

BOWLING BROOK APARTMENTS
SAVAGE, MARYLAND

USF&G Realty Advisors, Inc.
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December 4, 1989

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

**RE: Bowling Brook Apartments - Phase II
Savage, Maryland**

Dear Sirs:

The enclosed investment report details the proposed Bowling Brook Apartments - Phase II. This project is a to-be-built apartment complex containing 150 apartment units. The project is scheduled to commence construction in December, 1989 and will be constructed adjacent to the 216 unit Phase I for which USF&G has previously committed to fund. The developer for this project is the James F. Knott Development Corporation of Towson, Maryland. The total project costs are budgeted at \$11,100,000 (\$74,000 per unit); the project is expected to fund late in the first quarter of 1991.

The Property

Location

The Bowling Brook Apartments are located within the Bowling Brook Farms PUD on Gorman Road in Savage, Howard County, Maryland. Located two miles north of Laurel, Maryland, Bowling Brook is one-half mile from Interstate 95 at Maryland Route 32. The site is on Gorman Road which is one-half mile south of the intersection of Maryland Route 32 and U.S. Route 1. The site is 11-1/2 miles from the Washington Beltway and 18 miles from downtown Baltimore (See Exhibit II-1: Regional Map). Alternate commuting routes from the development include Interstate Route 95 or the Baltimore Washington Parkway. The project is 12 miles from Baltimore/Washington International Airport. Shopping is two miles south on Route 1 at the Laurel Mall.

The Bowling Brook Farms development is a mixed use development of 208 acres which, when completed, will include 560 apartment units, 618 townhouse units, a convenience shopping center, library, health clinic, community recreation center and a day care center (See Exhibit II-4). The townhouse units are being constructed by Winchester Homes, BBI Homes, and Ryland Homes. Prices range from \$112,000 to \$180,000. As of the end of October, 350 townhouses had been sold out of the total 600 to be built.

Bowling Brook - Phase I began leasing apartments in May of 1989. Absorption has averaged between 25 and 30 apartments per month (See Exhibit II-8). As of October 30, Phase I had leased 180 apartments out of 192 available (94% of available units 83% of total units). Phase I is still under construction with completion expected in February 1990. Proforma rents for Phase I were projected to average \$727 per unit per month. Current rental rates average \$778 per unit per month.

Site

The project site runs along Gorman Road just off Maryland Route 1 (See Exhibit II-3). The project site is irregular in shape, flat and gently sloped toward Savage Creek.

North of the project site across Gorman Road is Savage Park, the Historic Savage Mill Trail, and the Historic Savage Mill. Built in the 1700's, Savage Mill is currently operated by the Howard County Department of Parks and Recreation as a National Historic Site. Recently restored, the old mill currently houses a museum, several antique and craft shops and a restaurant.

Adjacent to the site to the East and South is the Freestate Raceway. Currently operating as a Harness Race Track with pari-mutuel betting, Freestate Raceway has been sold to the Cafritz Group which has preliminary plans to develop the site into 200,000 square feet of retail space, 150,000 square feet of office space, 1,000,000 square feet of warehouse space, and a hotel and restaurant (See Exhibit III-18 and 19). Zoning approval for the site has been obtained from the Howard County Government so that development may proceed. Current Zoning is M-1 (light industrial).

Improvements

The project will offer 12 different floor plans among them a one bedroom with den, two bedroom and split master bedroom unit mix. The project will be composed of the following:

<u>Number</u>	<u>Unit Type</u>	<u>Square Footage</u>
One bedroom with den:		
16	Basic Units	875
16	with Sunroom	966
4	with extended Dining Room	920
4	with Sunroom and extended Dining Room	1012
Two Bedroom:		
12	Basic units	881
18	with Sunroom	963
8	With extended Dining Room	972
2	with Sunroom and extended Dining Room	1009
2	With Loft	1089
8	With Loft and Sunroom	1170
Split Master Bedroom:		
30	Basic Unit	1030
<u>30</u>	With Sunroom	<u>1126</u>
Total	150 Average Square Feet	948

The proposed second phase of Bowling Brook Apartments is to consist of 150 units constructed on 14.75 acres located adjacent to Phase One in the Bowling Brook Farms subdivision in Savage, Maryland. This location is convenient to Maryland Route 32, U.S. Route 1, Interstate 95 and the Baltimore/Washington Parkway, all providing the property excellent access to the employment centers of the Baltimore/Washington Corridor.

The design and construction of Phase Two will be consistent with that of Phase One. The fourteen (14) wood frame buildings will be slab-on-grade of 10 or 12 units each. Building exteriors will be of pretreated cedar siding with fiberglass roof shingles. All buildings will be fully sprinklered with smoke detectors for fire prevention and safety.

Each unit will include an individual washer and dryer, microwave oven, easy clean range/oven, refrigerator with icemaker, garbage disposal, chair rail molding in the dining area, and wall to wall carpeting. A deck or patio will be provided with each unit and lofts and sunrooms will be available for an additional charge. Each unit will be all electric, including heat and hot water, and will be individually metered. Water and sewer will be included in rent.

Although not part of USF&G's security, each resident will automatically receive membership in the subdivision's health club. The club will provide facilities for tennis, racquetball, and volleyball as well as an outdoor pool and indoor jacuzzi. A clubhouse with wet bar, a meeting room with television and a weight room will also be available for the residents use.

