. Augmented by the movement to Eagan and expansion of several large firms including Northwest Airlines, Unisys, Blue Cross/Blue Shield and Coca Cola (see Exhibit III-3), the number of jobs in Eagan has increased by over 125 percent since 1980 to approximately 20,000. This employment base is projected to increase to 27,000 jobs by the year 2000.

#### B. TWIN CITIES APARTMENT MARKET

##### 1. Overview

The vacancy rate in the Twin Cities apartment market has increased from 1.3 percent in 1984 to 6.7 percent in 1988 (see Exhibit III-4). Although the net absorption during this time period has fluctuated around 7,200 units per year, the supply has risen steadily, with the exception of 1987. In 1988 nearly 11,000 units were introduced to the market. The primary cause for this significant rise in supply were the tax-exempt bond financing programs that were extremely popular in the mid-1980's. These programs provided below market interest rate financing for multi-family housing projects, but lost favor with the enactment of the Tax Reform Act of 1986 and other onerous legislation. Subsequently, many developers that "parked" bonds in 1985 before the deadline, were forced to commence construction of their projects by the end of 1988 or possibly lose the low cost financing. Thus, many projects were brought to market for the sole purpose of retaining this source of funds.



It is anticipated that the supply of new apartment units will fall considerably as (1) the tax-exempt bond financing projects are completed and this source of funds is depleted and (2) developers find that fewer apartment projects can produce cash flow at higher interest rates. This trend can be evidenced as the apartments currently under construction and proposed for future development in Dakota County are down 29 percent and 39 percent, respectively, from 1988 levels. Additionally, the net apartment absorption during 1988 in Dakota County is greater than the number of units under construction for 1989 introduction (see Exhibit III-5).

## **2. The "South of the Minnesota River" Market**

Historically, the Eagan, Burnsville and Apple Valley apartment markets (i.e. the markets south of the Minnesota River) were considered less desirable than the north of the river communities such as Bloomington and Eden Prairie. However, the recent completion of the improvements to I-494, Cedar Avenue and I-35 East have made the south of the river markets, especially Eagan, much more accessible. This accessibility combined with the rush hour congestion on I-35 West, which is a primary artery to access many projects in Bloomington, has greatly enhanced the market acceptance of projects to the south. In fact, since 1985 Eagan's average absorption has been greater than Bloomington's (507 units per year versus 489 units) even though Eagan's apartment inventory is 50 percent smaller (see Exhibit III-6).

## **C. COMPETITIVE MARKET**

The competitive apartment market consists of quality rental units, the majority of which are of the townhome style. Three-story elevator serviced buildings with underground garages are considered less desirable by the rental market because of the greater convenience and image offered by townhomes. Trammell Crow's 500-unit Devonshire Gates, which has both three-story apartment buildings and "cluster-homes" (an upper flat with a separate entrance and attached individual garage underneath the unit), is receiving a 10 to 20 percent rental premium for the cluster-homes even though the tenants have to pay for their own heat (which averages approximately \$50 per month). Crow's two bedroom cluster homes are the most comparable in the market to Alden Pond in terms of quality, but the project is not oriented towards family residents. Crow is currently renting its two bedroom units for \$782 to \$837 per month, which compares favorably to the rental rate of \$765 per month projected at Alden Pond. These units range in size from 1,080 square feet to 1,240 square feet versus 1,160 square feet at Alden Pond (see Exhibit III-7). Devonshire Gates, which was first opened for tenancy in November of 1987, has been leasing an average of 35 units per month. Crow is currently offering a "winter special" of one month free rent on a 12-month lease. It should be noted that due to the extreme Minnesota winters, winter specials are frequently provided by landlords during the initial lease-up to maintain leasing momentum.

The two competing projects in Eagan are both luxury three-story apartment projects. These projects, the 206-unit Carriage Green and 216-unit Thomas Lake Point, performed extremely well having rented an average of 20 to 30 units per month during their initial lease-up. The Thomas Lake project is particularly scenic, although remote, and has renewed approximately 80 percent of its tenants upon lease expiration. These projects' ability to rent at rates ranging from \$740 to \$765 per month for two-bedroom units and from \$900 to \$930 per month for three-bedroom units (versus \$765 and \$850 per month projected for Alden Pond) confirms the proforma rental rates for the subject property which will be completed in the first quarter of 1990. Also the occupancy of the competitive three-bedroom units is currently 100 percent providing further indication of market demand for this product type.

#### D. CONCLUSIONS

Eagan is the emerging apartment market in the southern Twin Cities area as evidenced by its strong population growth, high annual apartment absorption and relatively low vacancy rate. The proximity of Eagan to the proposed Mall of America, several large office/industrial developments and the Minneapolis/St. Paul Airport will offer it constant regional exposure and growth opportunities. Additionally, the anticipated reduction in the supply of new units will positively impact apartment vacancies and rental rates marketwide.

Alden Pond is well positioned to capitalize on a proven multi-family rental niche in the Twin Cities area that is not yet addressed in Eagan--quality townhomes. The projected rental rates of \$765 and \$850 per month for the subject property's two and three-bedroom units, respectively, are supported by rents currently being achieved in the market. Also, the strong performance of several competitive projects during their initial lease-up indicates that Alden Pond should be well-received by the market.

Exhibit III-1  
POPULATION GROWTH TRENDS

	<u>Eagan</u>	<u>Dakota County</u>	<u>Twin Cities SMSA</u>
1960 Census	3,382	78,303	1,535,297
1970 Census	10,398	139,808	1,874,612
1980 Census	20,700	194,279	1,985,873
1988 Estimate	42,556	254,017	2,200,321
1990 Projection	(1)	(1)	2,204,000
2000 Projection	52,500	279,900	2,310,000

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(1) The 1986 growth projections for 1990 were exceeded in 1988 estimates.

Sources: Metropolitan Council of the Twin Cities Area;  
Minnesota Department of Energy and Economic Development;  
Piedmont Realty Advisors.



Exhibit III-2

FORTUNE 500 INDUSTRIAL AND SERVICE FIRMS  
HEADQUARTERED IN THE TWIN CITIES

FORTUNE 500 Industrial Corporations

<u>Company Name</u>	<u>National Ranking</u>	<u>Sales \$ Millions</u>	<u>Assets \$ Millions</u>
3M Company	37	\$ 9,429.0	\$ 8,031.0
Honeywell, Inc.	63	6,679.3	5,285.2
The Pillsbury Company	68	6,127.8	3,853.0
General Mills, Inc.	77	5,208.3	2,280.4
Control Data Corporation	125	3,366.5	2,638.6
Land O'Lakes	179	2,188.5	688.3
International Multifoods Corp.	228	1,533.4	644.7
Farmers Union Central Exchange (CENEX)	295	1,138.5	639.1
Economics Laboratory, Inc.	331	989.3	982.4
Deluxe Check Printing, Inc.	339	948.0	866.3
Bemis Company, Inc.	342	930.0	545.3
Minstar, Inc.	348	877.2	503.6
Pentair, Inc.	368	789.2	440.4
Cray Research	397	687.3	902.3
Jostens, Inc.	410	638.1	360.7
H.B. Fuller Co.	431	597.1	329.6
Medtronic	479	502.0	559.7

FORTUNE 100 Diversified Service Companies

Super Valu Stores, Inc.	1	9,371.7	2,016.2
Nash-Finch Company	36	1,919.5	352.2

FORTUNE 100 Commercial Banking Companies

First Bank System, Inc.	22	15,799.0	26,850.0 (1)
Norwest Corporation	31	13,643.8	20,747.0 (1)

FORTUNE 500 Savings Institutions

TCF Banking & Savings	27	3,369.8	5,858.3 (1)
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FORTUNE 50 Diversified Financial Services Companies

St. Paul Companies, Inc.	27	3,365.8	5,858.3
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Exhibit III-2 (Continued)

<u>Company Name</u>	<u>National Ranking</u>	<u>Sales \$ Millions</u>	<u>Assets \$ Millions</u>
<b>FORTUNE 50 Life Insurance Companies</b>			
IDS Life Insurance	18	1,536.9	8,963.4
Northwestern National Life Insurance	35	1,278.8	4,715.5
Minnesota Mutual Life Insurance	42	874.4	4,005.3
<b>FORTUNE 50 Retailing Companies</b>			
Dayton Hudson Corporation	9	10,677.3	6,075.5
<b>FORTUNE 50 Transportation Companies</b>			
NWA (Northwest Airlines)	10	5,142.2 (2)	4,219.5
Soo Line Corporation	32	613.1 (2)	921.9
<b>FORTUNE 50 Utilities</b>			
Northern States Power	48	1,770.3 (2)	4,401.2

- 
- (1) Deposits.  
(2) Operating revenues.

