

RANCHO VALLARTA AT SEVEN BAR RANCH  
ALBUQUERQUE, NEW MEXICO

Piedmont Realty Advisors  
1150 Connecticut Avenue, N.W., Suite 705  
Washington, D.C. 20036  
(202) 822-9000



BUILDING B

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I. INTRODUCTION

PIEDMONT REALTY ADVISORS

1150 CONNECTICUT AVENUE, N.W.

SUITE 705

WASHINGTON, D. C. 20036

202-822-9000

May 17, 1985

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

Re: Rancho Vallarta at Seven Bar Ranch  
Albuquerque, New Mexico

Dear Sirs and Madam:

Enclosed for your review is an Investment Report on the Rancho Vallarta Apartment Project which is to be developed by the Crow-Western Company (a Trammell Crow Residential Company) in Albuquerque, New Mexico. Piedmont Realty Advisors reviewed this project with the Real Estate Investment Committee on April 16, 1985 at which time the Committee approved the investment pending receipt of the detailed investment analysis. This report documents the presentation and provides the detailed analysis.

The Property -- Rancho Vallarta is a proposed 250-unit apartment complex in the West Mesa area of Albuquerque, New Mexico. Specifically it is just north of the intersection of Corrales Road, Coors Road, and Rio Rancho Drive in the Seven Bar Ranch master-planned community. The project is the first of three phases.

The location of the property has several important features:

1. The West Mesa area is the prime sector for future residential development because mountains, military bases, and Indian reservations restrict and limit growth in other directions.
2. New jobs have been concentrated in the north and northwest areas (e.g. Intel, Monolithic Memories, Hewlett Packard).
3. At this time there are very few apartment complexes on the West Mesa which is predominantly single family subdivisions (e.g. Rio Rancho, Paradise Valley, Taylor Ranch).

4. Coors Road is the "Main Street" of West Mesa, and Corrales Road has the only bridge across the Rio Grande River in that area. Consequently, the site is at the 100% corner. A new bridge is to be constructed south of the property in two years which will increase the site's accessibility to I-25.
5. The John Black Family, owner of the 1,070-acre Seven Bar Ranch Community, has agreed to restrict the sale of multi-family land in the area because it will be Crow-Western's joint venture partner in Phases Two and Three of Rancho Vallarta.

The proposed project will be the basic Trammell Crow residential product which has been developed and marketed in over 40 cities throughout the United States. The project will have a Southwestern architectural theme, and a water feature which will create an oasis environment in this desert area. Similar water features have been very well received in Crow-Western's apartment developments in the Phoenix area.

The Market -- At this time the apartment market in Albuquerque is very strong because new apartment construction has lagged behind new job growth. However apartment construction is now booming, and an oversupply of apartments should occur in 1985 and 1986. Virtually all of the existing and new apartment projects are concentrated in the northeast area of Albuquerque. Also the apartment market is dominated by relatively low quality projects. Consequently, the primary competitive advantages of the proposed project will be its location on the West Mesa and the high quality of the product.

The Borrower -- The borrower will be a limited partnership which will have the Crow-Western Company as general partner. The Crow-Western Company (assets over \$350 million) develops, builds, leases, and manages apartment projects throughout the Southwest and Western United States. Individual Trammell Crow partners, including Trammell S. Crow, will personally provide cash flow deficit guarantees for the first 24 months of the loan.

Real Estate Investment Committee Members  
USF&G  
May 17, 1985  
Page Three

The Risk and Return -- The proposed participating mortgage will have a 13% interest rate and a pay rate of 10% for 35 months and 10.5% thereafter. The accrued interest will be offset by 50% of the annual cash flow. Additional interest will be from 50% of the cash proceeds at sale or refinancing. The 10-year yield is estimated to be 14.6% assuming a 6% inflation rate. If the property sells for an 8.0 to 9% capitalization rate, which is common in today's market, then the yield would be 30 to 80 basis points higher.

Given the strong Albuquerque economy and future growth potential of the West Mesa area, the competitive advantages of the proposed project in a softening apartment market, and the quality of the developer/borrower, Piedmont Realty Advisors believes that the estimated yield justifies the risk in this investment.

Therefore, we recommend that USF&G issue a permanent mortgage commitment in the amount of \$8,500,000 for Rancho Vallarta in Albuquerque, New Mexico under the terms and conditions outlined in Exhibit I-1. If you have any questions, please call me.

Sincerely,


  
Daniel B. Kohlhepp  
Vice President

Exhibit I-1  
APPLICATION LETTER

PIEDMONT REALTY ADVISORS  
1150 CONNECTICUT AVENUE, N.W.  
SUITE 705  
WASHINGTON, D.C. 20036

202-822-9000  
April 9, 1985

Mr. John Rippel  
Vice President - Finance  
Crow-Western Company  
10645 Richmond Avenue  
Suite 140  
Houston, Texas 77042

Re: Rancho Vallarta at Seven Bar Ranch  
Albuquerque, New Mexico

Dear Mr. Rippel:

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 our letter of March 13, 1985 (attached as Exhibit A) except for the following changes:

Interest Rate: 13%; 10% pay rate for the first 36 months  
and 10.5% pay rate thereafter.

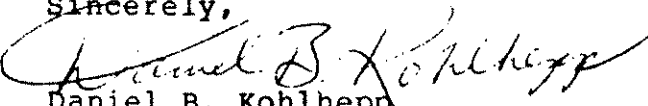
Additional Interest:


A. Accrued  
Interest:

The unpaid portion of the 13% interest rate will be added to the outstanding mortgage balance every 36 months. The accrued interest will be reduced by any additional interest from operations (50% of net cash flow) paid by borrower. Any accrued interest which is not repaid through additional interest from operations will be payable when the loan is repaid and will be treated as part of the outstanding loan balance.

Please indicate your agreement with these changes by signing below and returning a copy of this letter to me by April 12, 1985.

Sincerely,

  
Daniel B. Kohlhepp  
Vice President

  
SIGNED

  
TITLE

4/10/85  
DATE



Exhibit A

PIEDMONT REALTY ADVISORS

1150 CONNECTICUT AVENUE, N.W.

SUITE 705

WASHINGTON, D.C. 20036

202-822-9000

March 13, 1985

Mr. John Rippel  
Vice President - Finance  
Crow-Western Company  
40 First Plaza, N.W.  
Suite 65  
Albuquerque, New Mexico 87102

Re: Rancho Vallarta at Seven Bar Ranch  
Albuquerque, New Mexico

Dear Mr. Rippel:

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.

Property:	Rancho Vallarta-- A 250-unit apartment complex containing 168 1-bedroom and 82 2-bedroom apartment units (200,050 square feet of building area including porches), a clubhouse, and pool.
Location:	Seven Bar Ranch, Albuquerque, New Mexico
Borrower:	A limited partnership, the general partnership of which will be Crow-Western Company.
Lender:	USF&G Realty Company
Loan Amount:	\$8,500,000
Interest Rate:	12.875%, 10% pay rate.
Term:	20 Years
Amortization:	Not Applicable, interest only.

Mr. John Rippel  
March 13, 1985  
Page Two

Call Option: Anytime after the end of the 10th year. Lender will give borrower 12 months written notice of intent to call the loan.

Prepayment:           \* No prepayment through year 5.  
                      \* Prepayment fee of 5% in year 5, declining 1% per year to 1% in year 10, and thereafter.  
                      \* No prepayment fee if lender exercises its call option.

Additional Interest:

A.    Accrued  
      Interest:

The unpaid portion of the 12.875% interest rate will be added to the outstanding balance monthly. The accrued interest will be reduced by any additional interest from operations (see Paragraph B below) paid by borrower. Any accrued interest which is not repaid through additional interest from operations will be payable when the loan is repaid.

B.    Operations:    Lender receives 50% of net cash flow.

C.    Sale or  
      Refinancing:   The net sales price (selling expense not to exceed 3%) in the event of sale or the appraised value (less 3%) in the event the property is not sold before the loan is called, refinanced or matures will be distributed as follows:

- (1) The outstanding loan balance is repaid;
- (2) An amount equal to the syndicated capital is distributed to the borrower;
- (3) An amount equal to (b) above is distributed to the lender;
- (4) The remaining proceeds are split 50/50.

Mr. John Rippel  
March 13, 1985  
Page Three

Commitment Fee: \$170,000; \$85,000 paid in cash which is earned upon acceptance of the commitment and \$85,000 in an unconditional, irrevocable letter of credit which will be refunded to the borrower at closing.

Initial Funding: \$8,500,000 to occur upon receipt of certificate of occupancy. Funding is to occur within 18 months of commitment acceptance.

Contingencies:

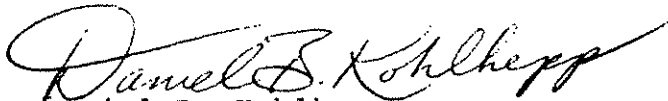
- A. Economic Due Diligence: The commitment will be contingent upon Piedmont Realty Advisors satisfactorily completing its economic due diligence.
- B. Plans and Specifications: The lender reserves the right to approve the plans and specifications for all proposed improvements and to approve any changes, modifications, or corrections.
- C. Market Value Appraisal: The commitment will be contingent upon the lender receiving a market value estimate of the property from an MAI designated appraiser which is not less than \$10,500,000.
- D. Lender Approval: This application must be approved by the Lender's Investment Committee.
- E. Tri-Party Agreement: The commitment is contingent upon the Lender, Borrower, and the Interim Lender entering into an acceptable Tri-Party Agreement within 90 days after the commitment is accepted.
- F. Syndication: The lender will permit a one-time syndication of the property provided the managing general partner of the borrower retains significant economic incentives and retains a 51% general partnership interest.

Mr. John Rippel  
March 13, 1985  
Page Four

G. Guarantee: General partners of borrowing entity will personally guarantee operating deficits of the property for a 24-month period after initial funding.

If the terms outlined in this letter are acceptable to you, please have the appropriate party sign below and return this letter with an application fee of \$35,000 by March 18, 1985. The application fee should be wired to a custodial account. Please call me for wiring instructions. Proceeds will be returned if the Lender does not issue a commitment according to the terms of this letter or applied to the commitment fee if a commitment is issued.

Sincerely,




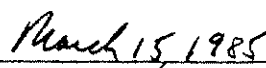
Daniel B. Kohlhepp  
Vice President

cc: Thomas Teague

DBK:clg

  
\_\_\_\_\_  
SIGNED

  
\_\_\_\_\_  
TITLE

  
\_\_\_\_\_  
DATE

## II. THE PROPERTY

## II. THE PROPERTY

### A. INTRODUCTION

Rancho Vallarta is a proposed 250-unit apartment complex in the West Mesa area of Albuquerque, New Mexico. Specifically, it is just north of the intersection of Coors Road, Corrales Road, and Rio Rancho Drive in the Seven Bar Ranch master-planned community. (See Exhibit II-1.) The project is the first of three phases.

### B. LOCATION

The West Mesa sector of Albuquerque is the area of future growth in the region because mountains, military bases, and Indian reservations restrict and limit future growth in other directions. Today the West Mesa area has a population of 35,800 people. Rio Rancho (1/2 mile northwest of the site) is New Mexico's fastest growing community with a population of 18,000, and it consistently leads the Albuquerque area in single family housing starts. The City of Corrales (adjacent the site on the north) has a population of 2,800, and Paradise Hills (adjacent the site to the west) has a population of 5,000. The remaining 10,000 persons are distributed among the Taylor Ranch, Ladera, and other smaller subdivisions. (See Exhibit II-2.) By 2005, the West Mesa population is expected to be 105,000. This increase would represent 25% of the future growth of Albuquerque.

West Mesa is also the location of new job creations. Currently, Intel is completing a \$300 million expansion of its facility (1/2 mile north of the site) which will increase Intel's work force from the present 600 employees to over 1,200. Monolithic Memories has broken ground three miles south of the Rancho Vallarta site on what will eventually be a \$300 million facility that will employ over 2,000 people.

At this time there are very few apartment projects in the West Mesa area, and there are no projects in the vicinity of the subject. The proposed property will be the first high quality apartment complex in the West Mesa area.

#### 1. The Seven Bar Ranch

The Seven Bar Ranch, a 1,070-acre tract, is to be a "community within a community" as it is described in the revised "sector plan" which has recently been approved by the City Council of Albuquerque. Approval of the revised sector plan fixed the site's zoning at 20 units per acre. The Seven Bar Ranch, which is owned

by the John Black Family, is bordered by the City of Corrales to the north, Rio Rancho to the west, Paradise Hills to the south, and the Rio Grande River to the east. The sector plan calls for six major categories of development: residential, employment/office parks, medical office, commercial, town center, and regional recreational areas. These uses have been arranged to facilitate efficient communication between the residential, employment, and service sectors and to create a perceivable physical and aesthetical order within the planned area. At this time current development at the Seven Bar Ranch includes Cibola High School, the Seven Bar Aviation Airport, several free standing office buildings, an 80-acre single family subdivision, and commercial development which includes the Alameda West Center, a 210,000 square foot community shopping center, Corrales Center, a 60,000 square foot neighborhood shopping center, and Las Tiendas Shopping Center, a 44,000 square foot specialty center. Recently Mel Simon and Associates has announced plans for a regional mall on an 85-acre site just south of the Alameda West Center. (See Exhibits II-3 and II-4.)

In the revised Sector Plan 730 gross acres (including an apportionment of parks, open space, public rights of way, and easements), are devoted to diverse residential use. The breakdown of residential areas is as follows:

Use	Gross Acres	Net Acres	Minimum Units/AC	Optimum Units/AC	Maximum Units/AC
Low Density	286.9	234.9	2	5	6
Planned Residential-9	64.1	48.2	9	9	9
Medium Density	239.2	193.9	7	10.75	20
Planned Residential-20 (Subject)	44.9	41.3	20	20	20
High Density	<u>94.3</u>	<u>76.3</u>	13	22	30
Total	729.4	594.6			

The John Black Family is to be a joint venture partner with the Crow-Western Company on the second and third phases of the Rancho Vallarta project. Consequently, John Black has verbally agreed to withhold the other multifamily sites from the market so that Rancho Vallarta will not have apartment competition on the Seven Bar Ranch in the near future.

## 2. Accessibility

At the intersection of Coors Road and Corrales Road, the site has excellent accessibility. Coors Road is the "Main Street" of the West Mesa area. It connects the Seven Bar Ranch to I-40 which is 15 minutes south. Albuquerque city planners anticipate that Coors Road will become a limited access, 6 to 8 lane expressway over the next ten years. Corrales Road connects the West Mesa area to I-25 via the Corrales Bridge. This is the only bridge across the Rio Grande River north of I-40. At this time the bridge traffic exceeds capacity during rush hours. One mile south of the site a new bridge, El Paseo del Norte, is to be built. The 5.2-mile long, 4 to 6 lane arterial will begin at the Coors Road/Paradise Boulevard intersection and will connect with I-25 via a 4 lane bridge crossing the river. All of the environmental challenges to the bridge have been resolved, and the state legislature and the governor allocated \$3 million for construction on March 13, 1985. The project is to be ready for traffic in late 1987. (See Appendix A.)

Ingress and egress to the site will be from three driveway entrances off Calle Cuervo Negro which is a new road running east and west connecting Cabezon Road to Corrales Road. Calle Cuervo Negro will be also directly accessible to Rio Rancho Drive by the Ellison Road realignment. (See Exhibit II-3.)