Project Budget

Total project costs for Bowling Brook Phase II are \$11,100,000 (\$74,000 per unit) (See Exhibit II-5). This includes \$1,575,000 for land (\$10,500 per unit), \$7,353,130 for direct construction costs (\$49,021 per unit, \$48.85 per rentable square foot) and \$2,171,870 for indirect costs (\$14,479 per unit). Total development costs for Phase I are \$13,536,200 (\$62,668 per unit). The differences in development costs include \$7,400 in increased direct construction costs and \$3,900 in interest costs.

The Market

Baltimore/Washington Corridor

The Baltimore/Washington Corridor is defined as the 578 square mile area that extends from the Washington Beltway to the Baltimore City line, from Route 70 to the north, and Route 50 to the south. The corridor includes parts of Howard, Anne Arundel and Prince Georges Counties (See Exhibit III). It has a population of 735,000 people with a median age of 32.2 years and a median household income of \$34,872 annually. The corridor contains over 10,000 acres of industrial parks and 15.5 million square feet of retail shopping centers of 40,000 square feet or larger. There are 26.2 million square feet of existing office space in the corridor and almost 6,000 existing hotel rooms. Population is projected to grow 3.7 percent from 1987 to 1992 (adding 27,000 new residents) and unemployment is currently 2.8 percent for the region. The Savage/Laurel area is in the geographic center of this market. Within the Baltimore/Washington Corridor there are 27,516 apartment units. The Baltimore/Washington Corridor Chamber of Commerce indicates there is an overall occupancy rate within the corridor of 97%.

Competitive Market

There are eight properties considered as comparable to Bowling Brook, nine if you include Phase I (See Exhibit III-7). The overall submarket that includes Bowling Brook has a total of

16,457 apartment units with an average occupancy of 96.6%.

Comparable #1: Bowling Brook Apartments Phase I is a 216 unit project that is located adjacent to the subject due west. The project is being developed by the James F. Knott Development Company and is scheduled for completion in February of 1990. One bedroom units currently rent for \$715 to \$765 per unit per month (\$.81 to \$.86 per square foot, two bedroom units range from \$735 to \$840 per unit (\$.81 to \$.82 per square foot). Absorption has averaged between 25 and 30 units per month since leasing began and currently has a 94% occupancy for available units. This project is identical to Phase II and is, therefore, considered an excellent comparable.

Comparable #2: Country Meadows is a 216 unit project that is located approximately 1 mile south of the subject along Route 1. The project is being developed by Stephen Storch and is scheduled to be completed in December of 1989. One bedroom units range from \$625 to \$675 per unit (\$.61 to \$.72 per square foot). Two bedroom units range from \$735 to \$760 per unit (\$.56 to \$.64 per square foot). Project amenities are comparable to the subject; however, the external appearance and location are inferior. The property borders directly onto U.S. Route 1 and has minimal landscaping.

Comparable #3: Marymount Apartments is a 308 unit project located at the intersection of Cherry Lane and U.S. Route 1 behind the Laurel Lakes Shopping Center. The project is about two miles south of the subject. The project was developed by Trammel Crow and was completed in 1988. One bedroom units rent for \$585 to \$690 per month (\$.90 to \$1.04 per square foot), two bedroom units rent for \$795 to \$885 per unit (\$.80 to \$.85 per square foot). Marymount experienced absorption of 27 units per month and is currently 96% occupied. Located in the Laurel Lakes PUD, this project is considered slightly superior to the subject. The projects' extensive use of brick on the exterior give a very attractive physical appearance. The project has a larger and better appointed clubhouse and walking access to the Laurel Lakes area with shopping, large lake, and parks. Located in Prince Georges County, the project does have some inferior features. The unit mix is denser than the subject, unit sizes are smaller, there are no washers and dryers, microwaves or self-cleaning ovens and the kitchen cabinetry is unattractive.

Comparable #4: Sherwood Crossing is a 634 unit project that is located on Old Waterloo Road adjacent to Route 95 just north of Route 175 eight miles north of the subject. Sherwood Crossing was developed by Guardian Federal and was completed in 1987. Rents are \$690 for a one bedroom with den (\$.77 per square foot) and \$715 for a two bedroom/two bath (\$.78 per square foot). While comparable in physical appearance and amenities, the project is poorly located and difficult to find. The property is adjacent to Route 95 and traffic noise is readily apparent. The project has been absorbed at 25 units per month but has had a severe turnover problem and has never achieved better than its current 95% occupancy.

Comparable #5: Spring House is a 220 unit project that is located on Route 197 at the intersection of Route 198 six miles south of the subject. The project was developed by Oxford development and completed in 1988. Rents are \$735 to \$760 per month for a one bedroom with den (\$.87 to \$.90 per square foot) and \$770 to \$840 for a two bedroom unit (\$.90 to \$.91 per square foot). The project is currently 97% occupied and experienced absorption averaging 22 units per month. This project is similar to the subject though its Prince Georges County location would be inferior.

Comparable #6: Clary's Crossing is a 198 unit project located on Little Patuxent Parkway in Columbia, Maryland, 14 miles north of the subject. Clary's Crossing was developed by Oxford Development and completed in 1987. Rents are \$610 per month for a one bedroom with den (\$.74 per square foot) and \$740 per month for a two bedroom/two bath (\$.67 per square foot).

The project is currently 98% occupied. Physical appearance is inferior to the subject with minimal landscaping.