Source: FORTUNE, June 8, 1988;  
Greater Minneapolis Chamber of Commerce.

Exhibit III-3

MAJOR EMPLOYERS IN EAGAN

<u>Firm</u>	<u>Product/Service</u>	<u>Number of Employees</u>
Unisys	Computer Services	4,800
Blue Cross-Blue Shield of MN	Insurance	1,600
Northwest Airlines	Airline	1,283
West Publishing	Books Warehouse	870
Coca Cola Company	Beverage Distr.	800
U.S. Postal Service	Bulk Mail Service	750
UPS	Distribution Center	500
American Fruit & Produce	Fresh/Frozen Produce	300
Hoovestol	Trucking	204
MSA	Computer Software	200
Lull Engineering Company	Manufacturing	190
3M Corporation	Sales Division	163
Gresser, Inc.	Construction	160

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Source: Minnesota Department of Energy  
and Economic Development;  
Piedmont Realty Advisors.



Exhibit III-4

TWIN CITIES APARTMENT MARKET  
HISTORICAL ANALYSIS

<u>Year</u>	<u>Inventory (Units)</u>	<u>Occupied (Units)</u>	<u>Vacancy Rate</u>	<u>Net Absorption (Units)</u>	<u>Net New Construction (Units)</u>
1984	78,674	77,636	1.3%	N/A	N/A
1985	87,031	85,170	2.1%	7,534	8,357
1986	96,996	91,601	5.6%	6,431	9,965
1987	103,053	96,780	6.1%	5,178	6,057
1988	114,039	106,384	6.7%	9,604	10,986

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Source: The Apartment Guide;  
Piedmont Realty Advisors.

Exhibit III-5A

MULTI-FAMILY HOUSING MARKET  
MINNEAPOLIS/ST. PAUL METROPOLITAN AREA  
1988

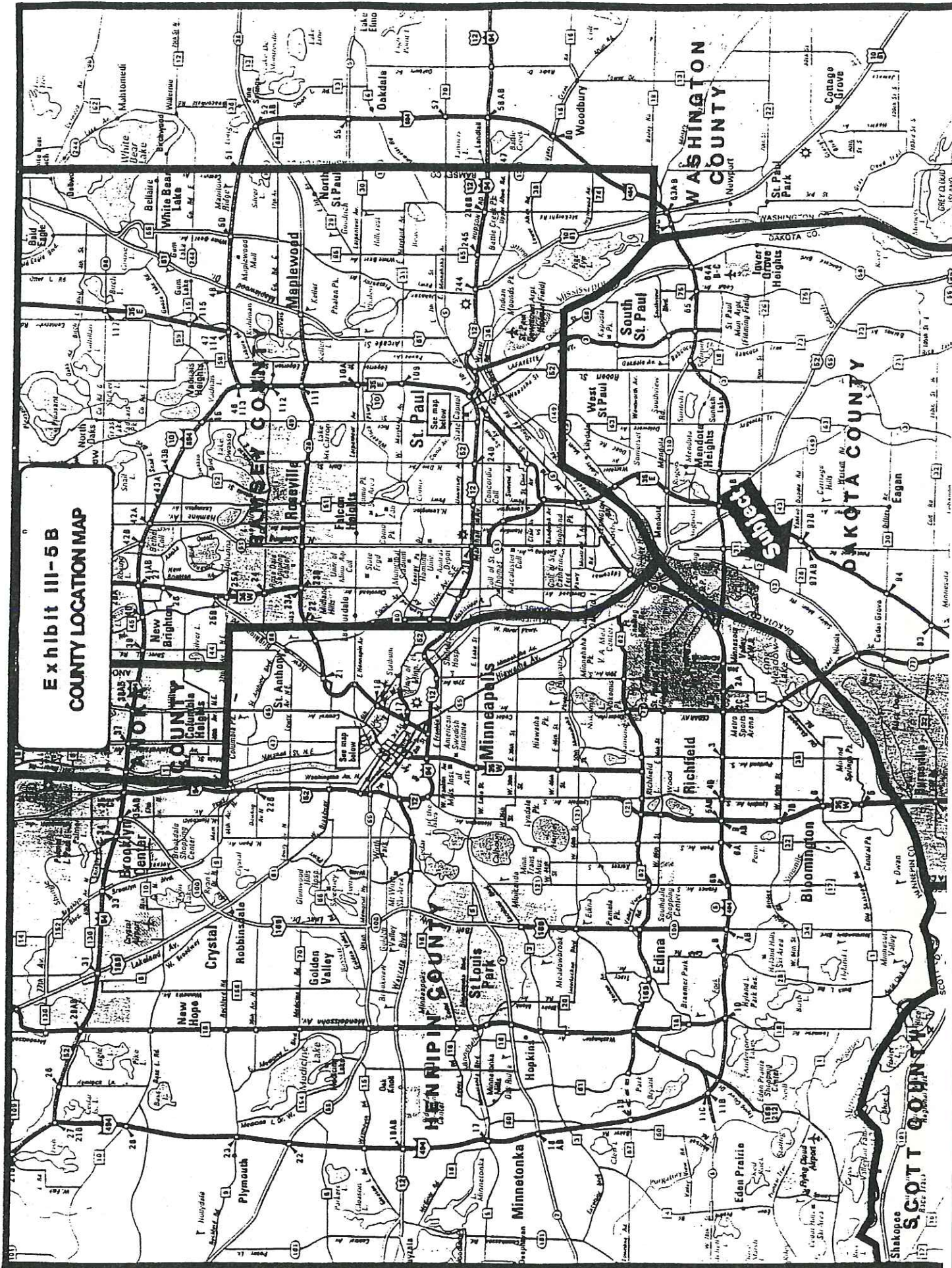
<u>County</u>	<u>Inventory</u>	<u>Occupied</u>	<u>Vacancy Rate</u>	<u>Net Absorption</u>	<u>Under Construction</u>	<u>Proposed Units</u>
Anoka	4,487	4,089	8.87%	985	767	1,074
Carver	718	670	6.69%	63	32	168
Dakota	15,799	14,816	6.22%	1,505	663	1,560
Hennepin	63,865	59,631	6.66%	5,091	5,340	3,090
Ramsey	26,215	24,486	6.60%	1,747	834	589
Scott	886	768	13.32%	166	100	0
Washington	<u>2,069</u>	<u>1,924</u>	<u>7.01%</u>	<u>47</u>	<u>99</u>	<u>242</u>
TOTAL	<u>114,039</u>	<u>106,384</u>	<u>6.71%</u>	<u>9,604</u>	<u>7,835</u>	<u>6,723</u>

Corresponds to Exhibit III-5B.

Source: The Apartment Guide;  
Piedmont Realty Advisors.