## 3. Adjacent Land Uses

Immediately north of the subject property is the Village of Corrales which was founded in the 1700's. This enclave of affluent urban professionals attempts to maintain the flavor and culture of old New Mexico by enforcing strict developmental codes. Immediately southwest of the project along Rio Rancho are several low-rise office buildings which house professional offices, a veterinarian clinic, and a branch bank. On the south side of the project are two retail centers: Corrales Center, a neighborhood shopping center anchored by Safeway, and Las Tiendas, a specialty retail center. East of the subject property is the Rio Grande flood plain and the Rio Grande River. (See Exhibit II-4.)

## C. THE SITE

The site for Phase I of Rancho Vallarta is the western 12.5 acres of a 45-acre tract, zoned "Planned Residential Development-20" which requires 20 units per acre. The site is flat (less than a 3% slope) and is currently being cultivated. The Cabezon drainage channel will be shaped and landscaped so that it will provide a setting of a natural pond. This water



feature will provide an attractive visual amenity to the north, and an unobstructed view of the Sandia Mountains is available to the east.

The buildings will be clustered around the swimming pool and club house and around four heavily landscaped courtyards which will provide an attractive setting for active and passive recreation. Consistent with this theme, the 420 required parking spaces will be located on the perimeter of the project. (See Exhibits II-5 and II-6.) This environment should be an attractive alternative to the competitive properties which feature buildings with minimal landscaping surrounded by parking lots.

#### D. THE IMPROVEMENTS

Rancho Vallarta will consist of 250 luxury apartments in 14 buildings. Amenities include a swimming pool with an expansive deck area and a club house/information leasing center. There will be six floor plans and four color schemes available. (See Exhibit II-7 and Appendix B.) Selected units will feature vaulted ceilings in the living room areas. The kitchens will have ranges with continuous cleaning ovens, dishwashers, disposals, frost-free refrigerators with ice makers, stainless steel sinks, and pantries. The bathrooms will have steel tubs completely surrounded by ceramic tile. All units contain mini-blinds and an upgraded trim package which includes bookcases, shoe racks, high-quality hardware, and large storage closets. Washer/dryer connections and fireplaces will be included in selected units. Also selected units will have ceiling fans.

Rancho Vallarta's design will be of Southwestern architecture incorporating gables, pediments, and roof sheds usually found in for-sale housing. The two and three story buildings will be constructed with stucco exterior and composition shingles. (See Exhibit II-8.) Each unit will have a covered balcony, individual hot water facilities, energy efficient bronze-toned windows, and added insulation.

#### E. PROJECT BUDGET

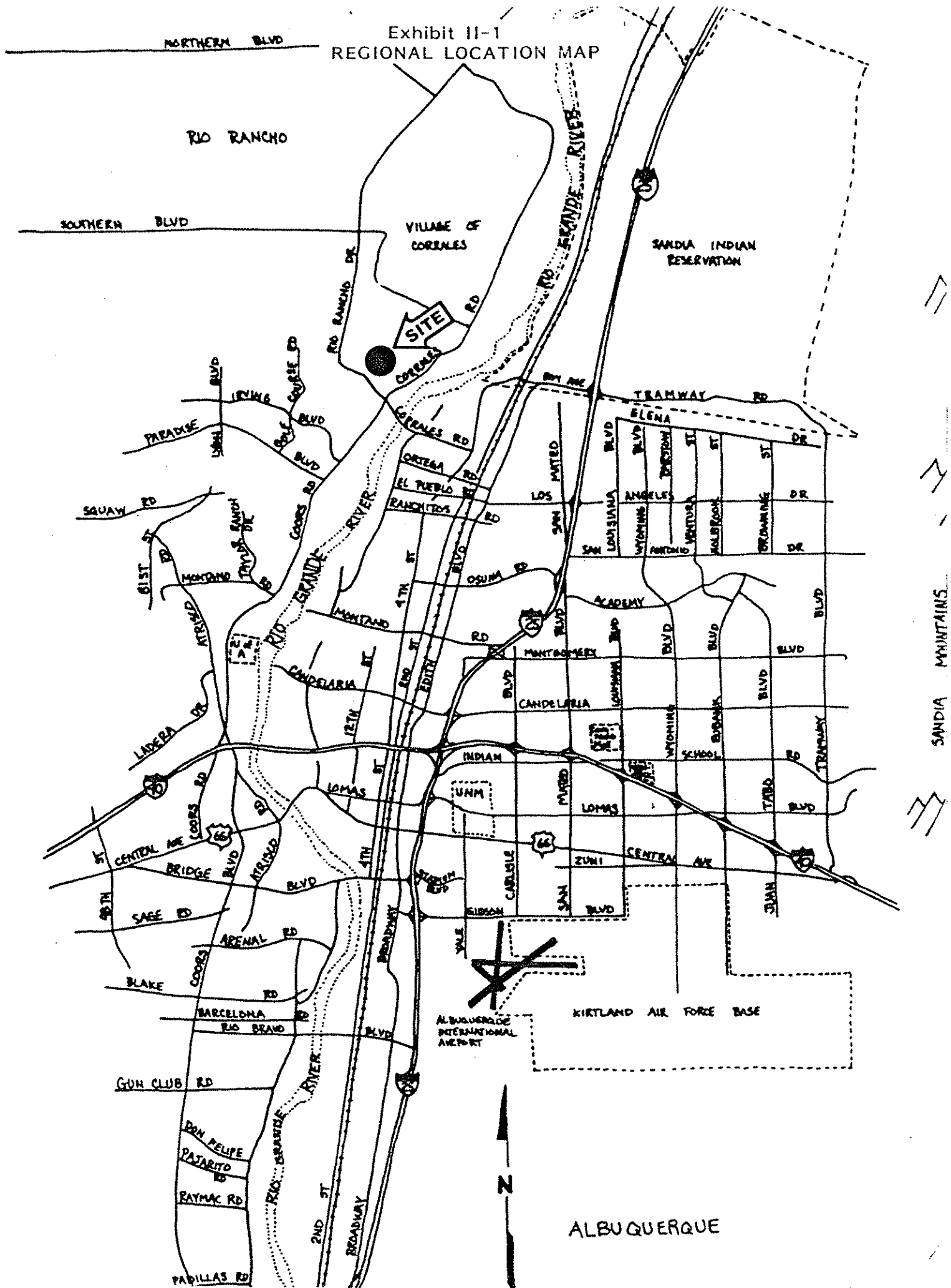
The total project costs are estimated to be \$9,153,000. The unit cost of \$36,612 breaks down to \$4,000 per unit for land costs, \$23,923 for hard construction costs, and \$8,689 for soft costs. These costs are slightly higher than the average costs for apartment construction in the Albuquerque area, but the overall level of high quality construction justifies these additional costs. It should be noted that the requested loan amount of \$8,500,000 leaves \$653,000 which the developer must raise in the form of equity capital. (See Exhibit II-9.)

## F. CONCLUSION


The proposed project has the best apartment location in the West Mesa area of Albuquerque. The current and future industrial and commercial development on the West Mesa together with the Black Family's participation in Phases II and III of Rancho Vallarta should keep the subject property as the focal point for multi-family housing on the West Mesa for the next several years. The site plan with its water feature should be very attractive in the desert environment. The apartment buildings and floor plans are the basic Trammell Crow residential product which has been successfully marketed in 40 cities. Each new project reflects modifications to improve efficiency and marketability, and each project is stylized to be compatible with regional architectural tastes.

This quality apartment project with its 100% location on the West Mesa should provide an investment with good long-term potential.

Exhibit II-1  
REGIONAL LOCATION MAP



# LEGEND

- ☐ SEVEN BAR RANCH
- ☐ INDUSTRIAL PARKS
- ☒ SCHOOLS
-  GOLF COURSE

## Exhibit II-2 ALBUQUERQUE LAND USE MAP

Intel Corp.  
Felco Jewelry  
Sparton Southwest  
Amrep Southwest Corporation  
Roman Fountains, Inc.

RIO RANCHO

J.C. Penney Credit Support Center  
Sparton Southwest  
Sun Country Industries

PARADISE HILLS

Subject

SIPI

TAYLOR RANCH

U. OF A.

COORS RD.  
RIO GRANDE RIVER

NORTH VALLEY AREA

Signetics Corp.  
Sperry Corp.  
Motorola Corp.  
Digital  
Levi Strauss  
Journal Center  
Hewlett Packard

ALBUQUERQUE ACADEMY

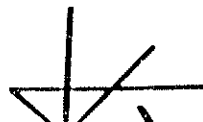
ALBUQUERQUE

I-40

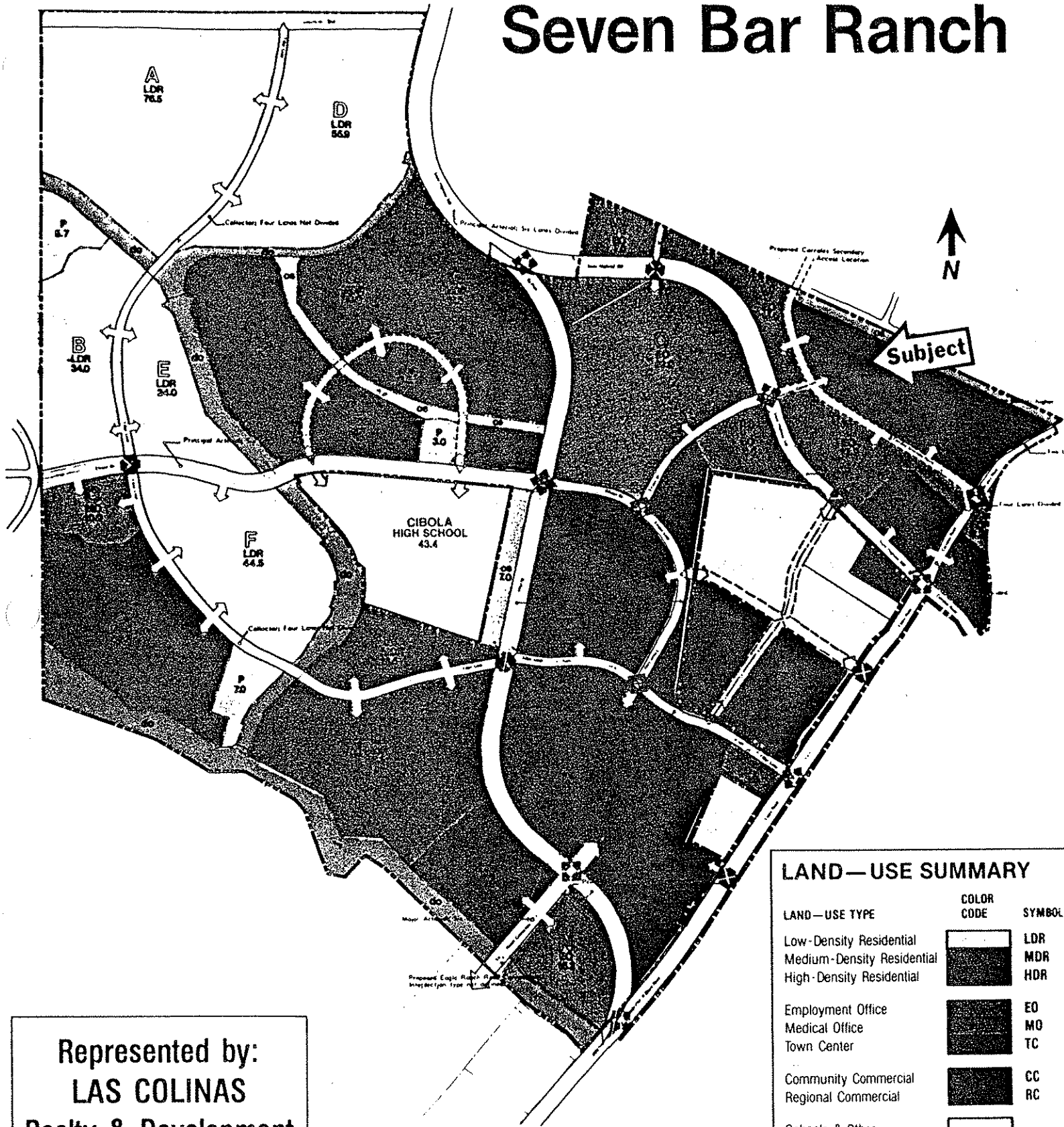
DOWNTOWN  
ALBUQUERQUE

UNM

Honeywell Corp.  
Amity  
Elastimold  
Sunbell Corp.