Comparable #7: The Greens at Columbia is a 168 unit project located on Little Patuxent Parkway in Columbia, fifteen miles north of the subject. The project was developed by the Berkshire Corporation and completed in 1986. Rents are \$713 per month for a one bedroom unit (\$.71 per square foot) and \$778 to \$848 per month for a two bedroom unit (\$.68 to \$.69 per square foot). Physical appearance of this project is considered inferior to the subject with inferior landscaping. The project currently is 96% occupied.

Comparable #8: The Greenbriar is a 336 unit project located on Columbia Road in Columbia, 16 miles north of the subject. The project was developed by Shelter Development and completed in 1988. Rents are \$650 to \$660 per month for a one bedroom (\$.83 to \$.84 per square foot) and \$775 to \$875 for a two bedroom/two bath unit (\$.74 to \$.75 per square foot). Project is similar in appearance to subject with comparable amenities although none of the units offer vaulted ceilings. Project absorption averaged 25 units per month and project is currently 99% occupied.

Comparable #9: The Bluffs at Clary's Forest is located along Little Patuxent Parkway in Columbia, thirteen miles north of the subject. The project was developed by Henderson and Webb and completed in 1986. Rents are \$525 to \$555 for a one bedroom/one bath unit (\$.77 to \$.82 per square foot) and \$600 to \$630 for a two bedroom/two bath unit (\$.71 to \$.74 per square foot). Project is considered inferior to subject due to overall physical appearance and lack of comparable amenities. Project was 96% occupied as of October.

Proposed Multifamily Developments

There are three multifamily developments currently known to be planned within the subject market area (See Exhibit III-17). The first, Ashton Meadow, is being developed by Summit Properties and is currently under construction. The project is located at the intersection of Tamar Drive and Dobbin Road just off route 175 in Howard County, Maryland. Ground breaking was begun in June of this year with completion scheduled for early 1991. The project will contain 176 units and a 2200 square foot clubhouse. This project should compete somewhat with the subject, although its location would be considered inferior.

The two other proposed developments which could compete with the subject are Country Meadows Phase II, a 200 unit addition to Country Meadows Apartments on Route 1 and Ashton Woods. Ashton Woods is being developed by Summit Properties and will be located at Route 108 and 104 just off Route 175. Ashton Woods, should it go forward, would compete more directly with Ashton Meadow and Sherwood Crossing.

Howard County currently has a housing moratorium in effect which is expected to last two years. The moratorium was placed in effect by County Executive Elizabeth Bobo to allow the county time to develop a comprehensive land use plan; and to study the need for additional county services as a result of existing, currently planned, and future development. Residential exceptions to this moratorium are allowed only for development of affordable housing.

The Borrower/Developer

Hammond Branch Limited Partnership II/James F. Knott Development Corporation is a full service real estate development company actively developing and managing residential, retail and industrial properties in the Maryland area. They currently have a portfolio including over 2.5 million square feet of leased industrial office space; 80,000 square feet of retail space and 100 mobile home pads (out of a project of 230 pads).

The scope of development projects in the company portfolio includes office/warehouse/distribution and residential buildings in planned park environments. The development "team" includes a construction division, acting as general contractor for the layout, design, construction and tenant improvements for each building. As an asset development company, James Knott Development manages each project to insure tenant satisfaction, property maintenance and overall control of the project upon completion.

The Risk and Return

Investment Structure

As detailed in Section I, the proposed investment totals \$11,100,000 of which up to \$10,600,000 (95%) will be fully insured as to principal and interest by the Federal Housing Administration (FHA), and \$500,000 (5%) will be in the form of an equity/joint venture (this amount may vary due to construction cost savings but may not exceed 10% of total development cost). At commitment, USF&G will collect 2% of the commitment amount and will not fund until completion of the project in 1991 (this is a two year forward commitment). On the FHA insured first mortgage, USF&G would receive an 8-1/2% interest rate guaranteed by the federal government. For the equity investment USF&G will receive 50% of the annual cash flow and residual on sale, or 100% of the cash flow until it has received a \$122,000 annual cumulative preferred payment which is equivalent to a 9-1/2% return on the whole investment. The loan will be closed to prepayment through year five and then may be prepaid at a premium of 5% in year five declining 1% per year to par in year 10. The loan is callable at USF&G's option on or after the tenth year. This transaction is structured to allow USF&G to sell the debt portion in the secondary market at any time.

Annual Return

USF&G will receive 100% of the annual cash flow until it has received a \$122,000 annual preferred return on its initial investment. After receiving its "preference return" USF&G will receive 50% of the cash flow and profits from appreciation in the real estate. Assuming a 5% growth in income and expenses USF&G's projected annual returns on all invested funds are as follows:

	<u>Year 1</u>	<u>Year 6</u>	<u>Year 10</u>
Conservative	8.37%	9.95%	11.76%
Most Likely	8.93%	10.63%	12.20%
Optimistic	9.50%	11.01%	12.66%

Additional Interest From Sale

Net sales proceeds must be used first to pay off the FHA insured first mortgage, and second, to pay off USF&G's initial equity contribution. Any proceeds left must first be used to pay off any outstanding preference return due to USF&G and then are split 50% each between USF&G and the developer. USF&G's projected total proceeds from sale are \$15,379,000 which would include excess income of \$4,773,000 after repayment of the FHA loan and USF&G's initial equity.