Exhibit III-5 B  
COUNTY LOCATION MAP





**Exhibit III-6**  
**COMPETITIVE MARKET**  
**ABSORPTION ANALYSIS**

Competitive Market	Annual Net Absorption				Current Inventory	Occupied	Vacancy Rate
	1985	1986	1987	1988			
<b>Apple Valley</b>							
Studio	-1	(10)	12	0	110	108	1.82%
1 Bedroom	44	(11)	32	(1)	250	244	6.15%
2 Bedroom	46	0	19	3	184	178	3.26%
3 Bedroom	(1)	(1)	1	20	81	79	2.47%
Total Absorption	90	(22)	64	22	635	609	4.09%
Vacancy Rate	1.09%	9.36%	3.14%	4.09%			
<b>Bloomington</b>							
Studio	23	16	2	17	228	224	1.75%
1 Bedroom	64	115	255	338	3,514	3,322	5.46%
2 Bedroom	70	128	340	555	3,159	2,892	8.45%
3 Bedroom	(5)	24	5	9	260	256	1.54%
Total Absorption	152	283	602	919	7,161	6,694	6.52%
Vacancy Rate	1.95%	13.38%	5.90%	6.52%			
<b>Burnsville</b>							
Studio	2	15	26	(1)	127	117	7.87%
1 Bedroom	28	102	485	95	2,179	2,018	7.39%
2 Bedroom	52	421	370	243	2,805	2,568	8.45%
3 Bedroom	-2	20	75	27	348	321	7.76%
Total Absorption	80	558	956	364	5,459	5,024	7.97%
Vacancy Rate	1.75%	10.73%	5.45%	7.97%			
<b>Eagan</b>							
Studio	(12)	1	(1)	7	109	108	0.92%
1 Bedroom	193	24	203	235	1,741	1,640	5.80%
2 Bedroom	207	222	385	386	2,395	2,214	7.56%
3 Bedroom	36	96	16	29	440	423	3.86%
Total Absorption	424	343	603	657	4,685	4,385	6.40%
Vacancy Rate	2.46%	5.56%	7.00%	6.40%			
<b>TWIN CITIES METROPOLITAN AREA</b>					114,039	106,384	6.71%
Total Absorption	7,534	6,431	5,178	9,604			
Vacancy Rate	2.14%	5.56%	6.09%	6.71%			

**Sources:**

Apartment Guide;  
Piedmont Realty Advisors.



**Exhibit III-7 A**  
**COMPETITIVE MARKET SURVEY**  
**TWO-BEDROOM APARTMENTS**

Project	Year Built	Monthly Rent	Square Feet	PRICE		AMENITIES										FACILITIES			
				Rent/SF.	Utilities Paid By Owner	Occupancy	Tonhose	Baths	N/D	Dish	Refrig.	Disposal	Microwave	FP	Vaulted Ceilings	Indoor Garage	Exercise Room	Tennis	Pool
1. Berkshire Burnsville	1986	\$599 (1)	1035	\$0.58	NONE	100%	Y	1.5	Y	Y	Y	Y	Y	N	N	Y	N	N	Y
2. Carriage Green Eagan	1987	740	1045	0.71	H/N	98%	N	2	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
3. Thomas Lake Pointe Eagan	1987	765 (1)	1110	0.69	N	99%	N	2	Y	Y	Y	Y	Y	Y	N	Y	Y	N	Y
4. The Atrium Burnsville	1987	780	1068	0.73	H/N	N/A	N	2	Y	Y	Y	Y	N	Y	N	Y	Y	Y	Y
5. Devonshire Gates Bloomington	1987	835 (1)	1238	0.68	N	90%	Y	2	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
6. Bristol Bloomington	1988	815	1375	0.59	N	100%	Y	1.5	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y
* Alden Pond (Subject) Eagan	1990	765	1160	0.66	NONE	N/A	Y	1.5	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y

1-6 correspond to Exhibit III-7C.

H= Heat  
W= Water/Sewage

(1) Rental rate is an effective rate calculation and reflects the one month "winter special" concession of the developer.

Sources: Eberhardt Commercial Real Estate;  
Miller & Schroeder Financial, Inc.;  
Piedmont Realty Advisors.

**Exhibit III-7 B**  
**COMPETITIVE MARKET SURVEY**  
**THREE-BEDROOM APARTMENTS**

Project	Year Built	PRICE		AMENITIES										FACILITIES					
		Avg. Rent	Square Feet	Avg. Rent (per sq. ft.)	Utilities Paid	Occupancy	Townhouse	Baths	N/D	Dish	Refrig.	Disposal	Microwave	FP	Vaulted Ceilings	Indoor Garage	Exercise Room	Tennis	Pool
		(per unit)																	
1. Berkshire	1986	680	1195	\$0.57	NONE	100%	Y	2	Y	Y	Y	Y	Y	Y	N	Y	N	N	Y
2. Carriage Green	1987	930	1300	0.72	H/N	100%	N	2	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
3. Thomas Lake Pointe	1987	900	1500	0.60	N	100%	N	2	Y	Y	Y	Y	Y	Y	N	Y	Y	N	Y
6. Bristol	1988	835	1275	0.65	N	100%	Y	2	Y	Y	Y	Y	Y	Y	N	Y	Y	N	Y
* Alden Pond (Subject)	1990	\$850	1220	0.70	NONE	N/A	Y	2	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y

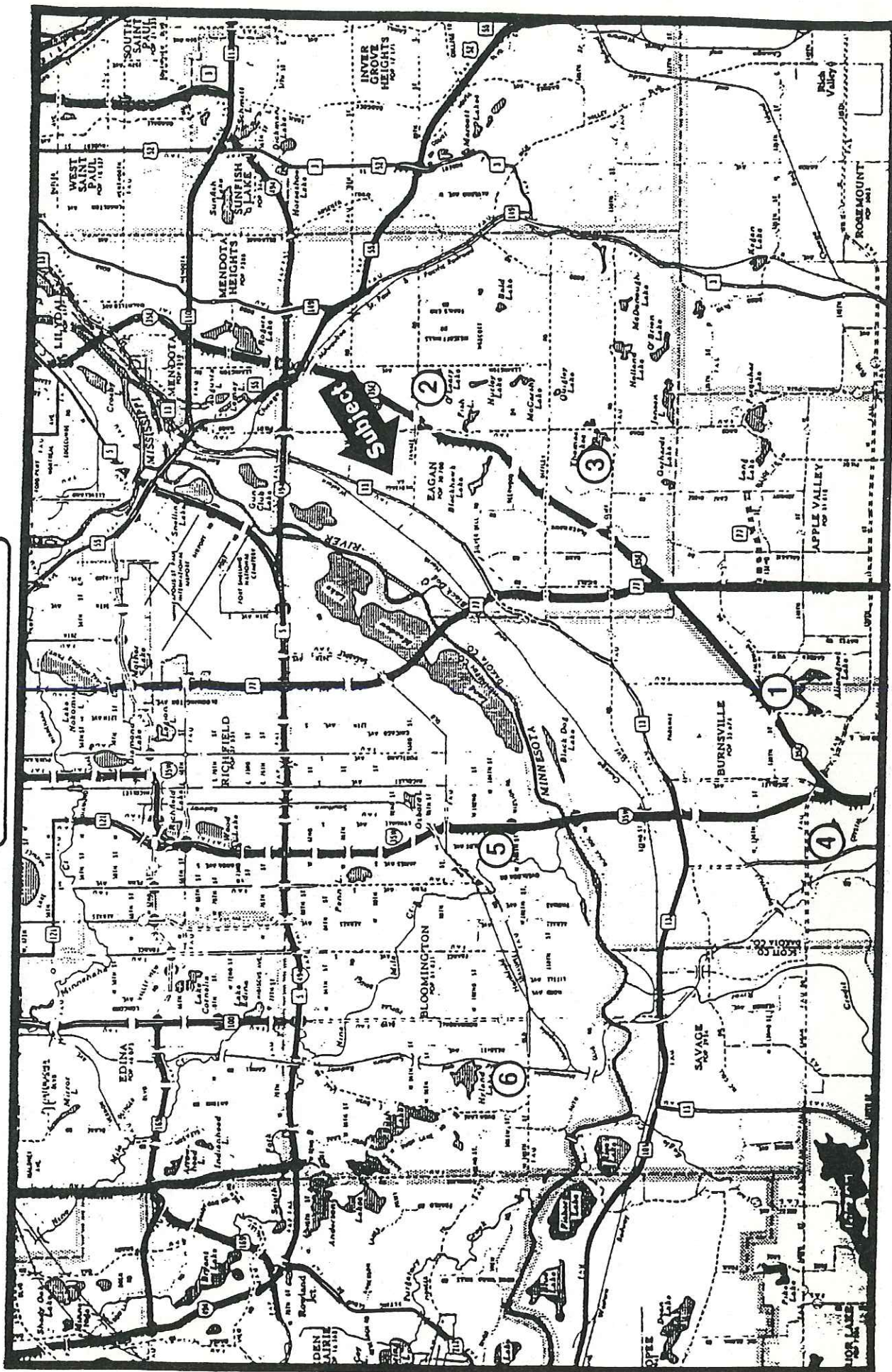
1-6 correspond to Exhibit III-7C.