# Seven Bar Ranch



Represented by:  
**LAS COLINAS**  
Realty & Development  
505-897-7227

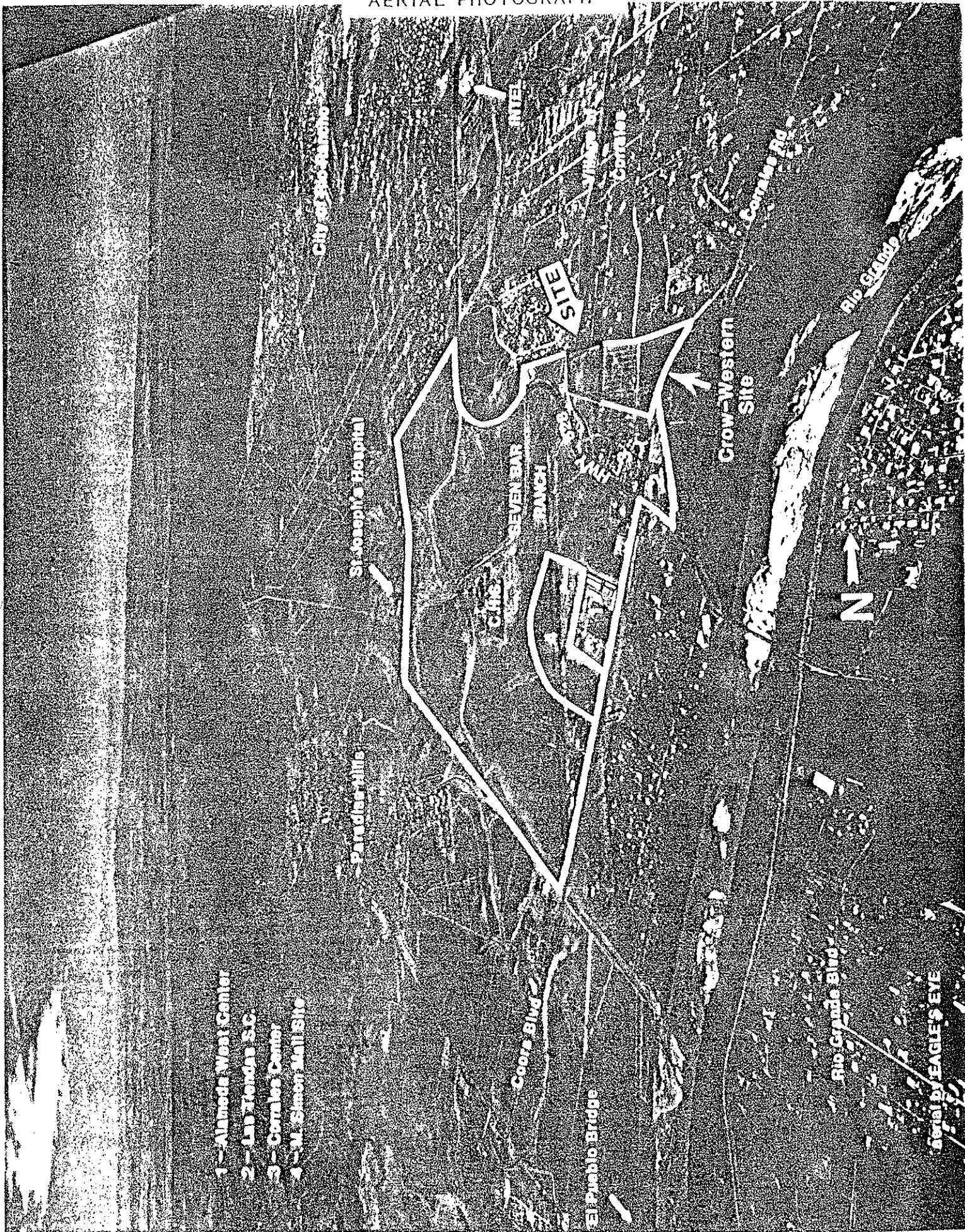
July 1984, Plan subject to change

## LAND—USE SUMMARY

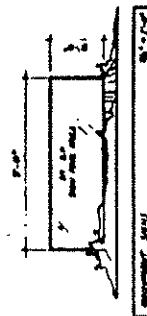
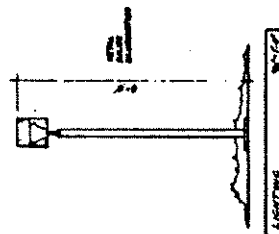
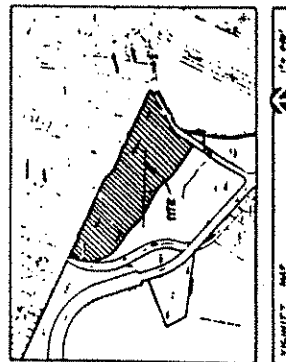
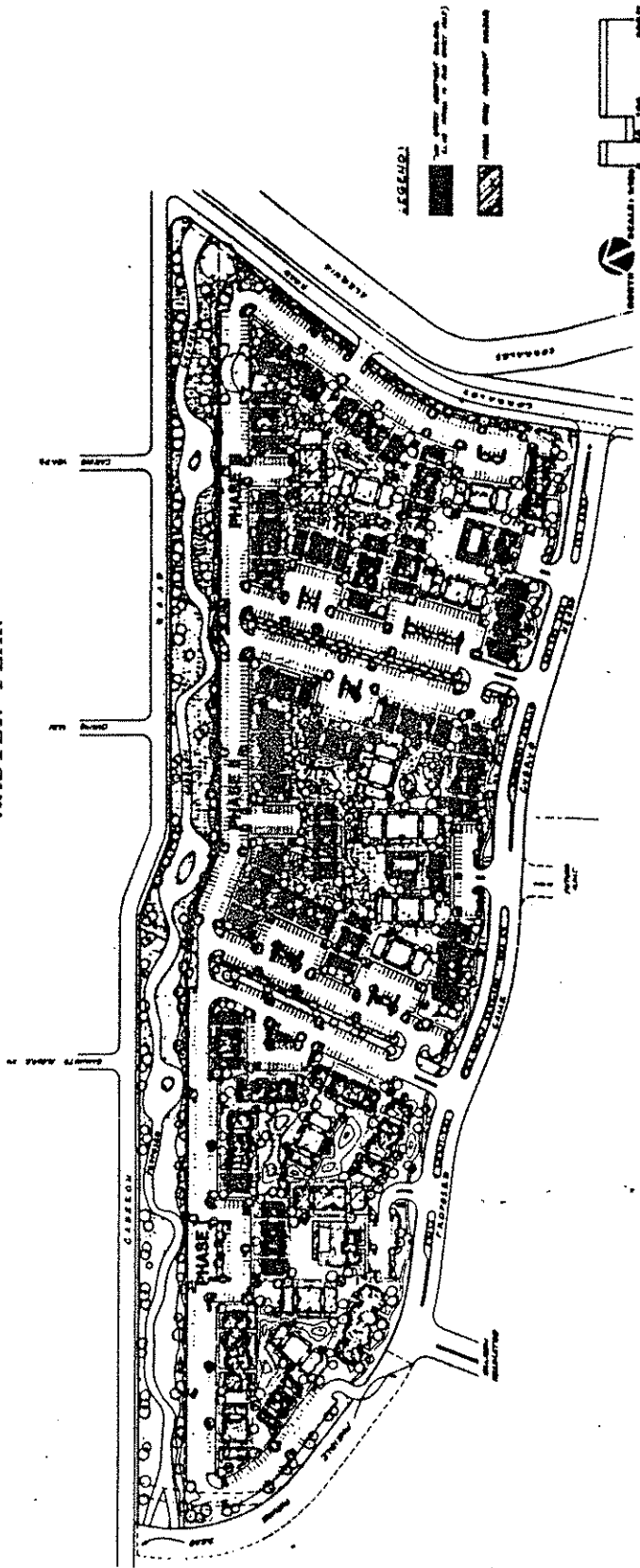
LAND—USE TYPE	COLOR CODE	SYMBOL
Low-Density Residential	[Light Gray Box]	LDR
Medium-Density Residential	[Medium Gray Box]	MDR
High-Density Residential	[Dark Gray Box]	HDR
Employment Office	[Dark Gray Box]	EO
Medical Office	[Dark Gray Box]	MO
Town Center	[Dark Gray Box]	TC
Community Commercial	[Dark Gray Box]	CC
Regional Commercial	[Dark Gray Box]	RC
Schools & Other	[White Box]	
Streets	[White Box]	
Drainage Rights-of-Way	[Dark Gray Box]	do
Open Space & Parks	[Light Gray Box]	os



Exhibit 11-4  
AERIAL PHOTOGRAPH



# Exhibit II-5 MASTER PLAN



## MASTER PLAN of an APARTMENT COMPLEX PLANNED RESIDENTIAL DEVELOPMENT

MARCH, 1985

ALBUQUERQUE, NEW MEXICO

de la TORRE & RAINHART PA

DATE	11/11/85
BY	de la Torre & Rainhart PA
CHECKED BY	de la Torre & Rainhart PA
APPROVED BY	de la Torre & Rainhart PA
SCALE	1" = 100'
PROJECT NO.	11111
CLIENT	de la Torre & Rainhart PA
LOCATION	Albuquerque, New Mexico
DESCRIPTION	Master Plan of an Apartment Complex
DATE	11/11/85
BY	de la Torre & Rainhart PA
CHECKED BY	de la Torre & Rainhart PA
APPROVED BY	de la Torre & Rainhart PA
SCALE	1" = 100'
PROJECT NO.	11111
CLIENT	de la Torre & Rainhart PA
LOCATION	Albuquerque, New Mexico
DESCRIPTION	Master Plan of an Apartment Complex


 KODAK SAFETY FILM  
 135-36

[illegible]



Exhibit II-7

Rancho Vallarta

Apartment Unit Mix and Sizes

Type	Quantity	%	Description	Net Area	Porch	Total Area	Gross Area/ Unit Type
-----	-----	-	-----	----	-----	-----	-----
A-1	72	29	1BR 1B	543	46	589	42,408
A-2	64	26	1BR 1B	638	55	693	44,352
A-4	32	13	1BR 1B	750	75	825	26,400
B	32	13	2BR 2B	922	84	1006	32,192
B-1	32	13	2BR 2B	983	89	1072	34,304
C	18	7	2BR 2B	1063	70	1133	20,394
	-----						-----
	250						200,050

Total Number of Units: 250

Average Size (Gross): 800

Total Building Area: 200,050

Breezeways: 11,800

Clubhouse and Laundries: 2,200

Total Building Area: 214,050

SIZE DATA

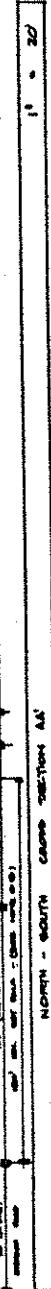
Land Area 12.5 Acres

Density: 20 Units per Acre

Note: All dimensions are approximate.

Net square footage totals approximately 184,022

**REMARKS:** - 1st of many other families.  
A single child - 90 lbs heavy from the shoulders  
downwards.



# TYPICAL ELEVATIONS

[illegible]

## Exhibit II - 9

## PROJECT BUDGET

		PSF Gross -----	PSF Net ---	Per Unit ----
LAND COSTS	\$1,000,000	\$4.67	\$5.43	\$4,000
HARD CONSTRUCTION COSTS				
Direct Overhead	257,000	1.20	1.40	1,028
Site Work	504,000	2.35	2.74	2,016
Foundation	217,000	1.01	1.18	868
Electrical	293,000	1.37	1.59	1,172
Plumbing	425,000	1.99	2.31	1,700
Framing	881,000	4.12	4.79	3,524
Roofing	198,000	0.93	1.08	792
Insulation	56,750	0.27	0.31	227
Miscellaneous Steel	75,000	0.35	0.41	300
Light Weight Concrete	81,000	0.38	0.44	324
HVAC	257,000	1.20	1.40	1,028
Drywall	388,000	1.81	2.11	1,552
Windows	104,000	0.49	0.57	416
Interior Trim	241,000	1.13	1.31	964
Cabinets	162,000	0.76	0.88	648
Ceramic Tile	47,000	0.22	0.26	188
Masonry	404,000	1.89	2.20	1,616
Finish Hardware	7,500	0.04	0.04	30
Wall Covering	37,500	0.18	0.20	150
Painting	104,000	0.49	0.57	416
Flooring	142,000	0.66	0.77	568
Window Covering	39,000	0.18	0.21	156
Appliances	237,000	1.11	1.29	948
Fencing	22,000	0.10	0.12	88
Landscaping	167,000	0.78	0.91	668
Swimming Pool	47,000	0.22	0.26	188
Clean-up	50,000	0.23	0.27	200
Extrordinary Expenses	5,000	0.02	0.03	20
Contractor Fee	305,000	1.42	1.66	1,220
Contingency	227,000	1.06	1.23	908
TOTAL	\$5,980,750	\$27.94	\$32.50	\$23,923
SOFT COSTS				
Architectural and Engineering	94,750	0.44	0.51	\$379
Interest and Cash Flow Deficits	1,400,000	6.54	7.61	\$5,600
Legal and Accounting	232,500	1.09	1.26	\$930
Offsite Overhead	300,000	1.40	1.63	\$1,200
Advertising	70,000	0.33	0.38	\$280
Pre-Leasing Costs	75,000	0.35	0.41	\$300
TOTAL	\$2,172,250	\$10.15	\$11.80	\$8,689
TOTAL PROJECT COSTS	\$9,153,000	\$42.76	\$49.74	\$36,612

### III. THE MARKET OVERVIEW

### III. MARKET OVERVIEW

#### A. INTRODUCTION

Albuquerque, the geographic center of the Great Southwest, is the largest city in New Mexico with a 1980 population of 454,900 people. Located at the intersection of Interstate 40 running east and west and Interstate 25 running north and south, Albuquerque has experienced a healthy growth in population and continues to prosper steadily. The 1990 population is estimated to be 536,300. Wholesale/retail trade, services, and government are the three largest areas of employment in Albuquerque. Wholesale/retail trade was responsible for 25.1% of the total employment of Albuquerque while services and government were each responsible for approximately 23% respectively. Albuquerque is also recognized as a leader in national research and development with the presence of Sandia National Laboratories and various high technology firms such as Motorola, GTE, Signetics, and Sperry Flight Systems. In addition to these firms, Intel, Monolithic Memories, and Hewlett Packard have recently begun construction of new facilities. Chase Econometrics has ranked Albuquerque as sixth nationwide in employment growth during the 1980's. The diversity of industry types and the large number of employers make Albuquerque less vulnerable than other areas to severe fluctuations in the economy.

#### B. ALBUQUERQUE APARTMENT MARKET

In the fall of 1984, the Albuquerque Multifamily Association surveyed 8,000 apartment units and found a 4.6% vacancy which was spread evenly throughout the city. This high occupancy was caused by recent employment increases together with low rates of construction in 1980 through 1983. In response to this strong apartment market, developers applied for building permits for 4,500 units in 1984. Of these permitted units approximately 3,500 are currently under construction. This surge in apartment construction has continued to the current level of 13,000 units at some stage in the city approval process with approximately 6,000 units authorized to begin construction. Of the recently approved building permits, about 1,000 are expected to begin construction in 1985. The disastrous effects of overbuilding which would be caused by the actual construction of the 13,000 units in the approval process will probably not occur. Many of the projects in the approval process are simply applications for rezoning land which is currently classified as single family or agricultural to multi-family zoning. Also many of the building permit requests are for multi-phased projects which will be constructed over the next

five years, if at all. Another encouraging factor which would reduce the actual construction of apartments is the reduction in the supply of available financing. Tax-exempt bond financing for apartments has been sharply curtailed in New Mexico, and threatened changes in the current federal income tax laws have reduced the enthusiasm of equity syndicators for multi-family housing.

A more realistic estimate of new apartment construction would be approximately 5,500 new units which would be available for occupancy in 1985 and 1986. This would consist of 3,545 units currently under construction, 1,059 units which will probably begin construction this year, and another 1,018 which are proposed projects with a very high likelihood of beginning construction in late 1985 or early 1986. (See Exhibits III-1 and III-2.)

Albuquerque has experienced two apartment cycles since 1971. The first cycle (1971-1976) had an average annual demand of 2,604 units while the second cycle (1977-1983) had an average annual demand of 1,663 units. The high level of building activity experienced in 1984 and expected in 1985-1986 indicates the beginning of the next cycle. (See Exhibit III-3.)

The apartment cycle generally lags the area's business cycle. As new jobs are created the demand for multi-family housing increases, and the occupancy levels increase dramatically. The high occupancy level forces higher rents which inevitably results in new construction activity. However, because of the long production time required for multi-family housing (e.g. site assemblage, public approvals, and construction time) the supply side response to the increased demand for multi-family is usually 12 to 24 months. Recently in Albuquerque the creation of 12,000 new jobs has been announced. These jobs are expected to be filled during the next two to three years. Consequently, the high level of multi-family construction reflects the anticipated demand for housing caused by the new jobs creation announced in 1984. (See Exhibit III-4.)

Clearly the apartment market in Albuquerque is entering the first phase of the apartment cycle and becoming oversupplied in 1985 and 1986. The extent of the oversupply will be influenced by two factors: first, the increase in supply will be determined by the available financing; and secondly, the absorption of the new apartments will be determined largely by the new job creations. Obviously, if financing is restricted and new job creation remains strong, then the multi-family market will continue to experience

high occupancy levels and high rental rates. However, it is possible that the reverse could occur, and a very oversupplied market would result.

#### C. COMPETITIVE APARTMENT PROJECTS

Piedmont Realty Advisors surveyed the Albuquerque market and found eleven existing projects which were considered to be competitive with the proposed Rancho Vallarta project and observed three projects under construction on the West Mesa which would provide indirect competition. The Presley Company of New Mexico currently has two projects under construction on the West Mesa. These properties appear to be patterned after an existing Presley apartment complex on the West Mesa which features straight rows of garden apartments, minimal landscaping, and a limited amenity package. The other project under construction on the West Mesa is by A.G. Spanos Construction Company. The Spanos apartment projects have a reputation for low quality and budget prices. These properties should attract the price conscious sector of the West Mesa apartment market. Neither project should compete directly with the proposed Rancho Vallarta project which would be impacted more by the higher quality projects in the northeast quadrant of Albuquerque.