Yield Analysis

USF&G's projected internal rate of return (IRR) for this investment under the "most likely" scenario (5% growth in income and expenses) is 12.2% for all invested funds and the return on USF&G's equity investment is projected at 41.6%. Under a "conservative" set of assumptions, USF&G is projected to earn 11.6% on all funds and 35.5% on its equity investment. Under an "optimistic" set of assumptions, USF&G's total return is projected to be 12.8% on all funds and 47.3% on its equity investment.

Risk

Real estate investments of all types expose the investor to certain risks--market, operating, default and interest rate. The structure of this proposed investment together with conservative underwriting attempts to minimize those risks and produce a superior risk/return ratio.

Market Risk

Market risks involve the potential inability of the project to be absorbed at the rent levels or in the time frame projected. This risk has been assessed by a thorough review of competitive projects in the market area including existing, under construction, or planned. The existing competitive market has been reviewed and this project, as demonstrated in the first phase, has been very well accepted absorbing in excess of 25 units per month at above proforma rents. The overall competitive market is currently 96.6% leased. Howard County is currently under a residential building moratorium limiting the new supply of rental housing. Bowling Brook Phase II is the second phase of a successful first phase. There is currently only one other project under construction in the market which will add only 176 more units to the market over the next two years. Two other projects are planned for an additional 400 units but are currently held up due to the development moratorium in effect in Howard County.

Operational Risks

Operational risks would be considered the largest risk for this investment. While James F. Knott has had extensive experience developing and managing apartment projects as part of the Knott family, this project is only his second apartment project as sole developer and manager. Phase I has been successfully developed and is nearing completion. Marketing has been successful with excellent absorption at above proforma rents. Ongoing management remains to be proven although the Knott organization has displayed excellent management skills in their other commercial ventures. The quality of construction of Phase I, coupled with their proven leasing success to date, provides evidence of their ability to successfully manage properties of this type.

Default Risk

Default risk in this investment has been mitigated through several structural provisions built into the investment. The initial investment to value ratio cannot exceed 90% as established by a MAI appraisal. The developer will provide a 36 month operating deficit guarantee. Ninety-five percent of the investment is guaranteed by the Federal Government.

Interest Rate Risk

Interest rate risk is mitigated by the participation feature built into the investment. Periods of high inflation causing higher interest rates would increase rental rates and increase USF&G's return through the participation. Periods of low inflation and lower interest rates enhances USF&G's investment by the above market rate of return.

Conclusion and Recommendation

Bowling Brook Apartments Phase II is the second of three phases of an apartment project with a developer with which USF&G has an ongoing relationship. The project is well designed for its market and Phase I has proven its success against competitive properties. The Baltimore/Washington Corridor continues to expand as a major market area at a time when Howard County is halting further residential development.

Realty Investment Approval Committee Members
Page 8
December 4, 1989

The returns for this investment are considered adequate given the risks involved. Therefore, USF&G Realty Advisors recommends that the Realty Investment Approval Committee for the United States Fidelity and Guaranty Company approve the issuance of a commitment to purchase a Federal Housing Administration insured First Mortgage Loan in the amount of \$10,600,000 from Maryland National Mortgage Corporation and a commitment to enter into an Equity Joint Venture with the James F. Knott Development Company in the amount of \$500,000.

Sincerely,


James T. Smith
Senior Real Estate Analyst



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November 29, 1989

Mr. James F. Knott
President
James F. Knott Development Corporation
110 West Road
Towson, Maryland 21204

**RE: Bowling Brook Apartments - Phase II
Savage, Maryland**

Dear Mr. Knott:

USF&G Realty Advisors is prepared to recommend to the Investment Committee of USF&G Corporation that it issue a commitment to purchase a first mortgage to be insured upon the completion of construction and final endorsement for insurance by the Federal Housing Administration (FHA) for the above referenced apartment complex subject to the following terms and conditions:

Property:

Bowling Brook Apartment - Phase II (the "Property") is a to-be-built apartment project which will contain 150 dwelling units comprised of 40, 875 square foot one bedroom/two bath units with den, 50, 881 square foot two bedroom/two bath units, and 60, 1030 square foot split master units with two baths. Ten of the third floor units will feature lofts, 78 units will feature sun rooms, and 56 units will include a fireplace. Common amenities will include a washer and dryer, microwave oven, self cleaning oven, refrigerator with ice-maker, garbage disposal, chair rail molding in the dining area, wall-to-wall carpeting, and ceramic tile entrance-ways.

The design and construction of Phase II will be consistent with that of Phase One. The property will consist of 14 wood frame buildings built slab-on-grade with 10 to 12 units in each building. Building exteriors will be of pre-treated cedar siding with fiberglass roof shingles. All buildings will be fully sprinklered, with smoke detectors included in each unit.

Each resident will automatically receive membership in the subdivision's health club. The club will provide tennis, racquetball, volleyball, outdoor pool and indoor jacuzzi. The clubhouse will contain a wet bar, meeting room with television and a weight room.

Personal Property:

All personal property used in connection with the Property will be included under the lien of the first mortgage as additional security.

Location:

The property will be located on Gormon Road in Savage, Maryland.

Site: The project site will consist of 14.75 acres more or less and will be zoned R-SA-8 Residential Attached.

Borrower: Hammond Branch Limited Partnership II, a partnership to be amended in conformance with the terms outlined in Exhibit A.

Lender: USF&G Corporation ("USF&G")

Loan Amount: Up to \$10,600,000. This is the best estimate of the loan amount FHA underwriting will allow. This amount will be subject to change upon the issuance of a firm commitment to insure and upon final cost certification of the project at completion.