H= Heat  
W= Water

Sources: Eberhardt Commercial Real Estate;  
Miller & Schroeder Financial, Inc.;  
Piedmont Realty Advisors.



Exhibit III-7C  
COMPETITIVE APARTMENT  
LOCATION MAP



#### IV. JOINT VENTURE PARTNER



#### **IV. BORROWER/PARTNER**

##### **A. INTRODUCTION**

Rosewood Corporation (Rosewood) is the developer of Alden Pond Apartments and will be responsible for the construction, marketing and operation of the property. Founded in 1967 by Ted Yoch and Ken Bureau, Rosewood is a local developer that has primarily focused its attention on development in the Twin Cities area. Through its various subsidiaries including Rosewood Construction, Reliance Property Management and Rosewood Properties, it has developed, constructed and managed in excess of \$150 million of real estate. This represents over two million square feet of commercial space and over 600 multi-family housing units. Rosewood has also developed a number of retail strip centers and warehouse projects and is currently exploring continued expansion into the Tampa Bay and Phoenix markets.

Rosewood has an established reputation as a successful developer. It has developed this reputation by analyzing and understanding a specific market and then pursuing opportunities in which there is little direct competition. Additionally, its knowledgeable and experienced staff has shown expertise in recreating proven development concepts at a lower cost than its competition. Pre-architectural planning of Alden Pond project started with a thorough investigation of the Twin Cities apartment market to determine the level of demand for various apartment designs, unit sizes, locations and amenities. Subsequently, Rosewood produced an appropriate strategy to capitalize on the current trends dictated by the market. This strategy, to develop quality townhomes targeted for families, is an example of Rosewood's ability to enter a proven niche that has few competitors.

##### **B. BORROWER/PARTNER**

###### **1. Organization**

The borrowing entity for Alden Pond is composed of a general partnership formed by the principals of Rosewood. These include:

E. Ted Yoch -	Co-founder, Chairman and Chief Executive Officer of Rosewood Corporation and its affiliates. Mr. Yoch is a graduate of Marquette University, a member of the Young President's Organization and a director of the Piper Jaffray Investment Trust.
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Kenneth J. Bureau -	Co-Founder, Secretary and Treasurer of Rosewood Corporation and its affiliates. Mr. Bureau is a Graduate of Northern Michigan University, a Certified Real Property Administrator and a member of BOMA.
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- Gary E. Nordness - Joined the Company in 1974 and is Chief Executive Officer of Reliance Property Management. Mr. Nordness is responsible for residential and commercial property operation and is a member of the NAIOP.
- Thomas L. Klingen - Joined the Company in 1982 and is Executive Vice President of Rosewood Properties. Mr. Klingen is a graduate of Arizona State University, a member of NAIOP and is responsible for real estate development.
- A. Peter Hilger - Joined the Company in 1983 and is President of Rosewood Construction. Mr. Hilger graduated with a B.S. from Georgia Institute of Technology and received a Masters in Architecture from the University of Oregon. He is responsible for construction management activities.

The partners have a combined net worth exceeding \$16 million.

It should be noted that Rosewood's staff has several individuals involved with Alden Pond who have extensive apartment development experience. Pete Hilger, President of Rosewood Construction, and Steve Swanson, Alden Pond Project Manager, have independently constructed over 7,000 apartment units and approximately 2,500 units together.

### C. BORROWER/PARTNER TRACK RECORD

#### 1. Previous Experience

Rosewood is very familiar with both apartment development and condominium conversions in Eagan, having executed this strategy on two other projects. The 220-unit Coachman Oaks Condominiums, which are located across Coachman Road from Alden Pond, were constructed by Rosewood as apartments in 1979 and were subsequently marketed for sale in 1982. Due to the deterioration of the Twin Cities condominium market in late 1983 and 1984, only 50 percent of the units were sold. However, these units were sold at prices ranging from \$85,000 to \$95,000 per unit for condominiums that were inferior in quality and design to those planned for Alden Pond. Rosewood has managed the rental of the remaining units, all of which are currently leased. It is anticipated that because of the adjacent locations, Coachman Oaks and Alden Pond will share property management and leasing staffs--further reducing the operating costs at Alden Pond. Rosewood also developed and sold 80 "quads" (four units to a building) at the end of Coachman Road in 1982. These sold for an average price of \$85,000 per unit.



Rosewood's most notable office projects include two downtown Minneapolis renovations, the 225,000 square foot Soo Line Building and the 150,000 square foot Renaissance Square, and the 250,000 square foot Paramount Plaza Office Park, in Bloomington, Minnesota. The Renaissance Square renovation illustrates this developer's commitment to quality. Located on Nicollet Mall, the project was awarded the NAIOP "Office Renovation of the Year Award" in 1984 and has consistently maintained occupancy levels exceeding its competition.

#### **D. CONCLUSION**

Rosewood Corporation, the Borrower for this transaction, has been successful by being a market-driven developer. The Alden Pond Apartments project illustrates this as Rosewood has extensively analyzed the Twin Cities apartment market to design this project, to determine the desired amenities, and to establish a marketing strategy. It is also very committed to the success of Alden Pond having both contributed the land to the development partnership at a below-market basis and agreeing to realize a development "profit" solely through the operation of the property (i.e. no development fee has been budgeted).

## V. RISK AND RETURN



## V. RISK AND RETURN

### A. DEAL STRUCTURE

#### 1. Introduction

The proposed investment involves USF&G providing the permanent financing for Alden Pond Apartments in the form of a participating first mortgage with a 15-month forward commitment. The participating mortgage is structured to provide USF&G with a 10.25 percent coupon rate, a 55 percent participation in both net cash flow and the residual proceeds from a sale and a two year debt service guarantee from the Borrower. Additionally, the mortgage incorporates an economic holdback, accrual feature and six-year call option to limit USF&G's investment risk and to provide the proper incentives to Rosewood to manage Alden Pond in an efficient and profitable manner.