The competitive properties listed in Exhibit III-5 were surveyed in January, 1985 and again in April, 1985. During that time new properties continued to show good occupancy increases while the older existing properties showed slightly higher vacancy rates in April than in January. This experience is common in a softening market where the newer and higher quality projects do well at the expense of the older and less attractive ones. Also during this time no rent increases were reported, and several projects lowered their rental rates. All of the surveyed projects provide good access to the University of New Mexico, the Kirtland Air Force Base, and the Sandia Laboratories which have been the traditional source of demand for multi-family housing. However these properties have decidedly inferior access to new jobs on the West Mesa. These properties also have relatively modest landscaping, and in many cases the parking lot runs to the front doors of the apartments. The amenity packages are adequate, but they are inferior to the package featured at Rancho Vallarta.

Currently rents in these projects range from \$.52 to \$.68 per square foot per month for one bedroom one bath units and from \$.49 to \$.56 for the two bedroom two bath units. Rental rates generally increased at the end of 1984 and have been flat so far this year. However as new projects complete the lease-up stage, an upward movement in rental rates is expected at the end of 1985 and again at the end of 1986.

#### D. CONCLUSION

The Rancho Vallarta project has two major competitive advantages in the Albuquerque apartment market: location and quality. In the short run, a growing West Mesa population of 38,000 people combined with an inadequate supply of rental apartments in the area should permit Rancho Vallarta to capture existing pent-up demand for high quality multi-family housing. In the long run, the new jobs being created on the West Mesa and in northern Albuquerque should keep upward pressure on Rancho Vallarta's occupancy and rental rates. Optimistically, renters would pay a premium for the West Mesa location, but most likely the subject property will do as well as the best projects in northeast Albuquerque. Consequently, Piedmont expects that the rental rates for Rancho Vallarta should average \$.62 per square foot per month from mid-1986 to mid-1987, and \$.68 per square foot per month from mid-1987 to 1988.

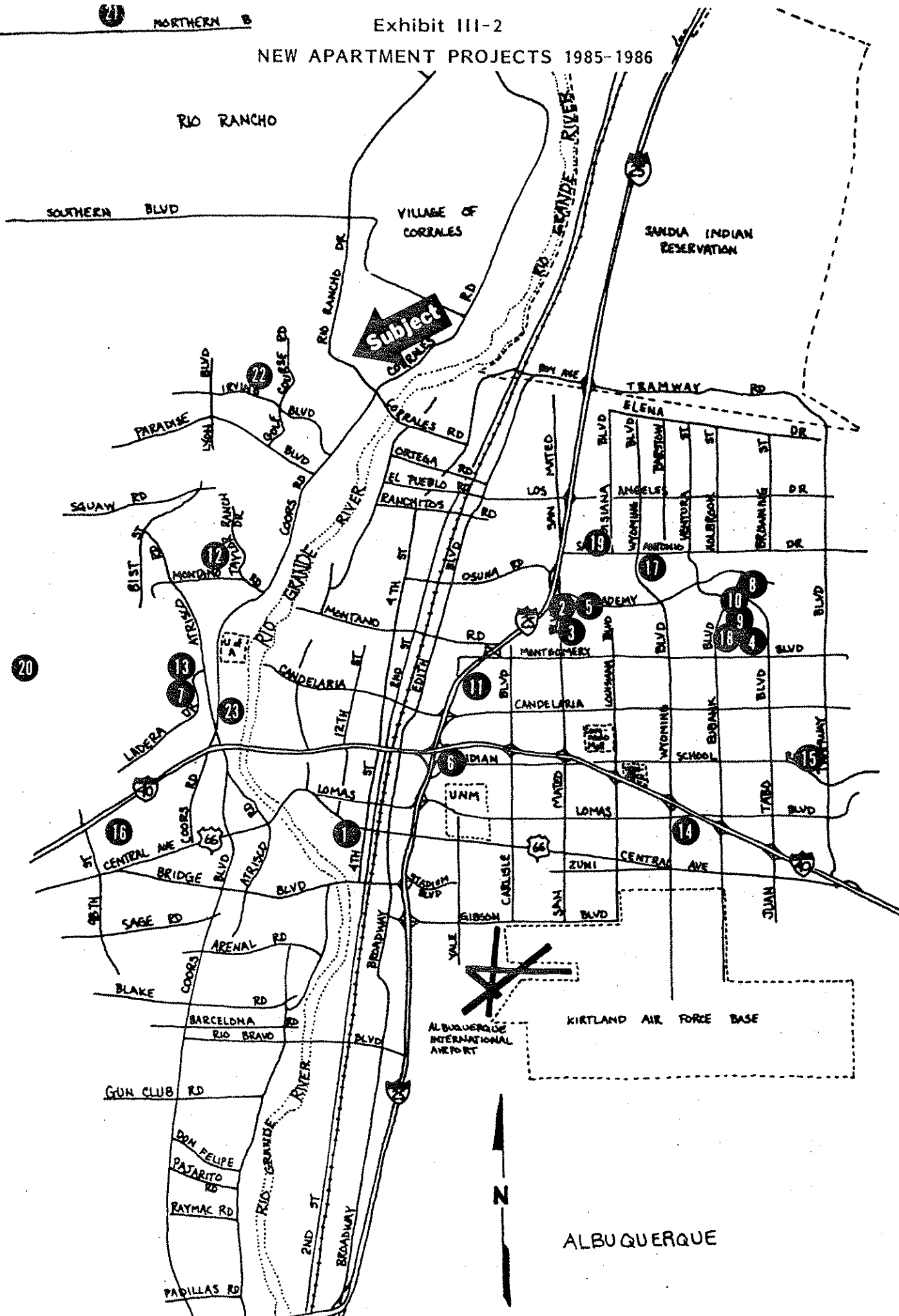


Exhibit III-1

New Apartment Projects 1985-1986  
Albuquerque, New Mexico

Map No.	Project Developer/Location	No. of Units
-----		
1984 Construction		
-----		
1.	Dinnerstein -- Downtown	210
2.	Pacific Development--Osuna/San Mateo	320
3.	Sungate--San Mateo/Osuna	504
4.	Lincoln--Eubank/Montgomery	242
5.	Dinnerstein--San Mateo/Osuna	256
6.	Inman--Indian School/I-25	219
7.	Presley--Ladera	340
8.	Grupe--Juan Tabo/Eubank	200
9.	Cauwells & Davis--Spain/Eubank	250
10.	Campbell--Juan Tabo/Eubank	400
11.	FSC--340 Comanche	On Hold
12.	A.G. Spanos--Taylor Ranch	240
13.	Presley--Atrisco/Sequoia	264
14.	Sunrise--13400 Lomas	100
		-----
Total Units		3,545
1985 Permits To Date		
-----		
15.	A.G. Spanos--Indian School & Tramway	256
16.	Westland Development -- 6801 Los Volcanos, NW	207
17.	Cimarron Equity--San Antonio & Wyoming	346
18.	Lincoln Property--4610 Eubank (II)	250
		-----
Total Units		1,059
Proposed Projects		
-----		
19.	Mike Embrey--San Antonio/Louisiana	200 Delayed
20.	National Realty Consultants--Taylor/Montano	416
21.	Mike Stevens--Rio Rancho	190
22.	Bobby Jenkins--McMahon Blvd.	136
23.	Albuquerque Development--Vista Grande Dr., NE	76
		-----
Total Units		1,018

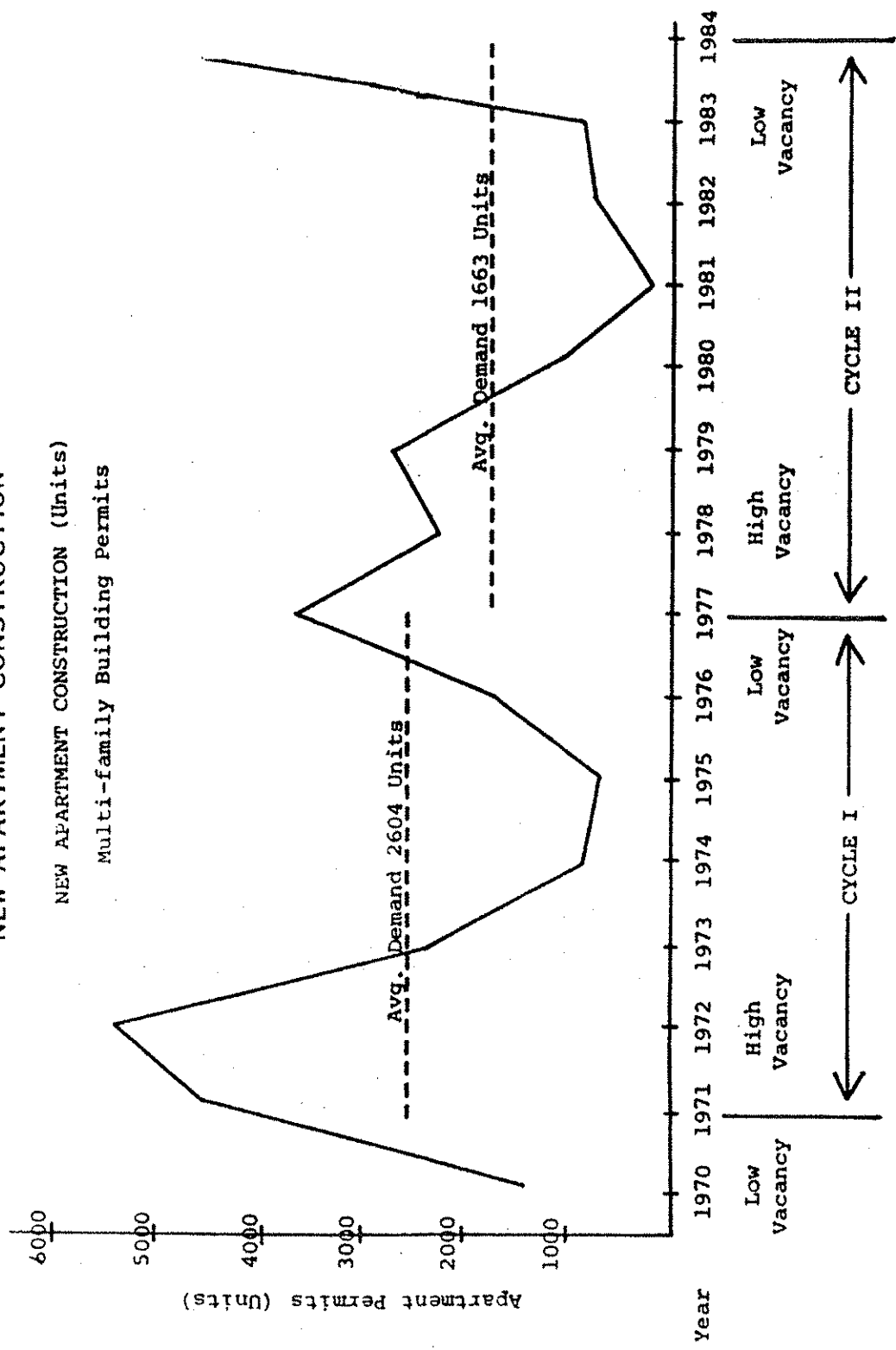
NEW APARTMENT PROJECTS 1985-1986



SANDIA MOUNTAINS

ALBUQUERQUE

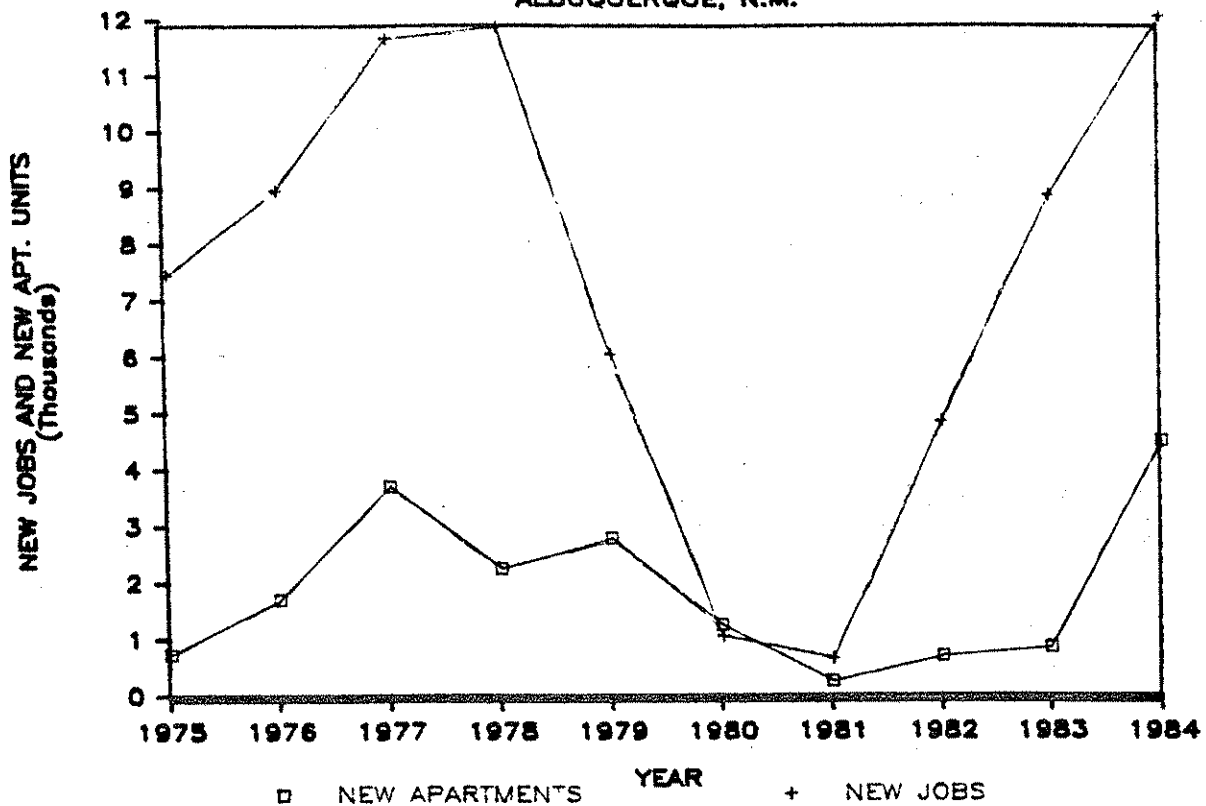
Exhibit III-3  
**NEW APARTMENT CONSTRUCTION**  
 NEW APARTMENT CONSTRUCTION (Units)  
 Multi-family Building Permits



Source: Market Research Group  
 Albuquerque, N.M.  
 Spring, 1985

## NEW JOBS VS. APARTMENT CONSTRUCTION

ALBUQUERQUE, N.M.