FHA Mortgage Rate: 8-1/2%

Loan Constant: 9.2971% which includes the FHA mortgage insurance premium and mortgage amortization.

Loan Term: 40 years

Call Option: Subject to conforming with FHA regulations at the time of funding, Lender will have the right to call the loan due anytime after the tenth loan year. Lender will give Borrower six months written notice of its intent to call the loan.

Prepayment: No prepayment will be allowed before the fifth anniversary of initial funding.

Prepayment Penalty: If the borrower elects to prepay the loan after the fifth anniversary of initial funding, a prepayment penalty shall be charged to the borrower in accordance with the following schedule:

<u>Years Since Initial Funding</u>	<u>Penalty as a Percentage of Outstanding Mortgage Balance</u>
5 - 6	5 %
6 - 7	4 %
7 - 8	3 %
8 - 9	2 %
9 - 10	1 %
after year 10	0 %

**USF&G
Commitment Fee:** Upon acceptance of USF&G's final written commitment to purchase the FHA insured mortgage loan by the borrower and Maryland National Mortgage under terms consistent with this application letter, USF&G shall have earned its commitment fee of not less than \$222,000. The commitment fee shall be due and payable upon acceptance by the borrower of USF&G's commitment less the application fee.

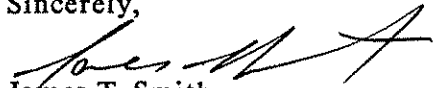
Initial Funding: Full loan amount will be funded upon receipt of final certificate of occupancy and final endorsement of the mortgage for insurance by FHA. Initial funding must occur within 24 months of acceptance of USF&G's commitment. Borrower may extend the initial funding date for up to 6 months upon 30 days written notice to extend, and payment of an \$18,550 monthly extension fee.

- Letters of Credit:** The borrower shall be responsible for providing all FHA required letters of credit due at final endorsement of the mortgage loan.
- Contingencies:**
- A. FHA Insurance:** The principal amount of the mortgage loan and payments of principal and interest must be fully insured by the Federal Housing Administration pursuant to section 221(d)(4) of the National Housing Act as amended.
- B. Plans and Specifications:** Lender reserves the right to approve the plans and specifications for all proposed improvements and to approve any changes, modifications or corrections to the plans during construction.
- C. Economic Due Diligence:** The commitment will be contingent upon USF&G Realty Advisors being satisfied with the results of its economic due diligence.
- D. Engineer:** James F. Knott Development Corporation shall engage an inspecting engineer acceptable to USF&G to review the plans and specifications, and to perform regular inspections of the property during construction. USF&G reserves the right to review and approve the scope and substance of the inspection. USF&G must be satisfied, and approve the results of the inspection including but not limited to changes and/or modifications to the plans and specifications. All costs associated with the engineering review will be paid by James F. Knott Development Corporation.
- E. Environmental:** USF&G shall have received and approved an environmental study of the property and its environs by an engineering or environmental firm acceptable to USF&G which demonstrates to USF&G's reasonable satisfaction that there are no environmental hazards or hazardous or toxic materials existing on or under the property or affecting the property. All costs associated with this environmental assessment shall be paid by James F. Knott Development Company.
- F. Committee Approval:** This application must be approved by USF&G's Investment Committee.
- G. Secondary Financing:** Lender will not permit secondary financing on the property.
- H. Operating and Capital Budgets:** Lender reserves the right to review and approve annual operating and capital budgets.
- I. Market Value Appraisal:** Lender will receive and approve prior to funding a market value estimate of the property from a MAI designated appraiser approved by USF&G which is not less than \$12,350,000 as of stabilized occupancy. The cost of the appraisal will be paid by James F. Knott Development Company.
- J. Tri-Party Agreement:** The commitment shall be contingent upon USF&G, the interim lender and the Borrower entering into an acceptable Tri-Party Agreement within 60 days following acceptance of the Commitment.

- K. Partnership Document:** The Commitment will be contingent upon the Lender's approval of the borrowing entity's partnership agreement. The commitment will also be contingent on the formation of the borrowing entity in conformance with the terms outlined in the attached Exhibit A.
- L. Title and Survey:** USF&G reserves the right to review and approve the condition of the title, title insurance and the property survey. All costs associated with the title, title insurance, and property survey will be paid by James F. Knott Development Company.
- M. General Contractor:** Lender approves James F. Knott Development Company as the General Contractor.
- N. Management Fees:** James F. Knott Development Company shall be responsible for property management services for the property and shall be entitled to earn management fees for services rendered not to exceed 3-1/2% of annualized gross collected income for the first year following initial funding. Commencing with the second year following initial funding management fees may be increased .25% per year for each succeeding year to a maximum of 4-1/2% of gross collected income.
- O. Closing Costs:** All costs associated with the closing of the loan including USF&G's reasonable attorney's fees will be paid by James F. Knott Development Company.

If the terms outlined in this application letter are acceptable to you, please sign below and return an original executed copy of this letter with your application fee in the amount of \$55,000 by November 30, 1989 to Maryland National Mortgage Corporation. This Application Fee should be wired by Maryland National Mortgage Corporation to a USF&G custodial account. Please have Maryland National Mortgage Corporation call me for wiring instructions. The application fee will be earned by USF&G upon issuance of its commitment letter in accordance with the terms outlined in this application. The application fee shall be applied against the commitment fee and shall not be in addition to it. Should USF&G fail to issue a commitment according to the terms of this application letter, the application fee shall be returned to you less reasonable and documented out-of-pocket expenses incurred to date by USF&G and/or USF&G Realty Advisors.