#### 2. Special Deal Features

The proposed investment was structured with an accrual feature and phased pay rate for the first five years of the loan. The phased pay rate is 8.25 percent for the first two years and increases to 9.25 percent for the following three years. The pay rate after the first five years and until the loan is called or repaid is 10.25 percent, resulting in no further accrual after the fifth loan year. Accrued interest will compound monthly and the compounded difference between the coupon rate of 10.25 percent and the pay rate will be capitalized to principal annually. USF&G will receive 55 percent of the remaining cash flow after debt service is paid at the pay rate. Since this participation does not offset the accrued and unpaid interest on the loan, USF&G's yield is enhanced.

Because this transaction contemplates the possible conversion and sale of the project as condominiums, two conditions were incorporated into the mortgage to provide USF&G control of this process and to limit its exposure. First, USF&G has the right to approve the conversion as well as the marketing plan. Second, the Borrower must obtain an acquisition and conversion loan from an independent source to repay in full USF&G's principal balance. As condominium units are sold, USF&G will receive 55 percent of the net sales price less the third party loan basis in each unit. This condition eliminates the Lender's risk associated with an extended sales period, while still allowing USF&G to participate in the potential profits attributed to condominium conversions.

### 3. Investment Basis

The \$12,840,000 participating mortgage for Alden Pond is scheduled to fund in the fourth quarter of 1989 or the first quarter of 1990. The initial funding will be for \$12,198,000 and will occur upon the satisfactory completion of all of the buildings. Rosewood anticipates that the project will be 80 percent to 90 percent leased at initial funding as the townhomes will be built in phases. This allows the first units to be completed and marketed for occupancy in mid-1989 while the other units are under construction. This also eliminates the necessity for a cash flow deficit holdback as these will be funded as part of the construction loan. Thus, only an economic holdback of \$642,000 has been incorporated into this mortgage.

USF&G's investment basis in Alden Pond is \$60,281 per unit or \$51 per rentable square foot, which are the Borrower's actual costs in constructing and leasing the project. Rosewood is not receiving a fee for developing Alden Pond and if it does not earn the economic holdback, it will be investing its own funds into the project. In such a situation USF&G's investment basis would be reduced to \$57,267 per unit or \$49 per rentable square foot.

### B. VALUE ESTIMATE

#### 1. Proforma Income

The stabilized proforma for Alden Pond will occur during the third operating year when property taxes stabilize. All other expenses were inflated annually at five percent from the date of initial funding. It was assumed that income would grow at five percent after the project reached stabilized occupancy. This is projected to occur within six months of funding as the majority of the project is anticipated to be leased at funding. The proforma indicates a 10.2 percent return on cost as detailed in Exhibit V-1. The proforma also yields a low 1.06 debt service coverage ratio in year three due to the increase of the pay rate to 9.25 percent that occurs at this time. However, the debt service coverage ratio will increase to 1.10 and 1.14 in the subsequent loan years as the project responds to increasing rents.

Apartment expenses in the Twin Cities have historically been higher than in other parts of the country. The high expenses are primarily attributable to (1) relatively high property taxes in Minnesota and (2) significant operating expenses resulting from the extreme climate. Although Rosewood has projected lower expenses than experienced in multi-story apartments due to the low-maintenance townhome design, Piedmont analyzed the actual operating histories of several properties and increased Rosewood's expense assumption. This comparison is detailed in Exhibit V-2 and is reflected in the proforma income statement. It should be noted that all of the actual expense comparables are for three story, elevator serviced apartment buildings that provide tenants heat and underground parking.



## 2. Preliminary Valuation Estimate

Piedmont Realty Advisors estimated the preliminary value of Alden Pond Apartments by comparing it to five other apartment sales that have occurred in the Twin Cities area. None of the projects were sold as condominiums. Also, none of the recent sales were townhomes or had the degree of amenities that Alden Pond is offering. The value of the subject property was determined to range from \$14,550,000 to \$15,300,000 representing a loan to value ratio of 84 percent to 88 percent at stabilized occupancy (see Exhibit V-3).

## C. RETURN

### 1. Cash Flows

Piedmont Realty Advisors estimated the property's income to calculate the cash flow to USF&G during a ten year investment holding period. Income figures were based on the assumptions outlined in Exhibit V-4 and expenses detailed in Exhibit V-2. It is projected that because of the stepped up tax basis in the property, Alden Pond will have enough cash flow during the first two loan years to cover both the debt service payments and provide USF&G with a participation in operations. The cash return stabilizes at 9.5 percent in year three and increases steadily for the remainder of the investment holding period (see Exhibit V-5).

### 2. Returns at Sale

The net residual value of the property was calculated by capitalizing the 11th year's net operating income at an 8.5 percent capitalization rate. The sum of (1) two percent selling expenses and (2) replacement reserves were subtracted from the gross sale proceeds. The gross sales proceeds of \$23.6 million is approximately \$110,660 per unit which results in a reasonable 7.65 gross rent multiplier. This represents a 5.4 percent to 6.2 percent average annual increase over Piedmont's initial value estimates. These relatively high annual valuation increases indicate Piedmont's conservative initial underwriting of the project and the significant value creation of the townhome design with its lower operating expenses.

Piedmont Realty Advisors estimates that due to the accrual feature of the loan, approximately \$970,000 of accrued interest will be repaid at sale. This will provide USF&G with effectively 60 percent of the residual at sale after repayment of principal.

### 3. Yield Analyses

USF&G's internal rate of return for the proposed investment is 13.3 percent based on the ten-year investment period and 13.7 percent based on a six-year investment period, which coincides with the Lender's call option. Piedmont analyzed the internal rate of return based on various initial rental rates for the two and three bedroom units as illustrated in Exhibit V-6. The returns ranged from 12.1 percent to 13.8 percent for the ten-year analysis and from 12.0 percent to 14.6 percent for the six-year analysis. These yields are expected to increase if the project is converted and sold as condominiums.

### D. RISK

The risks involved with this project are outlined below:

#### Risks:

#### Mitigating Factors:

##### Project

- (1) Alden Pond is near the airport.
- (2) 25% of the units are three-bedrooms.
- (3) The project does not have high drive by traffic figures.

Piedmont spoke with the FAA and was informed that (1) the project is not on a flight path and (2) there is no anticipated change of current flight paths or noise abatement procedures. Minimal air traffic noise was heard at the site.

Since Eagan is a family oriented community, three-bedroom units are heavily demanded as evidenced by the 96 percent occupancy level of this type of apartment in the market. In addition, three-bedroom units have also historically been more desirable for sale as condominiums.

Alden Pond will have significant visibility from two heavily travelled thoroughfares (Yankee Doodle and Pilot Knob Road) to attract prospective tenants. Additionally, apartment locator services are very active in this market and will be used to augment the leasing efforts. From a condominium conversion perspective, being on a less travelled street, but one that has good access, is desirable.



## Value

- (1) The subject property has no direct sales comparables.

Piedmont Realty Advisors discussed this valuation issue with several individuals knowledgeable of the Twin Cities apartment market. These included the appraisal firms of Shenehon & Associates and Kramer, Geisler & Strand and Lee Maxfield of the Maxfield Research Group. All of these professionals agreed that townhouses typically do not compete with elevated apartment buildings because of the superior convenience and "home-like" environment created by rental townhomes. Piedmont believes that the sales comparisons discussed in this report provide a basic indication of investor interest and valuation of rental properties in the Twin Cities and thus provide an appropriate benchmark for the valuation of Alden Pond.

## Market

- (1) The vacancy rate in the Twin Cities apartment market is increasing.

The regional apartment market has seen its vacancy rate increase from 1.3 percent in 1984 to 6.7 percent in 1988 due to a glut of projects that were developed during the past several years. These were built to take advantage of low interest rate tax exempt bond financing that was available. This financing vehicle was made unpopular by the Tax Refund Act of 1986 and the number of new units is projected to diminish as more expensive, conventional debt instruments are used. However, to account for this current vacancy rate, the Alden Pond projections were stabilized at 94 percent occupancy.