YEARS	APARTMENT UNITS	NEW JOBS	JOBS/APARTMENT UNIT
1975	708	7400	10.45
1976	1677	8900	5.31
1977	3678	11600	3.15
1978	2231	11800	5.29
1979	2771	6000	2.17
1980	1226	1000	0.82
1981	230	600	2.61
1982	676	4800	7.1
1983	831	8800	10.59
1984	4500	12000	2.67

Sources: 1. Municipal Development Dept. - Code Administration  
 2. Non-Agricultural Wage and Salary Employment  
 New Mexico Employment Security Division

# Exhibit III-5 COMPETITIVE PROPERTIES SUMMARY

ALBUQUERQUE APARTMENT SURVEY  
APRIL 11, 1985

PROJECT NAME AND ADDRESS	NO./UNITS	YEAR BUILT	OCCUPANCY	STUDIO/ EFF.	RENTS PER SQUARE FOOT				TOWNHOUSE	UTILITIES	COMMENTS
					1BR/1B	2BR/1B	2BR/2B	3BR/2B			
1. TIERRA ANTIGUA 5905 TIERRA, N.E. 505/293-3471 (CHERYL ROEBUCK)	148	1984	66%		.62-.64	.56-.54	.50			TENANT PAYS GAS, ELEC, WATER, SEWAGE	UNITS HAVE INDIVIDUAL GARAGES. BUILT FOR CONDO. CONVERSION. CONVERTING EL PASEO ACROSS ST.
2. PUEBLO VILLAS 6401 ACADEMY, N.E. 505/821-1100 (APRIL)	232	1974	95%	.61	.59	.55-.51		.50		TENANT PAYS ALL EXCEPT FOR GAS	COVERED PARKING.
3. LINCOLN PLACE 4401 SAN PEDRO, N.E. 505/884-6521 (MARY)	120	1981	85%	.70	.56-.60	.48	.51			TENANT PAYS ELEC.	FURNISHED UNITS AVAILABLE
4. CIBOLA VILLAGE 12400 MONTGOMERY, N.E. 505/293-4026 (TERRY)	128	1977	HIGH 80%		.54-.52	.49				TENANT PAYS ELEC.	\$100 MOVE-IN FOR 1 YR. LEASE
5. THE VILLAGE 3400 WYOMING, N.E. 505/298-5585 (JAN)	339	1972	98%		.61-.49				.42-.39	TENANT PAYS ELEC.	
6. OAKTREE PARK APTS. 5550 SAN MATEO BLVD. NE 505/881-6667 (MARY)	320	1985	100%		.63-.55	.53	.49			TENANT PAYS ELEC.	
7. MOUNTAIN RUN 5800 EUBANK, NE 505/296-0571 (GILL)	48 OF (472)	1984	87%		.59	.52-.53	.51			TENANT PAYS ELEC.	\$30 CONSTRUCTION SPECIAL. 48 UNITS COMPLETE
8. SUNGATE 10800 COMANCHE, NE 505/292-4212	94	1983	93%		.64	.49				TENANT PAYS ELEC.	
9. VISTA DE LA CIUDAD 4200 SPANISH BIT. NE 505/298-1856	270	1984	N/A		.55	.55	.51			TENANT PAYS ELEC.	
10. LINCOLN GREEN APARTMENTS 4610 EUBANK, NE 505/294-0603 (CONNIE)	242	1984	89%	.75-.79	.58-.56	.55	.51			TENANT PAYS ELEC.	\$100 CONSTRUCTION SPECIAL FOR 1 YEAR LEASE
11. MOUNTAIN SHADOWS 5324 SAN MATEO, NE 505/888-0404	76 OF (504)	1985	85% OF 76		.68-.59	.52	.53			TENANT PAYS ELEC.	

NORTHERN

# Exhibit III-6 COMPETITIVE PROPERTIES MAP

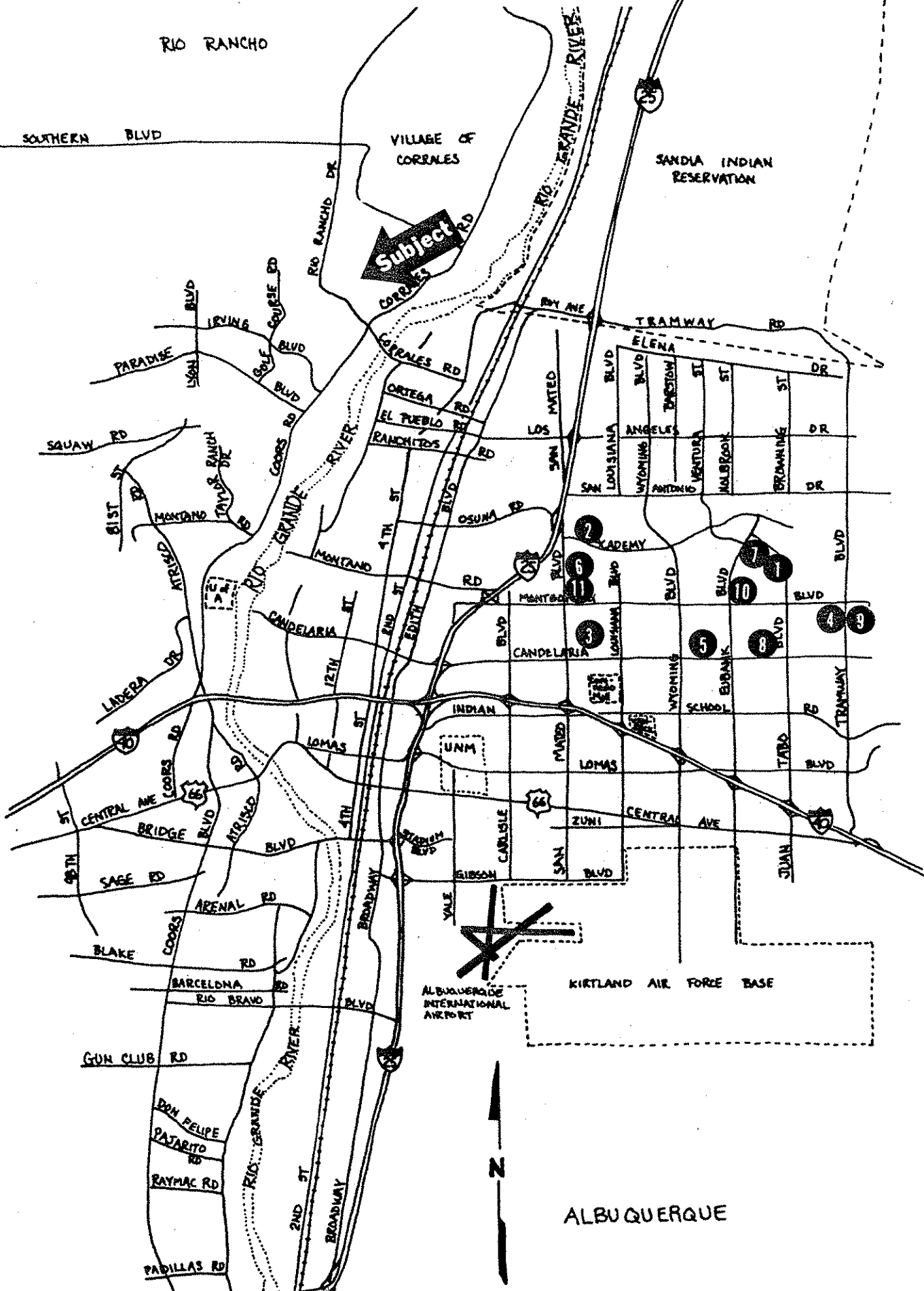
RIO RANCHO

SOUTHERN BLVD

VILLAGE OF  
CORRALES

SANDIA INDIAN  
RESERVATION

Subject



SANDIA MOUNTAINS

ALBUQUERQUE

#### IV. THE BORROWER

#### IV. BORROWER/DEVELOPER

##### A. INTRODUCTION

The borrower for the Rancho Vallarta is Crow-Western #201, Seven Bar Ranch 1, Ltd., a Texas limited partnership. The general partner of the borrower is Crow-Western Company, a Texas corporation. The Crow-Western Company is a subsidiary of the Crow-Teague Company, one of the Trammell Crow Residential Companies.

##### B. THE TRAMMELL CROW ORGANIZATION

Trammell Crow is the largest private real estate developer in the United States. The Trammell Crow Residential Companies was formed twenty years ago when Trammell Crow expanded his commercial real estate ventures to include residential development. This company along with the Trammell Crow Company and the Crow Family Company comprise Trammell Crow's holdings.

The Trammell Crow Residential Companies have properties in over 40 cities throughout the United States and has gross assets in excess of \$1.4 billion. Denny Alberts is president of the company, and Michael Crow is executive vice president. Apartment development is conducted by the Crow-Terwilliger Company, the Chasewood Company, and the Crow-Western Company. The development of subdivisions for single-family housing is done by the Crow Development Company. (See Exhibit IV-1.)

##### C. THE BORROWER

Crow-Western Company is the general partner of the borrower, Crow-Western #201, Seven Bar Ranch 1, Ltd., and the cash flow deficit guarantees for the first 24 months of the loan will be provided by the following individuals:

Trammell S. Crow  
D. Michael Crow  
Dennis H. Alberts  
Thomas R. Teague  
John R. Carmichael  
Mark M. Culwell

These persons have a collective net worth based on business assets alone over \$234 million. The bulk of this net worth is provided by Trammell S. Crow.

Crow-Western is one of the apartment development subsidiaries of the Crow-Teague Companies. The president of the Crow-Teague Companies (assets over \$350 million) is Tom Teague, and the firm's activities



encompass apartment development, property management, and apartment acquisition and brokerage. The Crow-Western Company develops apartment properties in the Western and Southwestern sections of the United States. Brentwood Properties provides daily operational management for more than 28,000 apartments. This firm leases and manages apartments for outside clients as well as the Trammell Crow Residential Companies. It also manages 3,800,000 square feet of office and shopping center space for private and corporate owners. Apartment acquisition and brokerage is undertaken through Bryan Associates.

D. THE DEVELOPMENT TEAM

Rancho Vallarta will be developed, constructed, leased, and managed by the following Crow-Teague Companies:

Developer: Crow-Western Company -- Albuquerque  
Regional Partner -- John R. Carmichael  
Operating Partner -- Mark M. Culwell

Contractor: Crow-Western Contractors, Inc.  
President -- Mark M. Culwell  
Project Manager -- James Sherrod  
Construction Coordinator -- Terry Gray

Leasing and Management: Brentwood Properties  
President -- Michael Doramus

The project architect is Flatow Moore Bryan Architects of Albuquerque, New Mexico. Founded in 1947, this firm has over 40 professionals and has projects throughout the United States but which are concentrated in the Southwest. (See Exhibit IV-2.)

E. CONCLUSION

The financial strength of the individual guarantees for the cash flow deficits is substantial and provides excellent security for the proposed mortgagor. The Crow-Western Company has proven its ability to develop, build, lease, and manage apartment projects in a professional and profitable manner throughout the Western and Southwestern United States. In summary, the sponsorship of the Rancho Vallarta project is excellent.

# Exhibit IV-1 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**  
**George Field, Sr. Vice President**  
**John Papagolos, Sr. Vice 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 & WOOD**  
**SOUTHEAST STATES**  
**Leonard Wood**  
**Partner**  
**Apartment Development**  
**Condominium Development**

**CROW DEVELOPMENT**  
**DALLAS/FORT WORTH**  
**Marc Bateman, Kathy Cunningham,**  
**Kent Gaydos, Nancy Lyon,**  
**Mark Thorne--Partners**  
**Land Development**

**CROW-WESTERN**  
**HOUSTON**  
**Dennis Elmore**  
**Partner**  
**Apartment Development**

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

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

**CROW DEVELOPMENT**  
**OKLAHOMA CITY**  
**Thomas Walker**  
**Partner**  
**Land Development**

**CROW-WESTERN**  
**ARIZONA**  
**Thomas Lewis**  
**Partner**  
**Apartment Development**

**THE CHASEWOOD COMPANY**  
**DENVER**  
**Richard Campbell**  
**Partner**  
**Apartment Development**  
**Condominium Development**

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

**CROW DEVELOPMENT**  
**AUSTIN**  
**David Johnston**  
**Partner**  
**Land Development**

**CROW-WESTERN**  
**ALBUQUERQUE**  
**Mark Culwell**  
**Partner**  
**Apartment Development**

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

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

**CROW DEVELOPMENT**  
**SAN ANTONIO**  
**Land Development**

**CROW-WESTERN**  
**SEATTLE**  
**Robert BeVan**  
**Partner**  
**Apartment Development**

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

**CROW, TERWILLIGER & MICHAUX**  
**MIDDLE ATLANTIC & N.E. STATES**  
**Richard Michaux**  
**Partner**  
**Apartment Development**  
**Condominium Development**



**CROW-WESTERN**  
**SAN FRANCISCO**  
**William Thompson**  
**Partner**  
**Apartment Development**

**THE CHASER COMPANY**  
**General Contracting**

**CROW, TERWILLIGER & DRESSLER**  
**BOSTON**  
**David Dressler**  
**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**  
**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 INVESTMENT PROPERTIES, LTD.**  
**Carl Yates**  
**President**  
**Apartment Brokerage**

**BRYAN ASSOCIATES**  
**Ronald Colter**  
**President**  
**Apartment Brokerage**  
**Apartment Syndications**

Exhibit IV-2  
FLATOW MOORE BRYAN ARCHITECTS  
REPRESENTATIVE PROJECTS

NAME ----	LOCATION -----	TYPE ----	SIZE ----
ADAL Computer Building	Kirtland AFB, NM	Technical	\$ 6,172,000
Air Force Housing	Cannon AFB, NM	Officers' Housing	\$21,686,000
Allison Cancer Therapy Center	Midland, Texas	21,000 SF Medical	\$ 3,808,000
American Federal S&L	Albuquerque, NM	78,000 SF Bank/Office	\$ 4,078,000
Anna Kaseman Hospital	Albuquerque, NM	Satellite Hospital	\$ 7,967,000
Bernalillo County Medical Center	Albuquerque, NM	University Medical Center	\$11,950,000
Biology Building	Albuquerque, NM	UNM Building	\$ 6,489,000
Brashears Center	Fullerton, CA	Office Building	\$ 6,607,000
Camelback Inn	Phoenix, AZ	Resort Hotel	\$ 7,025,000
Cancer Research Facility	Albuquerque, NM	Medical	\$ 7,867,000
Central Computing Facilities	Los Alamos, NM	Computer Facility	\$ 4,794,000
Civic Center Park	Albuquerque, NM	6-Acre Urban Plaza	\$ 2,527,000
Classic Hotel	Albuquerque, NM	Hotel/Convention	\$11,178,000
Clovis High Plains Hospital	Clovis, NM	103-Bed Hospital	\$ 8,198,000
Computer Facility	Los Alamos, NM	Computer Facility	\$ 4,328,000
Convention Center	Albuquerque, NM	Convention Facility	\$15,860,000
Corrales Shopping Center	Corrales, MN	Neighborhood Retail	\$ 2,128,000
Del Webb Center	Fresno, CA	Office Tower	\$18,687,000
Energy Light Lab	Albuquerque, NM	Office/Research	\$ 8,558,000
Fairway Plaza Offices	Abilene, Texas	Office	\$ 3,736,000
Farris Engineering Center	Albuquerque, NM	Teaching Center	\$ 7,390,000
Federal Courthouse	Albuquerque, NM	Federal Offices	\$28,030,000
First National Bank East	Albuquerque, NM	Office	\$11,483,000
Four Seasons Hotel	Albuquerque, NM	Convention Motor Hotel	\$ 6,438,000
Four Seasons Hotel	Colorado Spgs., CO	Convention Motor Hotel	\$16,558,000
Gallup Federal Building	Gallup, NM	Federal Offices	\$ 5,542,000
Greyhound Tower	Phoenix, AZ	Office	\$21,190,000
Intel Fab VII	Rio Rancho, NM	Microchip Mfg. Facility	\$27,544,000
Irvine Marriott Hotel	Irvine, CA	Convention Hotel	\$30,000,000
Laguna Housing	Laguna, NM	205 Housing Units	\$16,842,000
Marriott Hotel	Albuquerque, NM	Convention Hotel	\$16,886,000
Medical Arts Square	Albuquerque, NM	Medical Clinic	\$ 4,440,000
Methodist Hospital	Lubbock, Texas	Hospital Add./Renov.	\$20,047,000
Midland Memorial Hospital	Midland, Texas	Hospital Add./Renov.	\$12,708,000
Newport Beach Hotel	Newport Beach, CA	Hotel Addition	\$15,000,000
Nuclear Safeguards Security Laboratory	Kirtland AFB, NM	Research Laboratory	\$ 6,102,000
Old First National Bank Renov.	Albuquerque, NM	Historic Renovation	\$ 3,276,000
Prudential Plaza	Denver, CO	Office Tower	\$45,226,000
Red Rocks State Park	Gallup, NM	Arena/Auditorium/Cmpgnd	\$ 5,971,000
Rosenzweig Center	Phoenix, AZ	Office/Hotel	\$31,031,000
Santa Fe Medical Building	Santa Fe, NM	Medical/Solar Building	\$ 3,884,000
Simms Building	Albuquerque, NM	Solar Asstd. Off. Tower	\$11,075,000
Social Security Building	Albuquerque, NM	Office Expansion	\$ 3,122,000
Sports Stadium	Albuquerque, NM	Baseball Complex	\$ 4,310,000
Systems Research Lab	Kirtland AFB, NM	Research Lab	\$ 8,780,000
West Mesa High School	Albuquerque, NM	School	\$ 6,660,000
Willow Creek Office Building	Idaho Falls, ID	Exec. HQ	\$14,324,000

**V. THE RISK AND RETURN**

## V. RISK AND RETURN

### A. INTRODUCTION

As a form of investment, the participating mortgage has some of the advantages of equity investment as well as the guaranteed return in a senior security position of a traditional mortgage debt. The participating mortgage of Rancho Vallarta will be fully collateralized by a first lien on the land and improvements, and as additional security the general partners of the borrowing entity will individually guarantee the cash flow deficits during the first 24 months of the loan.