Sincerely,



James T. Smith
Senior Real Estate Analyst

Accepted:

James F. Knott Development Company

by: _____

Name

Date

Title

Exhibit A
Equity Joint Venture

USF&G Realty Advisors is prepared to recommend to the Investment Committee of USF&G Corporation that it issue a commitment to enter into a joint venture agreement with James F. Knott Development Corporation subject to the following terms and conditions:

- Property:** Bowling Brook Apartment - Phase II (the "Property") is a to-be-built apartment project which will contain 150 dwelling units comprised of 40, 875 square foot one bedroom/two bath units with den, 50, 881 square foot two bedroom/two bath units, and 60, 1030 square foot split master units with two baths. Ten of the third floor units will feature lofts, 78 units will feature sun rooms and 56 units will include a fireplace. Common amenities will include a washer and dryer, microwave oven, self cleaning oven, refrigerator with ice-maker, garbage disposal, chair rail molding in the dining area, wall-to-wall carpeting, and ceramic tile entrance-ways.
- The design and construction of Phase II will be consistent with that of Phase One. The property will consist of 14 wood frame buildings built slab-on-grade with 10 to 12 units in each building. Building exteriors will be of pre-treated cedar siding with fiberglass roof shingles. All buildings will be fully sprinklered, with smoke detectors included in each unit.
- Each resident will automatically receive membership in the subdivision's health club. The club will provide tennis, racquetball, volleyball, outdoor pool and indoor jacuzzi. The clubhouse will contain a wet bar, meeting room with television and a weight room.
- Personal Property:** All personal property used in connection with the Property will be included under the lien of the first mortgage as additional security.
- Location:** The property will be located on Gormon Road in Savage, Maryland.
- Site:** The project site will consist of 14.75 acres more or less and will be zoned R-SA-8 Residential Attached.
- Total Project Cost:** \$11,100,000
- Equity Investment:** \$500,000. To the extent that the FHA Insured mortgage amount varies from the estimated amount of \$10,600,000 due to construction cost savings identified at final endorsement the equity amount will vary by a like amount plus or minus by an opposite amount (ie if the mortgage amount is reduced \$1 the equity amount will increase \$1). However, in no event shall the amount of equity exceed 10% of the mortgage amount.
- Parties:** James F. Knott Development Corporation (Knott), and an affiliate of USF&G Corporation.
- Ownership Structure:** Hammond Branch Limited Partnership II, a Maryland Limited Partnership, of which Knott and an affiliate of USF&G will be general partners.

**Partnership
Responsibilities:**

USF&G

1. Provide Equity Capital

James F. Knott

1. Delivery of a completed project with acceptable title
2. Leasing
3. Property Management, (Knott will be allowed a management fee of 3-1/2% of annualized gross collected income for the first year following initial funding. Commencing with the second year following initial funding, management fees may be increased by .25% per year for each succeeding year up to a maximum of 4-1/2% of gross collected income. The management contract will allow USF&G to change management companies after showing cause.)

Initial Contribution:

Upon completion of the project, receipt of final certificate of occupancy and upon USF&G's funding of a FHA insured first mortgage of approximately \$10,600,000, USF&G will make an initial equity contribution of \$500,000 or as adjusted as described under the caption "Equity Investment" earlier in this letter.

Distribution of Cash Flow: USF&G

First Priority: USF&G shall be entitled to the first \$122,000 of the project's annual cash flow as defined in Exhibit B as a "Preferred Return." This Preferred Return shall be earned from the time of initial funding and to the extent not paid in any calendar year shall be added to the Preferred Return due in the next calendar year. In the event of a partial year (ie: initial funding occurs at some date other than January 1 of a calendar year) the amount due in that year shall be prorated on the basis of a 360 day year.

Second Priority: Pro Rata with Knott USF&G shall receive 50% (or as adjusted under the caption "Cash Flow Deficits") of the projects annual cash flow available for distribution after payment of USF&G's preferred return as defined in Exhibit B.

Knott

Second Priority: Pro Rata with USF&G Knott shall be entitled to 50% (or as adjusted under the caption "Cash Flow Deficits") of the projects annual cash flow available for distribution after payment of USF&G's preferred return as defined in Exhibit B.

Cash Flow Deficits:

1. Knott (or other entity approved by USF&G) will provide a personal guaranty to fund 100% of cash flow deficits (excluding cumulative preferred return) for 36 months after USF&G's initial funding.
2. In month 37 and thereafter, cash flow deficits will be funded 50% by Knott and 50% by USF&G as additional equity contributions. Should either party fail to contribute any required additional equity, either party may contribute the required additional equity and either party will receive an additional 1% ownership in the partnership for each \$2,500 contributed on behalf of the non-contributing party.

**Allocation of
Profits and Losses:**

USF&G shall receive 50% (or as adjusted) of any profits and losses.

Knott shall receive 50% (or as adjusted) of any profits and losses.

**Distribution of Proceeds
of Sale or Refinance:**

USF&G shall receive 50% (or as adjusted) of Sales proceeds as defined in Exhibit C or 50% (or as adjusted) of refinancing proceeds as defined in Exhibit D.

Knott shall receive 50% (or as adjusted) of Sales or Refinancing Proceeds available for distribution.