- (2) Alden Pond will be the first quality townhome project in Eagan.

Rosewood has thoroughly investigated the Eagan market and has uniquely positioned Alden Pond as zero lot line rental housing for families. Since Eagan is a family-oriented community with a large number of professionals working for local firms (e.g. Unisys, Northwest Airlines), Alden Pond, with its townhome design and proximity to a park and the freeway system, will appeal to both existing and new Eagan residents.

#### Returns

- (1) Apartment expenses are high in the Twin Cities.

This is primarily the result of property taxes that are currently ranging from \$1,000 to \$1,500 per unit. Also, utility charges can be excessive because of the extreme weather that this region can experience. However, Alden Pond is individually metered and designed without elevators, heated underground garages and with a minimal amount of common area. Costs should also be reduced by Rosewood's ability to share property management and leasing staffs with its other project across the street (Coachman Oaks). Based on these factors, Rosewood has estimated stabilized expenses at approximately \$3,000 per unit. Piedmont has underwritten expenses for this project at a more conservative figure of \$3,463 per unit to allow for increased staffing and reserves that may be required to lease and operate this project in an institutional manner.



## E. CONCLUSIONS AND RECOMMENDATIONS

The proposed Alden Pond participating mortgage provides USF&G the opportunity to invest in a quality townhome apartment project in the fastest growing city in Minnesota and at an investment basis that will allow the project to be very competitive in the market. The participating mortgage has been structured with a 10.25 percent coupon rate and 55 percent participation. The accrual feature will enhance USF&G's return while providing the proper motivations to the Borrower, Rosewood Corporation, to market and manage the property efficiently. Additionally, a six-year call option, economic holdback and debt service guarantee have been incorporated into the transaction to increase USF&G's control of the project and reduce its risk. Piedmont Realty Advisors believes that USF&G will receive a return that more than adequately compensates it for the associated risk. We therefore recommend that the Real Estate Investment Committee of the United States Fidelity & Guaranty Company approve the issuance of a commitment for a first mortgage of \$12,840,000 for Alden Pond Apartments.

Exhibit V-1

PROFORMA INCOME  
(STABILIZED IN YEAR THREE)

	Monthly \$/SF	\$/Unit	Annual Total Project
<b>Income (1)</b>			
157 2-Bedroom Units (1,160 SF)	0.72	833	\$1,570,073
56 3-Bedroom Units (1,220 SF)	0.76	926	622,251
Other Income			<u>23,204</u>
Gross Income			\$2,215,527
Vacancy (6%)			132,932
<b>Expenses (2)</b>			
	Annual \$/SF	\$/Unit	
Advertising	0.09	110	
Management Fee	0.31	364	
Other Administrative	0.11	132	
Garage and Trash Removal	0.01	11	
Utilities	0.06	72	
Payroll	0.33	386	
Decorating & Repairs	0.28	331	
Exterminating	0.01	6	
Insurance	0.12	143	
Grounds Expense	0.08	93	
Taxes (3)	1.50	1,763	
Reserves	<u>0.19</u>	<u>226</u>	
	3.09	3,637	\$ <u>774,681</u>
Net Operating Income			<u>\$1,307,915</u>
Cash on Cost Return			10.2%
Indicated Debt Coverage Ratio (4)			1.06%

- 
- (1) Income was inflated at five percent annually once the project achieved full occupancy.
  - (2) Expenses were inflated at five percent annually from the first day of the analysis.
  - (3) Taxes will be approximately \$100,000 in year 1, \$300,000 (\$1,408/unit) in year two and \$375,500 (\$1,763/unit) in year three.
  - (4) Based on an average outstanding principal balance of \$13,379,713 (including capitalized accrual) and 9.25 percent pay rate in year three.

Sources: Rosewood Corporation;  
Eberhardt Commercial Real Estate;  
Miller & Schroeder Financial;  
Piedmont Realty Advisors.



Exhibit V-2  
EXPENSE COMPARISON

Project/Location	Burnsville	Coon Rapids	Cottage Grove	Edina	Shakopee	Spring Park	Woodbury	Alden Pond
Units	400	198	72	181	93	92	288	213
Year Built	1984	1980	1980	1983	1986	1966	1973	Proposed
	1987 Actual	1987 Actual	1987 Actual	1988 Actual	1987 Actual	1987 Actual	1987 Actual	1990 Proposed
Advertising	\$ 62	\$ 101	\$ 66	\$ 177	\$ 29	\$ 22	\$ 190	\$ 100
Management Fee	296	399	285	301	254	403	296	330
Other Administrative	137	182	6	142	78	165	74	120
Garbage & Trash Removal	0	47	54	0	0	18	74	10
Payroll (including taxes and benefits)	476	278	286	393	388	230	280	350
Decorating & Repairs	160	620	419	201	249	289	255	300
Exterminating	0	6	0	0	0	5	0	5
Insurance	120	59	73	133	209	165	73	130
Grounds Expense (including snow removal)	101	81	77	61	0	12	3	85
Total Operating Expenses	\$1,352	\$1,773	\$1,266	\$1,408	\$1,207	\$1,309	\$1,245	\$1,430
Utilities	482	508	451	454	378	440	456	65
Miscellaneous/Reserves	71	219	359	6	105	302	213	205
Taxes	867	660	N/A	307 (2)	1,020	1,377	685	1,763 (1)
Total Expenses	\$2,772	\$3,160	\$2,076	\$2,175	\$2,710	\$3,428	\$2,599	\$3,463

(1) Based on stabilized taxes in 1993.

(2) Taxes not stabilized.

Sources: Eberhardt Commercial Real Estate;  
Kramer, Geisler & Strand, Inc.;  
Miller & Schroeder Financial, Inc.;  
Piedmont Realty Advisors;  
Rosewood Corporation;  
Shenon & Associates, Inc.

### Exhibit V-3

#### VALUE ESTIMATE

Piedmont Realty Advisors reviewed ten apartment project sales that occurred since late 1984 in the Twin Cities area. Five comparables were chosen based on construction quality, amenities and location (see Exhibits V-3A and V-3B). All five sales were adjusted by the actual change in CPI to calculate a January 1989 time adjustment. The sales comparables were ranked in order of quality and the following value range for Alden Pond Apartments was estimated:

**\$14,550,000 - \$15,300,000**

It should be noted that Alden Pond, due to its townhouse design and extensive amenity package, had no direct comparables. However, Piedmont believes that it can be valued primarily based on the comparable gross rent multiplier method as is convention in the Twin Cities area. The value range for Alden Pond represents a capitalization rate of 8.5 percent to 9.0 percent on the stabilized proforma as detailed in Exhibit V-1. Piedmont believes that this is a reasonable range for quality apartments based on our investigation of other primary institutional investment markets.