There are several features of this application which are different from the others presented to the Committee. The loan carries a 13% interest rate throughout the term of the loan. The pay rate for the first 36 months is 10%, and it increases to 10.5% thereafter. The accrued interest accumulates and is added to the outstanding loan balance every 36 months. The annual additional interest in this loan is 50% of the net cash flow, and it is used to offset the accrued interest. In this manner the additional interest, which will reflect operational risk of the property, is used to minimize the accrued interest and thereby keep down the outstanding loan balance and protect USF&G from potential loan to value risk.

This loan does not cover the total cost of the project, and therefore the borrower must raise additional equity capital. It is the borrower's intention to raise additional capital through an equity syndication. At the sale or refinancing of the property the net sales price is distributed in the following manner: first, the outstanding loan balance and any accrued interest is paid off; second, the borrower receives an amount equal to the syndicated capital; third, the lender receives an amount equal to the borrower's syndicated capital; and fourth, the remaining proceeds are split 50/50. This arrangement allows a preferred return of the equity capital in the event that the borrower's share of the net sales proceeds is less than the syndicated capital.

### B. VALUATION

#### 1. First Year Income and Expenses

The expected first year income and expenses for Rancho Vallarta are presented in Exhibit V-1. The first year rents are difficult to estimate because of the potential oversupply of multifamily housing and the

lack of comparable apartment projects on the West Mesa. These rents would occur from the initial funding in the third quarter of 1986 through the second quarter of 1987, and they could range from a low of \$.60 per square foot per month to a high of \$.68 per square foot per month. The major determinants of the rents will be the quantity of apartment construction in 1985 and 1986 as well as the premium paid for the West Mesa location. As a "best guess", Piedmont has estimated an average rental rate of \$.62 per square foot per month for the 12 months following initial funding. This would mean that the one-bedroom apartments would rent for an average of \$.65 per square foot and the two-bedroom apartments would rent for an average of \$.60 per square foot. Additional income from the laundry concession and forfeited deposits is expected to average \$12 per unit per month. The vacancy allowance is projected to be 5% during the life of the loan, and this figure is used in the valuation of the property. In the yield calculation (Section C.5), however, the vacancy allowance is 50% in the first year and 5% in the second through tenth years. The first year operating expenses are estimated to be \$2.20 per square foot which represents an operating ratio of 30%. Currently operating expenses for the surveyed competition range from \$1.85 to \$2.00 depending on the age and quality of the project. Therefore the \$2.20 rate which includes a 5% management fee may be on the high side.

The net operating income for the first year with a 5% vacancy allowance is \$930,000. When the mortgage payment of \$850,000 is deducted from the net operating income the first year cash flow is \$80,000. The indicated debt coverage ratio is 1.09.

## 2. Valuation Methodology

The forward commitment aspect of the participating mortgage enables the lender to invest at a wholesale level (i.e. cost) and immediately to participate in 50% of the spread between cost and value when the building is complete. The estimation of value is therefore an important part of the investment consideration. Piedmont Realty Advisors evaluated Rancho Vallarta using the three methods of value accepted by the American Institute of Real Estate Appraisers, and these value estimates are presented in Exhibit V-2. Piedmont estimates the Market Value of the property when it is completed and leased to be \$10,400,000. As shown in the Application in Exhibit I-1, USF&G's commitment is contingent upon an independant MAI appraisal for at least this amount. The indicated loan to value ratio is 82%.

### C. RETURN

The projected income and expenses for the property over a 10-year period are based on second year rent and expense levels stabilized at \$.68 per square foot per month and \$2.47 per square foot per year respectively. Incomes, expenses, and property value are all expected to increase at a 6% rate of inflation. These projections are shown in Exhibit V-3.

The cash flows which contribute to the loan yield include the base debt service, additional interest from operations, accrued interest, and additional interest from sale, and these figures are presented in Exhibit IV-4 for each year of the 10 year call period.

#### 1. Base Debt Service

The base debt service on the loan is \$850,000 per year for the first three years of the loan (10% pay rate), and \$892,500 for the remaining term of the loan (10.5% pay rate).

#### 2. Additional Interest From Operations

The additional interest from operations is 50% of the net annual cash flow. No additional interest is estimated for the first loan year because of a high vacancy allowance during the lease-up period. During the second loan year, the occupancy is expected to stabilize at 95%, and the additional interest from operations is projected to be \$81,950. The additional interest is expected to increase gradually to \$361,751 in the tenth loan year.

#### 3. Accrued Interest

The accrued interest rate is 3% per year for the first three loan years and 2.5% thereafter. The accrued interest is offset by any additional interest from operations, and every three years the accumulated accrued interest is added to the outstanding mortgage balance. It is highly probable that the additional interest will never offset the accrued interest. However, under optimistic income projections, the additional interest may offset the accrued interest, and the outstanding loan balance remains at \$8.5 million. Under the most likely assumptions in this analysis the accrued interest remaining at the end of the ten year call period is \$1,259,575 or 14.8% of the original loan amount.

#### 4. Additional Interest From Sale Or Refinancing of Property

If the property is sold before the loan is called, refinanced, or matures, the additional interest is equal to the difference between the net sales price and the outstanding loan balance provided that the borrower's share is at least equal to the amount of capital which was syndicated at the beginning of the loan. The exact distribution of sales proceeds is as follows:

	Bonafide Sales Price
Less	<u>Selling Expenses (not to exceed 3%)</u>
	Net Sales Price
Less	<u>Outstanding Loan Balance (including accrued interest)</u>
	Net Sales Proceeds
Less	Borrower's Syndicated Capital
Less	<u>Additional Interest Equal to Syndicated Capital</u>
	Net Cash Proceeds to be Distributed 50/50 between Borrower and Lender

If the property is refinanced then the above procedure will still apply except that the 3% sales expenses will not be considered and the Fair Market Value will be used in lieu of the bonafide sales price. The additional interest from the sale of the property in this analysis is expected to be \$3,236,884.

#### 5. Yield Analysis

The expected nominal yield on the participating mortgage is 14.6%. However the actual yield will be determined largely by the rental rates, the inflation rate, and the sales price at the end of the ten year period. A sensitivity analysis which shows the effect of these variables on the yield is presented in Exhibit V-5. The pessimistic rental assumptions are \$.60 per square foot per month, and the optimistic rental rates are \$.68 per square foot per month. The most-likely rental rate is the mid-point of that range or \$.64 per square foot per month. The annual inflation rate is assumed to be 3%, 6%, and 9%, and the sale at the end of the holding period is estimated at today's value compounded at the inflation rate, and at overall capitalization rates of 8%, 9%, and 10%.



When the tenth year sales price is based on today's value compounded at the inflation rate, the pessimistic scenario has nominal yields ranging from 13.4% to 15.7% as inflation increases, and the most-likely and optimistic scenarios show yields ranging from 13.5% to 15.9% and from 13.6% to 16.0% respectively. It is interesting to note that in all cases the real yields (adjusted for inflation) are higher as the inflation rate is lower. This result occurs primarily because the interest rate is at least 13% regardless of the inflation rate.

This sensitivity analysis also demonstrates that the nominal yield can be substantially affected by the sales price. A change in the overall capitalization rate from 10% to 8% can cause an increase in yield for the most-likely scenario of 80 basis points in the 3% and 6% inflation cases and of 100 basis points in the 9% inflation case.

#### D. THE RISKS

The risk exposures in this investment can be divided into four categories: market, operations, default and interest rate risk.

##### 1. Market Risk

The most significant market risk facing this investment is the uncertainty of the apartment market during the next 24 months. The oversupply of multi-family housing which is occurring could reduce rental rates and increase vacancies. The subject property has the advantage of being on the West Mesa, and therefore not in direct price competition with the majority of the new apartment projects. Beyond the 24 months, the second phase of the historical apartment cycle should begin, and rental rates and occupancies should increase.

Another market risk is that the future growth and development of the West Mesa does not occur as expected. However, if the Albuquerque economy remains strong, then the West Mesa development is inevitable given the availability of land, the location of new jobs, and the scheduled public road improvements.

## 2. Operational Risk

The operational risk occurs if the property is not effectively marketed and managed. The leasing and management of Rancho Vallarta will be done by Brentwood Properties, one of the largest property management firms in the country. The leasing and marketing will begin as soon as the clubhouse is finished only five months after construction begins. The property should be operated efficiently over the term of the loan because of the high quality and energy efficiency of the improvements. Also, USF&G has the right to approve the annual operating budget for the property. Thus, the operational risk is considered small.

## 3. Default Risk

The default risk is minimal with this investment since Trammell Crow and his companies have never defaulted on a real estate project. The risk of default is reduced further by the personal guarantees during the first two years of the loan (the highest default risk period) and by an equity investment of at least \$653,000. However if default should occur, the loan is collateralized by a well-located, high quality apartment complex with a unit cost of \$34,000 per apartment or \$46.19 per rentable square foot.

## 4. Interest Rate Risk

Because of the forward commitment nature of the loan, an interest rate risk could occur. If rates increase during the commitment period due to inflation, then the rental rates and property values would also increase, and the real rate of return would be insured because of the participating features of the loan. Conversely, if interest rates decrease before the loan is funded, the borrower is locked into a tri-party agreement with the construction lender and USF&G so the real rate of return would increase accordingly.

#### E. CONCLUSIONS AND RECOMMENDATIONS

The Rancho Vallarta project will be quality construction, have excellent accessibility, and enjoy a locational advantage on the West Mesa. The project will be available for occupancy near the middle of the Albuquerque apartment cycle so that higher rents and good occupancy levels can be expected in the early years of the project. The sponsorship of the property has financial credibility and professional management with an outstanding track record. The structure of the loan provides a minimum return of 13% and a most-likely return of 14.6%. The optimistic return will be determined by the growth rate of the West Mesa and the successful development of the Seven Bar Ranch community, and it could be 15.9% or higher.

This investment provides an adequate return for the risks incurred, and therefore is a good long term investment. Piedmont Realty Advisors recommends that the Real Estate Investment Committee of the United States Fidelity and Guarantee Company approve the issuance of the commitment for a first mortgage of \$8,500,000 for the Rancho Vallarta apartment project under the terms and conditions outlined in this report.

Exhibit V - 1

FIRST YEAR INCOME AND EXPENSES

GROSS INCOME

Apartment Rents

184,022 S.F. @	\$0.62	psf/mo	\$1,369,124
Additional Income			
250 Units @	\$12.00	per month	36,000

Total Income			\$1,405,124
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Less: VACANCY ALLOWANCE @	5.00%		70,256
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EFFECTIVE GROSS INCOME			1,334,867
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Less: OPERATING EXPENSES

Management @	5.00%	of EGI	66,743
Utilities @	\$0.46	psf	84,848
On Site Personnel	\$0.51	psf	93,109
Real Estate Taxes @	\$0.37	psf	67,340
Repairs & Maintenance	\$0.39	psf	71,829
Insurance @	\$0.05	psf	8,979
Administration @	\$0.07	psf	12,121
Total Expenses @	\$2.20	psf	404,848

NET OPERATING INCOME			930,019
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Less: MORTGAGE PAYMENT			
8,500,000 loan @	10.00%	interest	850,000

CASH FLOW			\$80,019
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Indicated DEBT COVERAGE RATIO			1.09
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N.O.I. divided by Mortgage Payment

Exhibit V-2  
VALUATION ANALYSIS

Cost Approach

Improvements (See Exhibit II-9)	\$ 8,153,000
Land Value @ \$2.50 PSF (See Exhibit V-2A)	+ 1,361,000
Developer Profit @10% of Hard Costs	+ 600,000
<hr/>	
Estimated Value	\$10,114,000

Direct Sales Approach

Net Rentable Area (See Exhibit II-7)	\$ 184,022
Sales Price Per Square Foot (See Exhibit V-2C)	X \$60.00
<hr/>	
Estimated Value	\$11,000,000

Capitalized Income Approach

Net Operating Income (See Exhibit V-1)	\$ 930,019
Overall Capitalization Rate (See Exhibit V-2C)	: 9.0%
<hr/>	
Estimated Value	\$10,334,000

Correlation of Value Estimate

The three approaches to value indicate a range of values from \$10.1 million to \$11.0 million. The estimates from the Cost Approach and the Income Approach are very close which suggests that the Sales Approach estimate may be high. Therefore, the value of the subject property when it is built and leased is estimated to be:

\$10,400,000

Indicated Loan to Value Ratio: 82%

## Exhibit V-2A

## COMPARABLE LAND SALES

SALE NO.	ADDRESS	SALE DATE	ZONING	PRICE	AREA SQ. FT.	PRICE/ SQ. FT.
1.	RIO GRANDE/SAN LORENZO, N.W.	3/05/80	SUpud	\$ 250,000	108,900	\$2.30
2.	LADERA/TUCSON, N.W.	4/28/80	R-3	\$ 410,000	139,261	\$2.94
3.	COMACHE/WELLESLEY, N.E.	3/26/82	R-2	\$ 385,000	174,362	\$2.21
4.	SAN MATEO/S. OSUNA, N.E.	1/20/83	SUres	\$1,802,795	777,067	\$2.32
5.	COMANCHE/WELLESLEY, N.E.	4/01/83	R-2	\$ 415,000	174,362	\$2.38
6.	ACADEMY/E. MCKINNEY, N.E.	5/02/83	R-3	\$ 345,000	141,862	\$2.43
7.	MONTGOMERY/E. CARLS., N.E.	10/06/83	SU-1	\$1,142,850	444,686	\$2.57
8.	ATRISCO/SEQUOIA, N.W.	12/28/83	R-3	\$ 866,909	412,513	\$2.10
9.	SAN MATEO/S. OSUNA, N.E.	3/00/84	SUres	\$3,108,250	777,067	\$4.00
10.	SWQ I-25/I-40, N.E.	4/01/84	SU-M	\$1,857,000	742,829	\$2.50
11.	CLOUDCROFT ROAD, N.W.	12/14/84	SU-1	\$ 684,149	304,066	\$2.25
12.	NWC EUBANK/LAYTON N.E.	12/18/84	SUres	\$2,228,416	576,255	\$3.87
	SUBJECT PROPERTY	-	PRD-20	\$1,361,000	544,500	\$2.50