**Partnership Term
and Sale of Partnership
Interests:**

The term of the Joint Venture is 40 years. After Knotts Guarantee Period, either party may implement a mutually agreed upon Buy/Sell provision of the Joint Venture interests. However, USF&G must approve the transfer or sale of any Joint Venture interests other than among any Knott related entities.

Major Decisions:

Major partnership decisions shall require the prior consent of all partners until such time as either partner's percentage interest equals or exceeds 75% of the total percentage interest in the Partnership.

If at any time either partner's percentage interest in the Partnership equals or exceeds 75%, that partner shall be authorized, to the extent permitted by applicable law, to make all Partnership decisions and to take all actions on behalf of the Partnership without the approval of the other Partner.

Joint Venture Fee:

\$1,000 payable upon acceptance of Joint Venture Commitment

Contingencies:

A. FHA Insurance:

The principal amount of the mortgage loan and payments of principal and interest must be fully insured by the Federal Housing Administration pursuant to section 221(d)(4) of the National Housing Act as amended.

**B. Plans and
Specifications:**

Lender reserves the right to approve the plans and specifications for all proposed improvements and to approve any changes, modifications or corrections to the plans during construction.

**C. Economic Due
Diligence:**

The commitment will be contingent upon USF&G Realty Advisors being satisfied with the results of its economic due diligence.

D. Engineer:

James F. Knott Development Corporation shall engage an inspecting engineer acceptable to USF&G to review the plans and specifications, and to perform regular inspections of the property during construction. USF&G reserves the right to review and approve the scope and substance of the inspection. USF&G must be satisfied, and approve the results of the inspection including but not limited to changes and/or modifications to the plans and specifications. All costs associated with the engineering review will be paid by James F. Knott Development Corporation.

E. Environmental:

USF&G shall have received and approved an environmental study of the property and its environs by an engineering or

environmental firm acceptable to USF&G which demonstrates to USF&G's reasonable satisfaction that there are no environmental hazards or hazardous or toxic materials existing on or under the property or affecting the property. All costs associated with this environmental assessment shall be paid by James F. Knott Development Company.

- F. Committee Approval:** This application must be approved by USF&G's Investment Committee.
- G. Secondary Financing:** Lender will not permit secondary financing on the property.
- H. Operating and Capital Budgets:** Lender reserves the right to review and approve annual operating and capital budgets.
- I. Market Value Appraisal:** Lender will receive and approve a market value estimate of the property from a MAI designated appraiser approved by USF&G which is not less than \$12,350,000 as of stabilized occupancy. The cost of the appraisal will be paid by James F. Knott Development Company.
- J. Tri-Party Agreement:** The commitment shall be contingent upon USF&G, the interim lender and the Borrower entering into an acceptable Tri-Party Agreement within 60 days following acceptance of the Commitment.
- K. Partnership Document:** The Commitment will be contingent upon the Lender's approval of the borrowing entity's partnership agreement. The commitment will also be contingent on the formation of the borrowing entity in conformance with the terms outlined in this Exhibit A.
- L. Title and Survey:** USF&G reserves the right to review and approve the condition of the title, title insurance and the property survey. All costs associated with the title, title insurance, and property survey will be paid by James F. Knott Development Company.
- M. General Contractor:** Lender approves James F. Knott Development Company as the General Contractor.
- N. Management Fees:** James F. Knott Development Company shall be responsible for property management services for the property and shall be entitled to earn management fees for services rendered not to exceed 3-1/2% of Annualized Gross Collected Income for the first year following initial funding. Commencing with the second year following initial funding management fees may be increased .25% per year for each succeeding year up to a maximum of 4-1/2% of gross collected income.
- O. Closing Costs:** All costs associated with the closing of the loan including USF&G's reasonable attorney's fees will be paid by James F. Knott Development Company.
- P. Auditors:** Knott will engage a firm of Certified Public Accountants acceptable to USF&G who shall annually audit the books and records of the property and the partnership.
- Q. Leases:** USF&G reserves the right to approve standard lease format and leasing terms

Exhibit B

Definition of Cash Flow Available for Distribution

+	Actual Gross Collected Income
-	<u>Operating Expenses Approved by USF&G</u>
=	Net Operating Income
-	First Mortgage Debt Service
-	Reserve for Replacement
-	<u>Tax and Insurance Escrows</u>
=	Surplus Cash
-	<u>USF&G Cumulative Preferred Return</u>
=	Cash Flow Available for Distribution

Mr. James F. Knott
Page 10
November 29, 1989

Exhibit C

Definition of Sale Proceeds Available for Distribution

+	Gross Sales Price
-	Actual Sales Expenses to Unrelated Third Parties not to Exceed 3% of Gross Sales Price
-	Outstanding First Mortgage Balance
-	<u>USF&G's Initial Equity Contribution</u>
=	Equity Proceeds from Appreciation
-	USF&G's Unpaid Cumulative compounded Preferred Return
-	<u>Pro-Rata Repayment of any Additional Equity Contributions</u>
=	Sales Proceeds Available for Distribution

Mr. James F. Knott
Page 11
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Exhibit D