# Exhibit V-3A COMPARABLE SALES RANKING

MAP NO.	PROJECT/LOCATION	PRICE (1)	YEAR BUILT	UNITS/ACRE	TYPE OF COMPLEX	# OF UNITS	TYPE OF UNITS	AVG. RENTAL RATE/UNIT	DATE SOLD	\$/BEDROOM	\$/UNIT	Gross Rent Multiplier
Subject	Alden Pond Egan	14,550,000 15,300,000	1989	7.75	Townhome style attached garage	213 56	157 2-bedroom 56 3-bedroom	765 850		30,187 31,743	68,310 71,831	7.6 8.0
1	Eden Place Edern Prairie	30,660,000	1987	15.85	3 story underground garage elevator serviced	496 152 144	200 1-bedroom 152 2-bedroom 144 3-bedroom	550 640 710	July '87	32,756	61,815	8.3
2	Chasewood Gates Minnetonka	27,050,000	1988	11.95	3 story underground garage elevator serviced + cluster homes	394 157 237	157 1-bedroom 237 2-bedroom	710 850	Under Contract	42,868	68,655	7.6
3	Park Glen St. Louis Park	15,495,000	1987	14.25	3 story underground garage elevator serviced	290 188 52	50 Studios 188 1-bedroom 52 2-bedroom	500 610 795	Jan '88	39,330	53,434	7.5
4	Ponds of Edina Edina	3,990,000	1986	20.2	3 story underground garage elevator serviced	65 45 20	45 1-bedroom 20 2-bedroom	620 795	May '87	46,941	61,385	7.6
5	Summer Creek Plymouth	4,014,000	1985	22.25	3 story underground garage elevator serviced	72 21 45 6	21 1-bedroom 45 2-bedroom 6 3-bedroom	560 650 750	May '85	31,116	55,750	6.9

Only project with a townhome design, larger 2 and 3 bedroom units, and with fireplaces, attached garages and upscale bathrooms in every unit.

Sold on a presale basis to Metropolitan Life. Many similar amenities, but fireplaces on 3rd floor only. Located in fast-growing area but far from CBD.

Sold on a presale basis by Trammell Crow to Acton. Cluster homes are similar to Alden Pond, but only represent 5% of the units. Located in an exclusive community.

Nice project, but 2 big buildings have long hallways and too few elevators. Located in older area.

Good quality, smaller Colonial project. Doesn't offer the amenities of Alden Pond. No pool, fireplaces, clubhouse, etc. Located in high end community.

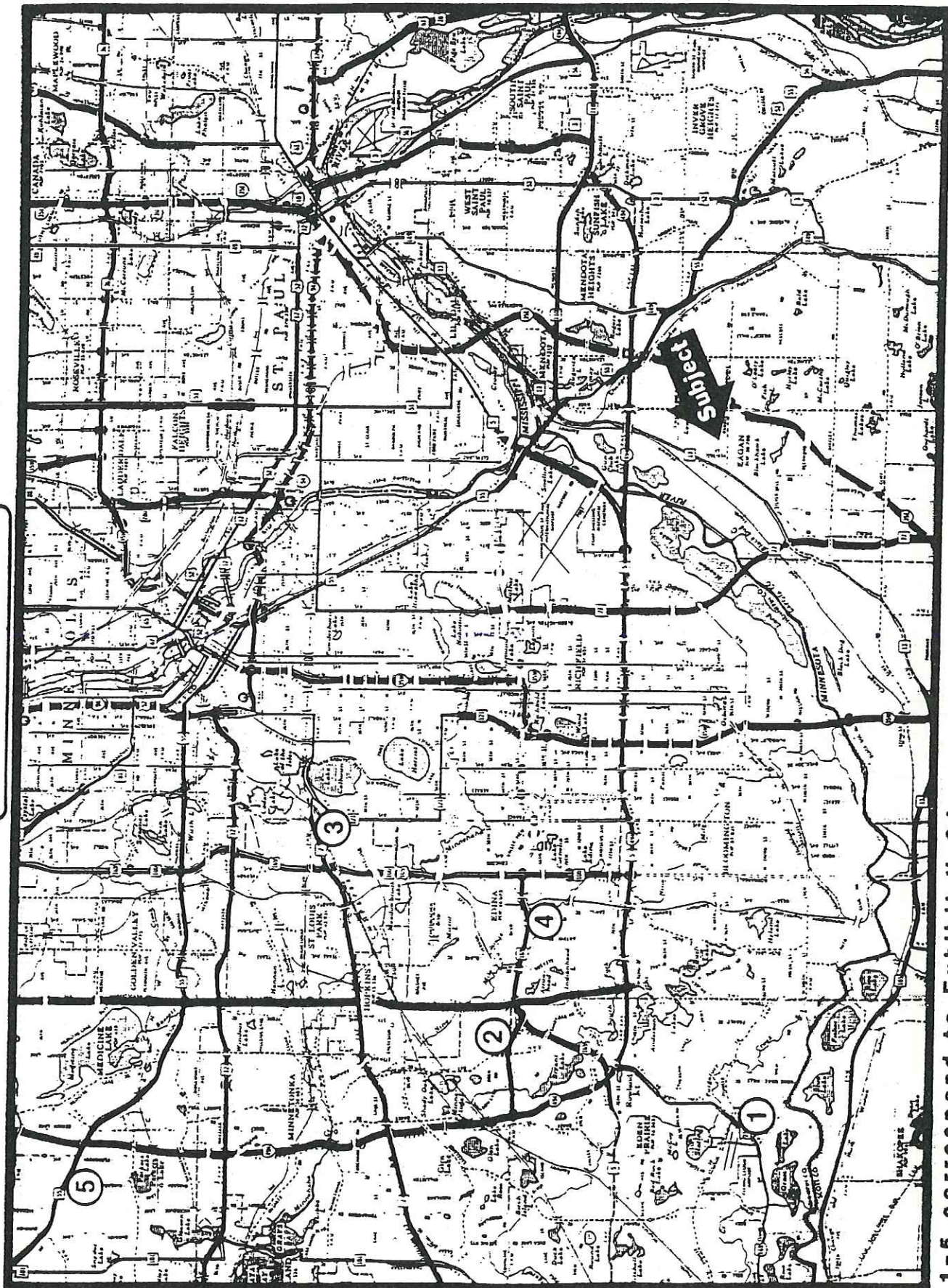
Smaller, lower quality project.

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

Sources: Shenahan & Associates, Inc.; Krauser, Gotsler & Strand, Inc.; Piedmont Realty Advisors.



**Exhibit V-3B**  
**COMPARABLE SALES MAP**



1-5 correspond to Exhibit V-3A



Exhibit V-4

DEAL ASSUMPTIONS  
ALDEN POND APARTMENTS

	Project Assumptions
A. INITIAL LEASE-UP	
1. Funding Date	01/90
2. Net Rentable Area	213 Units
3. Market Contract	\$765/mo.-2 bdrm \$850/mo.-3 bdrm
4. Rental Concessions (Free Rent)	None
5. Other Concessions	None
6. Market Effective	
7. Inflation Rate	5%
8. Inflation Start Date (Rents)	Expenses: Day 1. Income: End of first quarter in year 1.
B. SPECULATIVE SPACE ASSUMPTIONS	
1. Lease-Up Period (Months)	6 months
2. Lease Terms:	
(a) % 3 Year	All 1 year
(b) % 5 Year	N/A
(c) % 10 Year	N/A
3. Rental Rate (\$/SF or Market)	Stated above.
4. % of Leases Renewed	75%
5. % of Leases Relet	25%

## DEAL ASSUMPTIONS (cont'd)

### C. LEASE RENEWAL AND OPERATING ASSUMPTIONS

- |     |  |                                  |
|-----|--|----------------------------------|
| 1.  | Lag Time on Relet Space                | None                             |
| 2.  | Rental Concessions                     | None                             |
| 3.  | Lease Term on Relet/Renewal            | 12 months                        |
| 4.  | New Rental Rate:                       |                                  |
|     | (a) Market                             | Market                           |
|     | (b) % of Original Rate                 |                                  |
|     | (c) Specified Amount (\$)              |                                  |
| 5.  | Lease Bumps:                           |                                  |
|     | (a) Frequency                          | None                             |
|     | (b) Market                             |                                  |
|     | (c) % of Original Rate                 |                                  |
|     | (d) Specified Amt. (\$)                |                                  |
| 6.  | Leasing Commissions:                   |                                  |
|     | (a) Initial Lease-Up                   | N/A                              |
|     | (b) 2nd Generation                     |                                  |
|     | (c) 3rd Generation                     |                                  |
| 7.  | Tenant Improvements:                   | N/A                              |
|     | (a) Initial Lease-Up                   |                                  |
|     | (b) 2nd Generation                     |                                  |
|     | (c) 3rd Generation                     |                                  |
| 8.  | Vacancy Rate                           |                                  |
| 9   | a. Operating Expenses (\$/SF)          | \$1,430/unit                     |
|     | b. Utilities (\$/SF)                   | \$65/unit                        |
|     | c. Taxes (\$/SF)                       | \$469/unit (1)                   |
|     | d. Reserves (\$/SF)                    | \$205/unit (starting in year 2). |
| 10. | Mgt. Fee (% of Effective Gross Income) | Included in expenses.            |
| 11. | Operating Term                         | 6 and 10 years                   |

(1) Taxes in year two are \$1,408/unit and in year three are \$1,763/unit.