NORTHERN BLVD

Exhibit V-2B

COMPARABLE LAND SALES MAP

RIO RANCHO

SOUTHERN BLVD

VILLAGE OF  
CORRALES

SANDIA INDIAN  
RESERVATION

SITE

CORRALES

TRAMWAY

GLENA

BLVD

BLVD

BLVD

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SANDIA MOUNTAINS

ALBUQUERQUE

ALBUQUERQUE  
INTERNATIONAL  
AIRPORT

KIRTLAND AIR FORCE BASE

N

SQUAW RD

61ST ST

MONTEZUMA

OTIS RD

LADERA DR

COORS RD

BRIDGE

40TH ST

SAGE RD

BLAKE

COORS

ARENAL RD

BARCELONA

RIO BRAVO

GUN CLUB RD

DON FELIPE

PAJARITO

RAYMAC RD

PABILLAS RD

ROADWAY

2ND ST

4TH ST

6TH ST

8TH ST

10TH ST

12TH ST

14TH ST

16TH ST

18TH ST

20TH ST

22TH ST

24TH ST

CANDELARIA

12TH ST

LOMAS

4TH ST

6TH ST

8TH ST

10TH ST

12TH ST

14TH ST

16TH ST

18TH ST

20TH ST

22TH ST

24TH ST

26TH ST

28TH ST

30TH ST

32TH ST

34TH ST

36TH ST

38TH ST

40TH ST

42TH ST

44TH ST

46TH ST

48TH ST

50TH ST

EL PUEBLO

RANCHITOS

OSUNA RD

4TH ST

6TH ST

8TH ST

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12TH ST

14TH ST

16TH ST

18TH ST

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Exhibit V-2C

IMPROVED PROPERTY SALES

PTY #	ADDRESS	NO. UNITS	BUILDING AGE	SALE DATE	SALE PRICE/LEASABLE AREA	G.I.M.	OVERALL RATE	VACANCY	EXPENSE % EGI
1.	5327 MONTGOMERY BOULEVARD, N.E.	150	14	1/83	\$33.55	6.96	8.84%	8%	33%
2.	7600 MONTGOMERY BOULEVARD, N.E.	216	11	1/83	\$29.88	6.36	8.69%	3%	43%
3.	7303 MONTGOMERY BOULEVARD, N.E.	265	11	3/83	\$26.45	6.78	7.20%	8%	47%
4.	3400 WYOMING BOULEVARD, N.E.	339	11	7/83	\$42.53	7.60	7.41%	3%	42%
5.	5328 MONTGOMERY BOULEVARD, N.E.	137	10	8/83	\$45.38	7.91	8.41%	5%	30%
6.	1401 PENNSYLVANIA STREET, N.E.	354	8	9/83	\$28.07	5.61	11.36%	3%	36%
7.	5800 HARPER DRIVE, N.E.	184	1	9/83	\$45.38	8.06	8.03%	0%	35%
8.	4101 INDIAN SCHOOL ROAD, N.E.	194	5	9/83	\$33.91	6.84	8.31%	5%	40%
9.	8911 NORTHEASTERN BOULEVARD, N.E.	118	15	4/84	\$36.05	6.71	7.97%	0%	47%
10.	3800 MONTGOMERY BOULEVARD, N.E.	240	0	4/84	\$66.67	8.28	8.61	5%	25%
11.	1311 LOUISIANA BOULEVARD, N.E.	60	10	5/84	\$43.01	7.17	7.40%	7%	43%
SUBJECT PROPERTY		250	0	-	\$60.00	-	9.0%	-	-





Exhibit V - 3

SUMMARY OF CASH FLOWS

YEAR	1	2	3	4	5	6	7	8	9	10	Sale (1)
Gross Potential Income	1,405,124	1,545,720	1,638,463	1,736,771	1,840,977	1,951,436	2,068,522	2,192,633	2,324,191	2,463,643	
Less: Vacancy	702,562	77,286	81,923	86,839	92,049	97,572	103,426	109,632	116,210	123,182	
Effective Gross Income	702,562	1,468,434	1,556,540	1,649,932	1,748,928	1,853,864	1,965,096	2,083,001	2,207,982	2,340,460	
Less: Operating Expenses	404,848	454,538	481,810	510,719	541,362	573,844	608,274	644,771	683,457	724,465	
Net Operating Income	297,714	1,013,896	1,074,730	1,139,213	1,207,566	1,280,020	1,356,821	1,438,231	1,524,524	1,615,996	
Less: Debt Payment	850,000	931,950	962,367	1,015,859	1,050,035	1,086,262	1,124,663	1,165,368	1,208,515	1,254,251	
Total Cash Flow	(552,286)	81,946	112,363	123,354	157,531	193,758	232,158	272,863	316,009	361,745	16,233,343

\$502,062

(1) Current Value of \$10,500,000 increasing at 6% annually  
for 10 years less 3% sales

Exhibit V - 4

INVESTOR'S YIELD SUMMARY

Year	Annual Debt Service	Additional Interest - Operations	Loan Balance (1)	Additional Interest - Sale (2)	Total
-----	-----	-----	-----	-----	-----
1	\$850,000	\$0			\$850,000
2	850,000	81,950			931,950
3	850,000	112,367			962,367
4	892,500	123,359			1,015,859
5	892,500	157,535			1,050,035
6	892,500	193,762			1,086,262
7	892,500	232,163			1,124,663
8	892,500	272,868			1,165,368
9	892,500	316,015			1,208,515
10	892,500	361,751	9,759,575	3,236,884	14,250,710
Estimated Yield		14.6% (3)			

-----  
 (1) Original loan balance, \$ 8,500,000 plus accumulated accrued interest, \$ 1,259,575.

(2) Net Sales Price of 16,233,343 less the outstanding loan balance, 9,759,575  
 equals a residual of 6,473,768 , which is split 50 - 50.

(3) Internal rate of return calculated using \$ 8,500,000 as  
 the investor's initial investment.

RANCHO VALLARTA  
SENSITIVITY ANALYSIS

First Year Rents (PSF/Mo.)  
First Year Vacancy (%)  
First Year Operating Expenses (PSF/Yr.)

Pessimistic	Most Likely	Optimistic
-------------	-------------	------------

**3% Inflation**

	Nominal	Real	Nominal	Real	Nominal	Real
1970						
1971						
1972						
1973						
1974						
1975						
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2055						

Today's Value Compounded  
10% Capitalization Rate  
9% Capitalization Rate  
8% Capitalization Rate

13.4	10.4	13.5	10.5	13.6	10.6
13.0	10.0	13.3	10.3	13.6	10.6
13.3	10.3	13.7	10.7	14.0	11.0
13.7	10.7	14.1	11.1	14.5	11.5

**Sale at --**

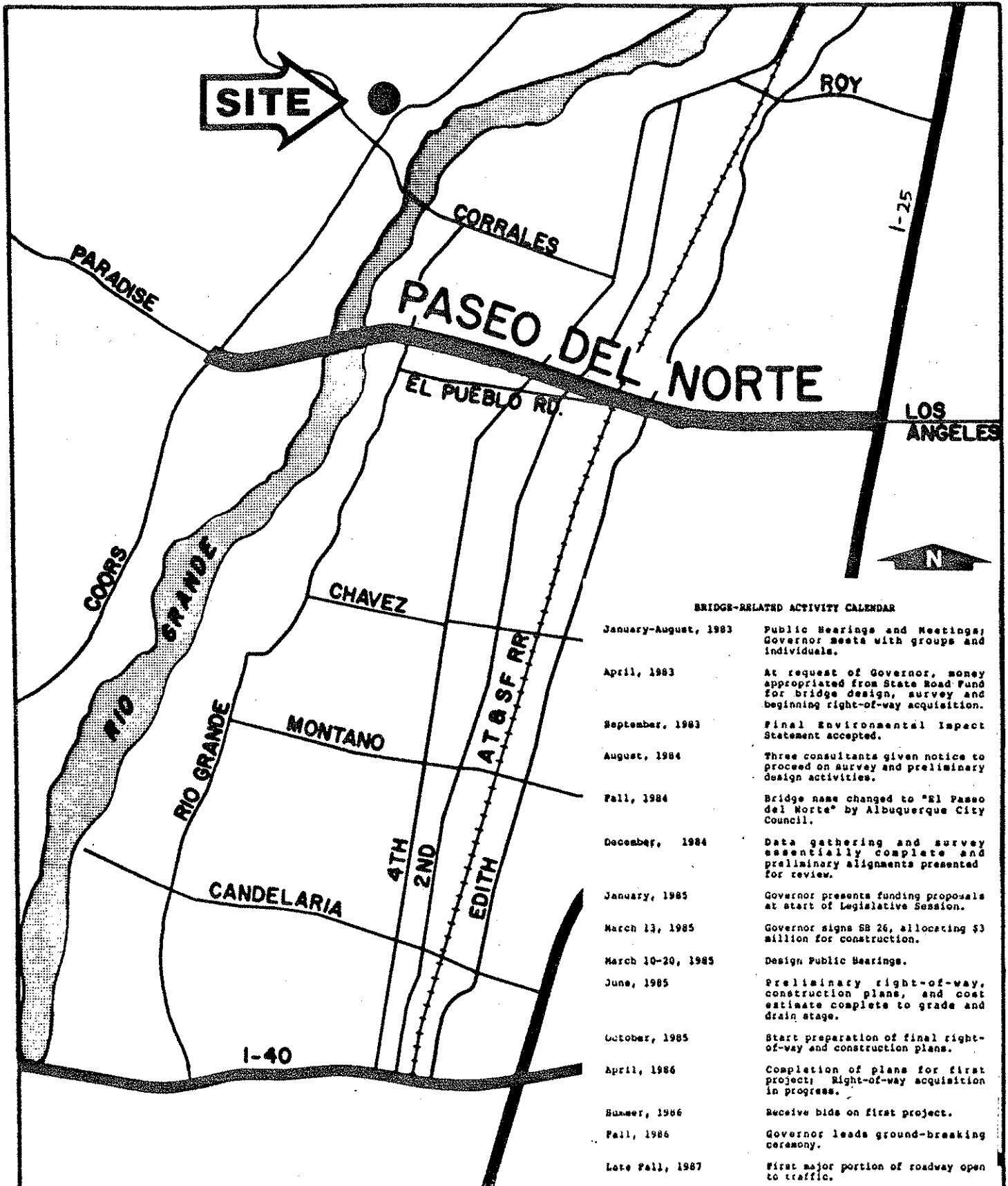
14.5	8.5	14.6	8.6	14.8	8.8
------	-----	------	-----	------	-----

Sale at --  
Today's Value Compounded  
10% Capitalization Rate  
9% Capitalization Rate  
8% Capitalization Rate

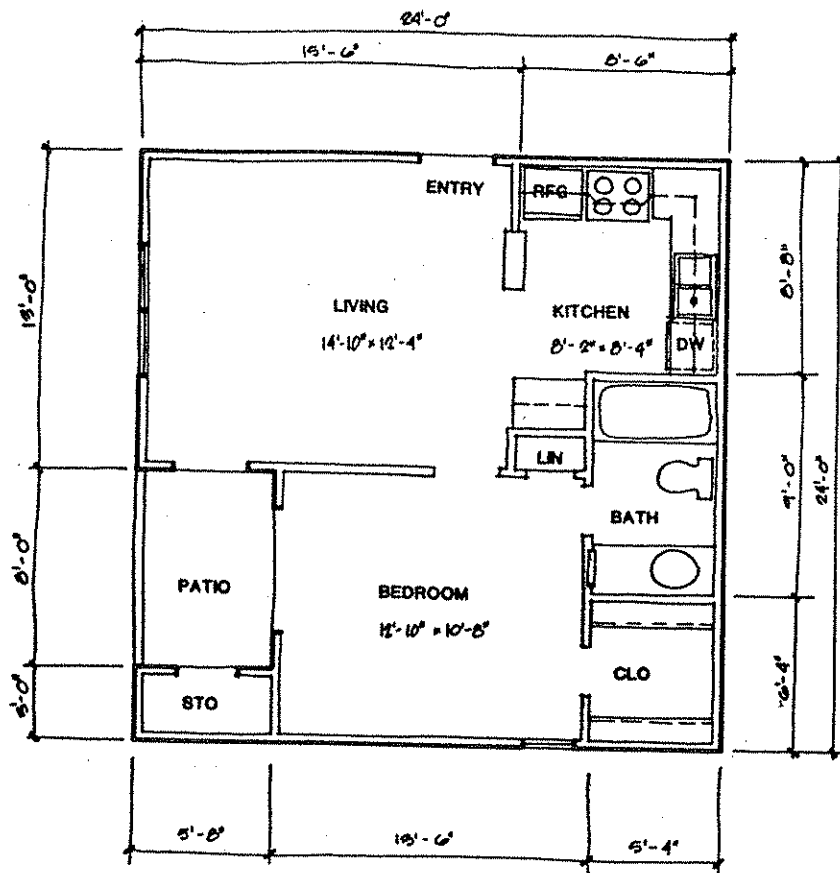
15.7	6.7	15.9	6.9	16.0	7.0
15.4	6.4	15.8	6.8	16.2	7.2
15.9	6.9	16.3	7.3	16.8	7.8
16.5	7.5	16.9	7.9	17.4	8.8

**Appendix A**  
**PASEO DEL NORTE BRIDGE PROJECT**

Appendix A  
PASEO DEL NORTE BRIDGE PROJECT  
ALBUQUERQUE, N.M.

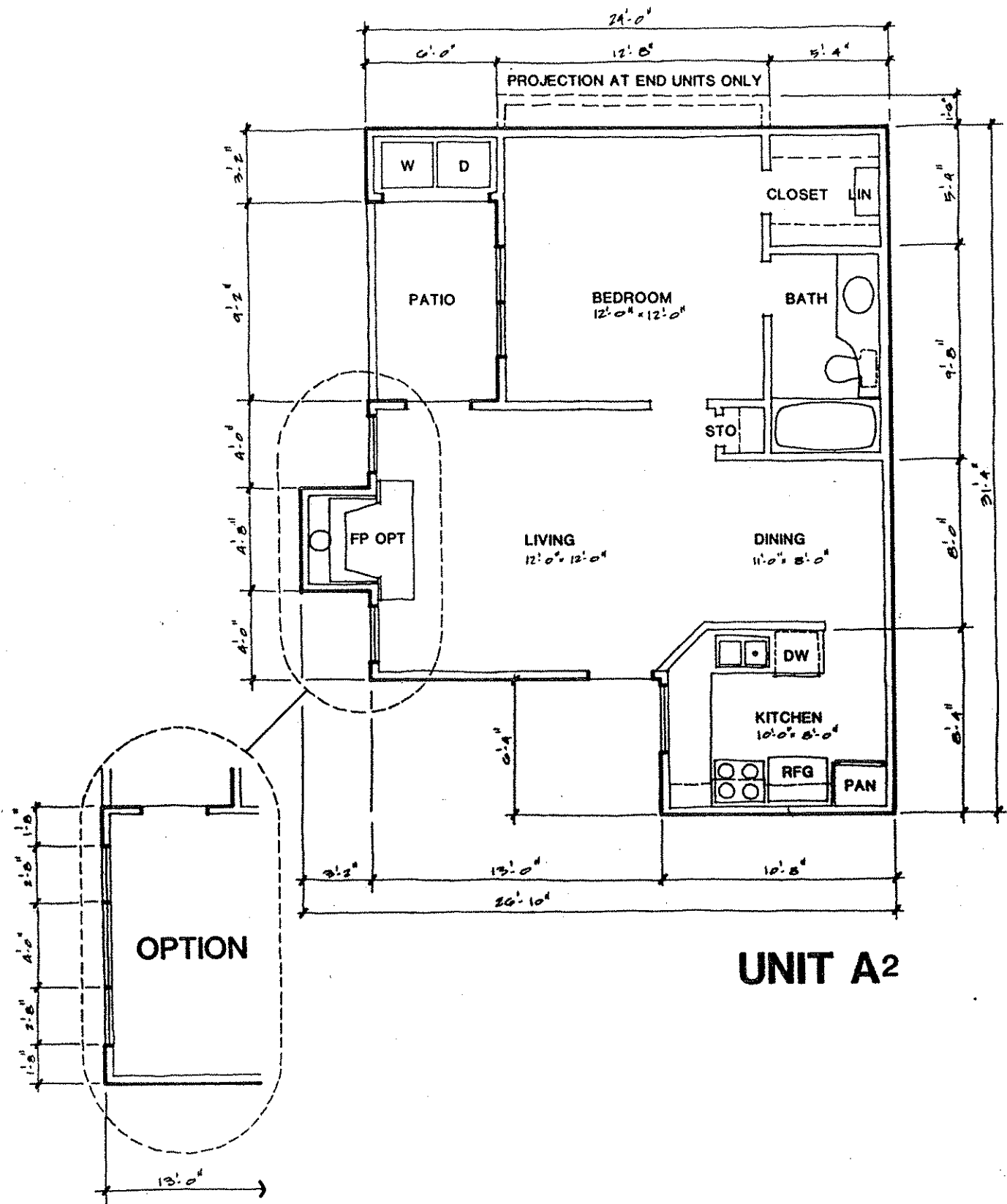


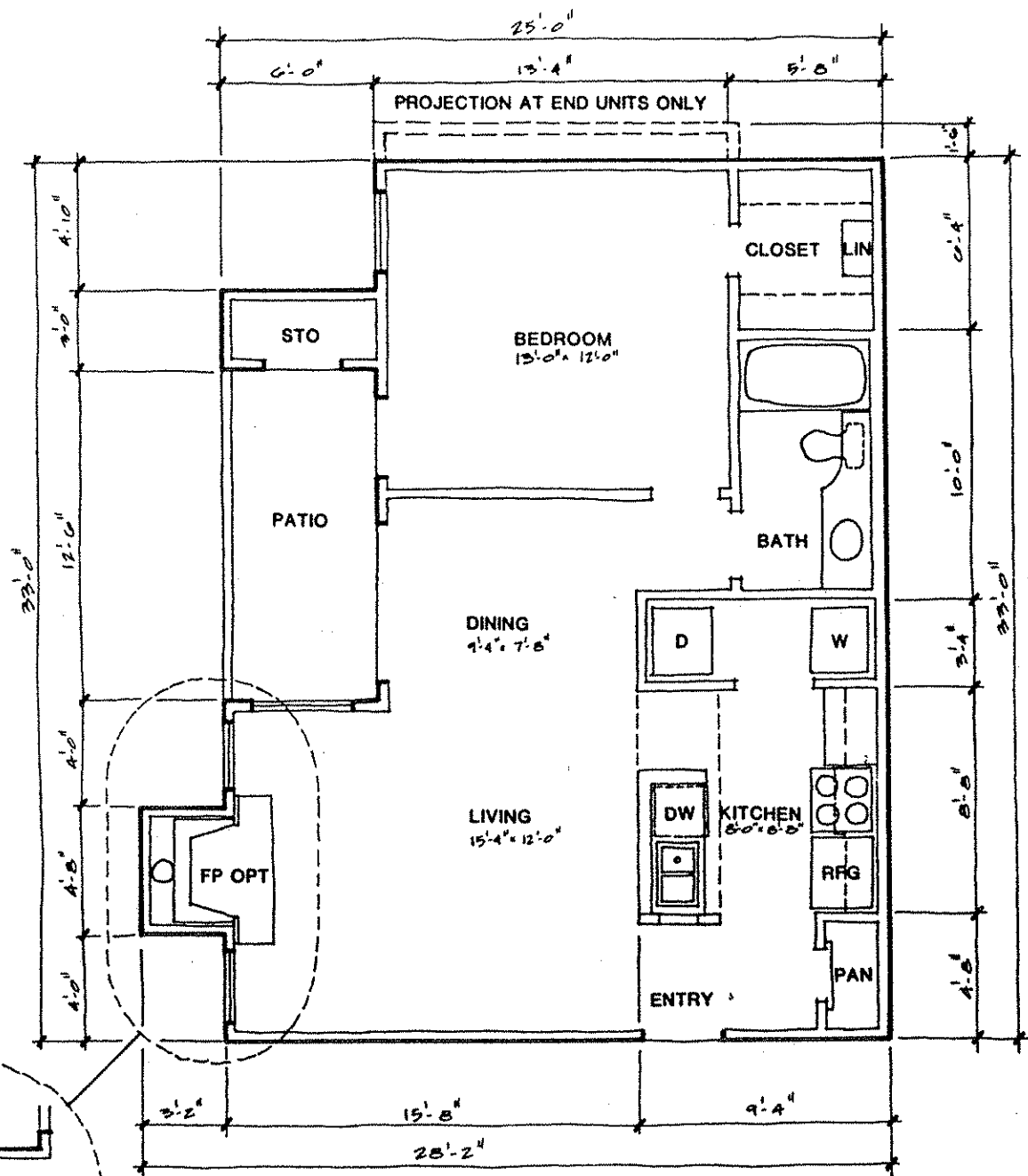
**Appendix B**  
**FLOOR PLANS**



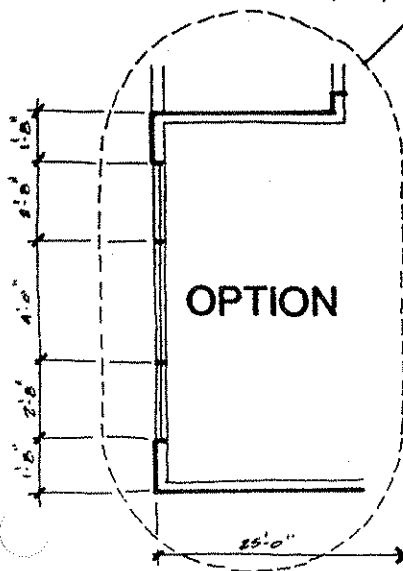
**UNIT A1**



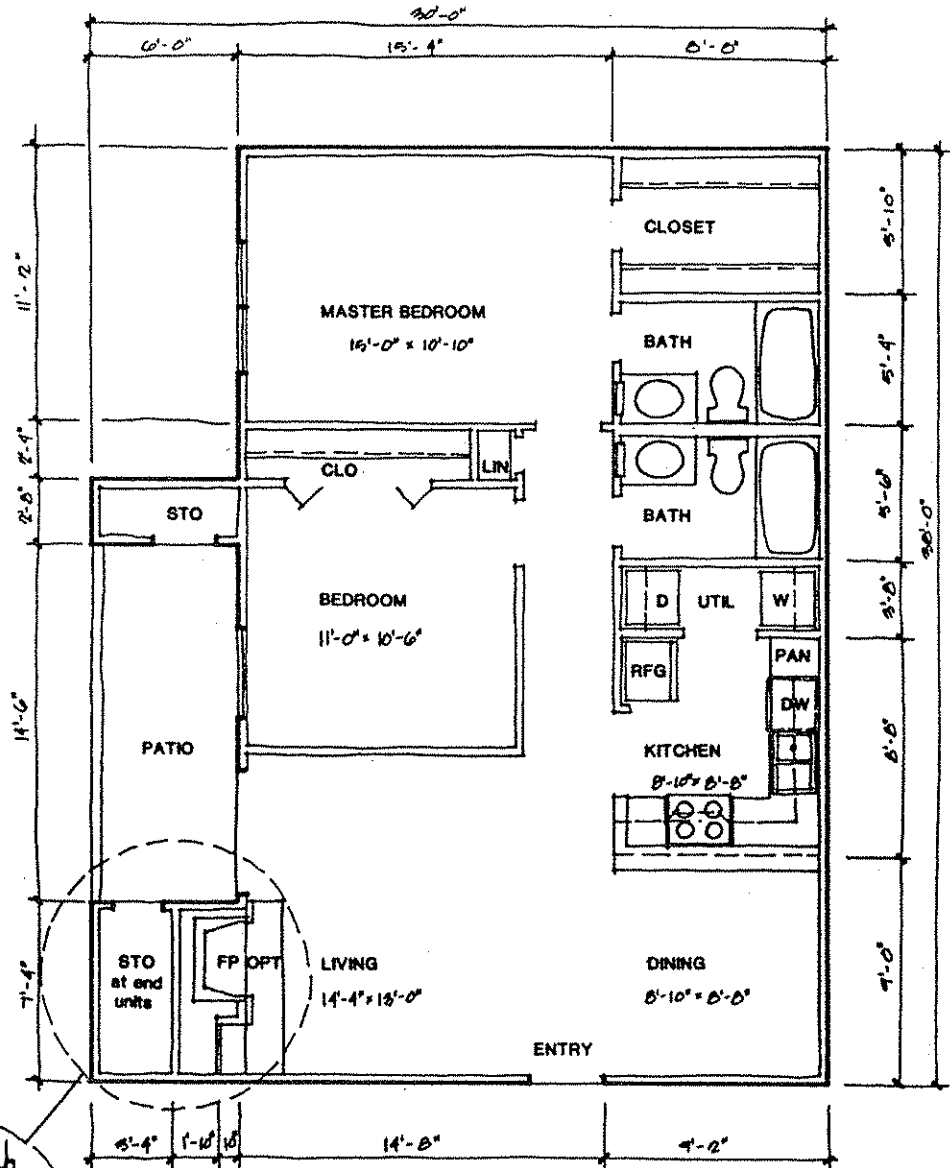




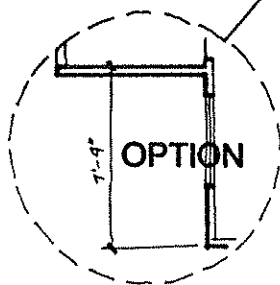
**UNIT A4**

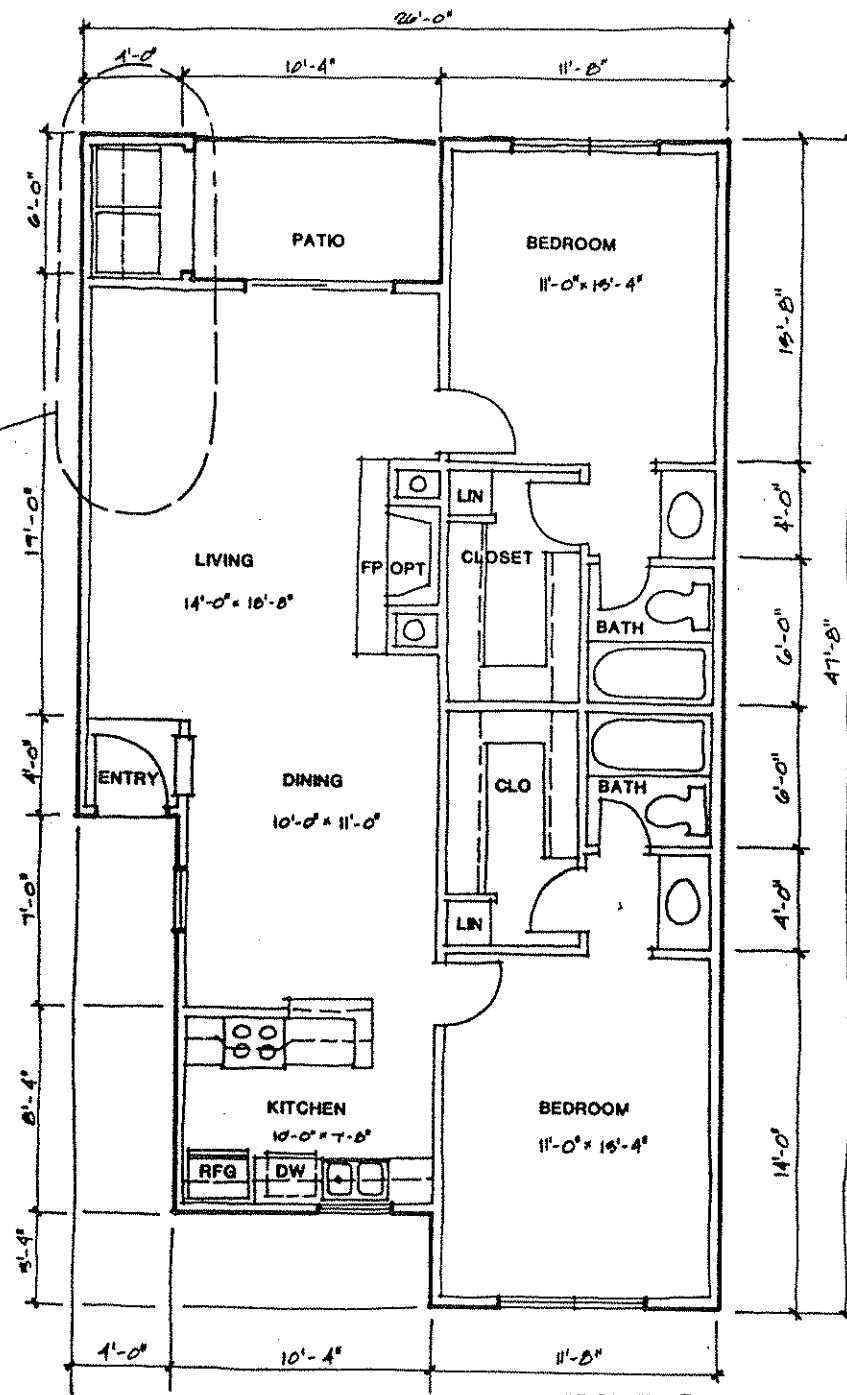
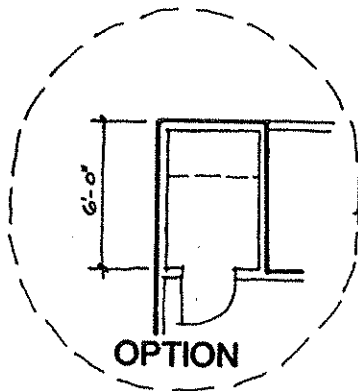






**UNIT B1**





UNIT C1