## DEAL ASSUMPTIONS (cont'd)

### D. SALE ASSUMPTIONS

- |  |      |
|--|------|
| 1. Cap Rate at Sale                    | 8.5% |
| 2. Selling Commissions                 | 2%   |
| 3. Subtract out LC's and TI's          | Yes  |
| 4. Lag Time included in Final Year NOI | N/A  |

### E. PARTICIPATING MORTGAGE

- |                          |                   |               |               |
|--------------------------|-------------------|---------------|---------------|
| 1. Accrual Payback from: |                   |               |               |
| (a) Next Available Cash  | Sale of property. |               |               |
| (b) Sale of Property     |                   |               |               |
| 2. Mortgage Amount (\$)  | \$12,840,000      |               |               |
| 3. Coupon Rate           | 10%               |               |               |
| 4. Pay Rate:             |                   |               |               |
| (a) Rate 1 and Years     | 8.50% years 1-2   |               |               |
| (b) Rate 2 and Years     | 9.25% years 3-5   |               |               |
| (c) Rate 3 and Years     | 10.00% years 6-10 |               |               |
| 5. % of Operations       | 55%               |               |               |
| 6. % of Residuals        | 55%               |               |               |
| 7. Loan Disbursements:   | <u>Closing</u>    | <u>Year 1</u> | <u>Year 2</u> |
| (a) Initial              | (\$12,198,000)    |               |               |
| (b) Economic             |                   | (\$629,000)   | (\$13,000)    |





# ALDEN POND APARTMENTS SIX - YEAR PROFORMA

12-Dec-88

OPERATING YEAR

SALES CALCULATION

## I. PROPERTY OPERATIONS

Gross Potential Income:

Rental Income from 288	157	\$765
Rental Income from 388	56	\$850
Other Income		

Subtotal

Less: Vacancy

6.0%

Effective Gross Income

Less: Operating Expenses

Expenses

Taxes

Net Operating Income

Less: Capital Expenditures

Reserves for Replacement

Net Income

Less: Debt Service

Cash Flow

Deficit Contribution/(Repay)

Net Cash Flow

## II. DEBT SERVICE AND ACCRUAL CALCULATIONS

Average Outstanding Loan Balance

Coupon Due

Debt Service Paid

Pay Rate

Accrued Interest

Monthly Compounding

## III. LENDER CASH FLOW AND YIELD CALCULATIONS

Initial Loan Disbursement

Capital Reserve

Cash Debt Service

Additional Interest-Operations

Additional Interest-Sale

Repayment of Principal

Net Cash Flows to Lender

Cash on Cash Return

1

2

3

4

5

6

7

SALES CALCULATION

1,351,181	1,435,307	1,570,073	1,648,516	1,731,005	1,817,555	1,908,433
535,500	532,620	622,251	653,364	686,032	720,333	756,350
19,969	22,099	23,204	24,364	25,582	26,861	28,204

1,906,550	2,110,026	2,215,527	2,326,304	2,442,619	2,564,750	2,692,987
(114,399)	(126,602)	(132,932)	(139,578)	(146,557)	(153,885)	(161,579)

1,792,251	1,983,424	2,082,596	2,186,725	2,296,062	2,410,865	2,531,408
(311,591)	(321,705)	(351,021)	(368,572)	(387,001)	(406,351)	(426,668)
(100,000)	(300,000)	(375,519)	(394,285)	(414,010)	(434,710)	(456,446)

1,380,560	1,355,719	1,356,056	1,423,858	1,495,051	1,569,804	1,648,294
0	(45,840)	(48,141)	(50,540)	(53,075)	(55,729)	

1,380,560	1,309,871	1,307,915	1,373,311	1,441,976	1,514,075	
(1,032,281)	(1,080,519)	(1,237,623)	(1,250,665)	(1,263,843)	(1,415,232)	

348,279	229,353	70,292	122,646	178,133	98,843	
0	0	0	0	0	0	

348,279	229,353	70,292	122,646	178,133	98,843	
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12,512,500	13,097,195	13,379,713	13,520,699	13,663,170	13,807,142	
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1,282,531	1,342,463	1,371,421	1,385,872	1,400,475	1,415,232	
(1,032,281)	(1,080,519)	(1,237,623)	(1,250,665)	(1,263,843)	(1,415,232)	
8.25%	8.25%	9.25%	9.25%	9.25%	10.25%	

250,250	261,944	133,797	135,207	136,632	0	
13,445	14,074	7,189	7,264	7,341	0	

263,695	276,018	140,986	142,471	143,973	0	
---------	---------	---------	---------	---------	---	--

(12,198,000)	(13,000)					
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1,032,281	1,080,519	1,237,623	1,250,665	1,263,843	1,415,232	
191,553	126,144	38,660	67,455	97,973	54,364	
55.00%					2,826,012	

(12,198,000)	594,834	1,193,663	1,276,284	1,318,120	1,361,816	18,102,750
--------------	---------	-----------	-----------	-----------	-----------	------------

9.8%		9.5%	9.7%	10.0%	10.6%	
------	--	------	------	-------	-------	--

7TH YEAR NOI	1,648,294
CAPITALIZATION RATE	8.50%

GROSS SALE PROCEEDS	19,391,696
COSTS OF SALE	2,00%

REPLACEMENT RESERVES	19,003,862
UNAMORTIZED DEFICITS	(58,515)

NET SALE PROCEEDS	18,945,346
PRINCIPAL REPAYMENT	(13,807,142)

NET PROFIT	5,138,204
LENDER PARTICIPATION	2,826,012

BORROWER PARTICIPATION	2,312,192
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TOTAL INVESTMENT	\$12,840,000
------------------	--------------

IRR	13.7%
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Exhibit V-6A

YIELD MATRIX  
TEN-YEAR ANALYSIS

Two-Bedroom  
Unit (Rent/Month)

Three-Bedroom Unit (Rent/Month)

	<u>\$800</u>	<u>\$825</u>	<u>\$850</u>	<u>\$875</u>
\$700	12.1%	12.6%	13.0%	13.4%
\$735	12.3%	12.8%	13.2%	13.5%
\$765	12.4%	12.9%	13.3%	13.6%
\$800	12.5%	13.0%	13.4%	13.7%

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Source: Piedmont Realty Advisors.



Exhibit V-6B

YIELD MATRIX  
SIX-YEAR ANALYSIS

Two-Bedroom  
Unit (Rent/Month)

Three-Bedroom Unit (Rent/Month)

	<u>\$800</u>	<u>\$825</u>	<u>\$850</u>	<u>\$875</u>
\$700	12.0%	12.2%	12.4%	12.6%
\$735	12.7%	12.9%	13.1%	13.3%
\$765	13.3%	13.5%	13.7%	13.9%
\$800	14.0%	14.2%	14.4%	14.6%

---

Source: Piedmont Realty Advisors.