Distribution of Refinancing Proceeds

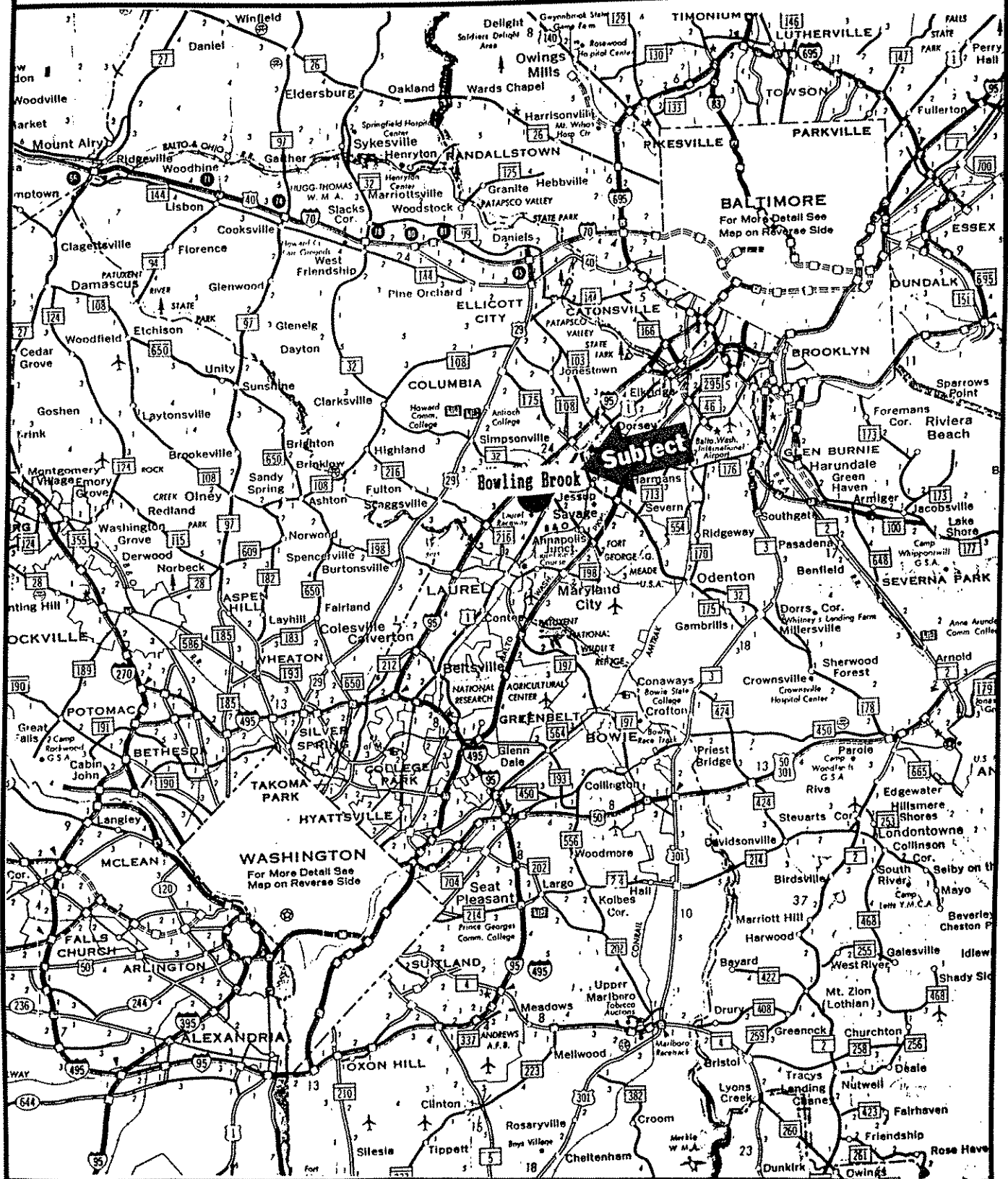
+	Net New Loan Proceeds
-	Outstanding First Mortgage Balance
-	USF&G's unpaid cumulative Compounded Preferred Return
-	<u>Pro-Rata Repayment of any Additional Equity Contributions</u>
=	Refinancing Proceeds Available for Distribution

Exhibit E

SOURCES AND USES OF FUNDS

	TOTAL	PER UNIT	PER SQ. FT.
SOURCES:			
FHA Insured First Mortgage	\$10,600,000	\$70,667	\$74.58
USF&G Equity Investment	<u>500,000</u>	<u>3,333</u>	<u>3.52</u>
Total Sources	\$11,100,000	\$74,000	\$78.10
USES:			
Hard Costs			
Land Purchase	\$ 1,575,000	\$10,500	\$11.08
Land Improvements	1,039,106	6,927	7.31
Structures	5,513,770	36,758	38.79
Builders Overhead	137,610	917	0.97
Bond Premium	25,000	167	0.18
Tap Fees & Other Offsite	310,000	2,067	2.18
General Requirements	<u>327,644</u>	<u>2,184</u>	<u>2.31</u>
Total Hard Costs	\$ 8,928,130	\$59,521	\$62.82
Soft Costs			
Construction Interest	\$ 816,070	\$ 5,440	\$ 5.74
Taxes	25,000	167	0.18
Insurance	20,000	133	0.14
FHA/Financing	238,800	1,592	1.68
Title & Recording	55,000	367	0.39
Legal, Organization & Audit	65,000	433	0.46
USF&G Commitment Fee	222,000	1,480	1.56
Architects & Engineers	230,000	1,533	1.62
Development Fee	<u>500,000</u>	<u>3,333</u>	<u>3.52</u>
Total Soft Costs	\$ <u>2,171,870</u>	\$ <u>14,479</u>	\$ <u>15.28</u>
Total Uses	\$11,100,000	\$74,000	\$78.10

THE BALTIMORE/WASHINGTON CORRIDOR



SITE VICINITY MAP

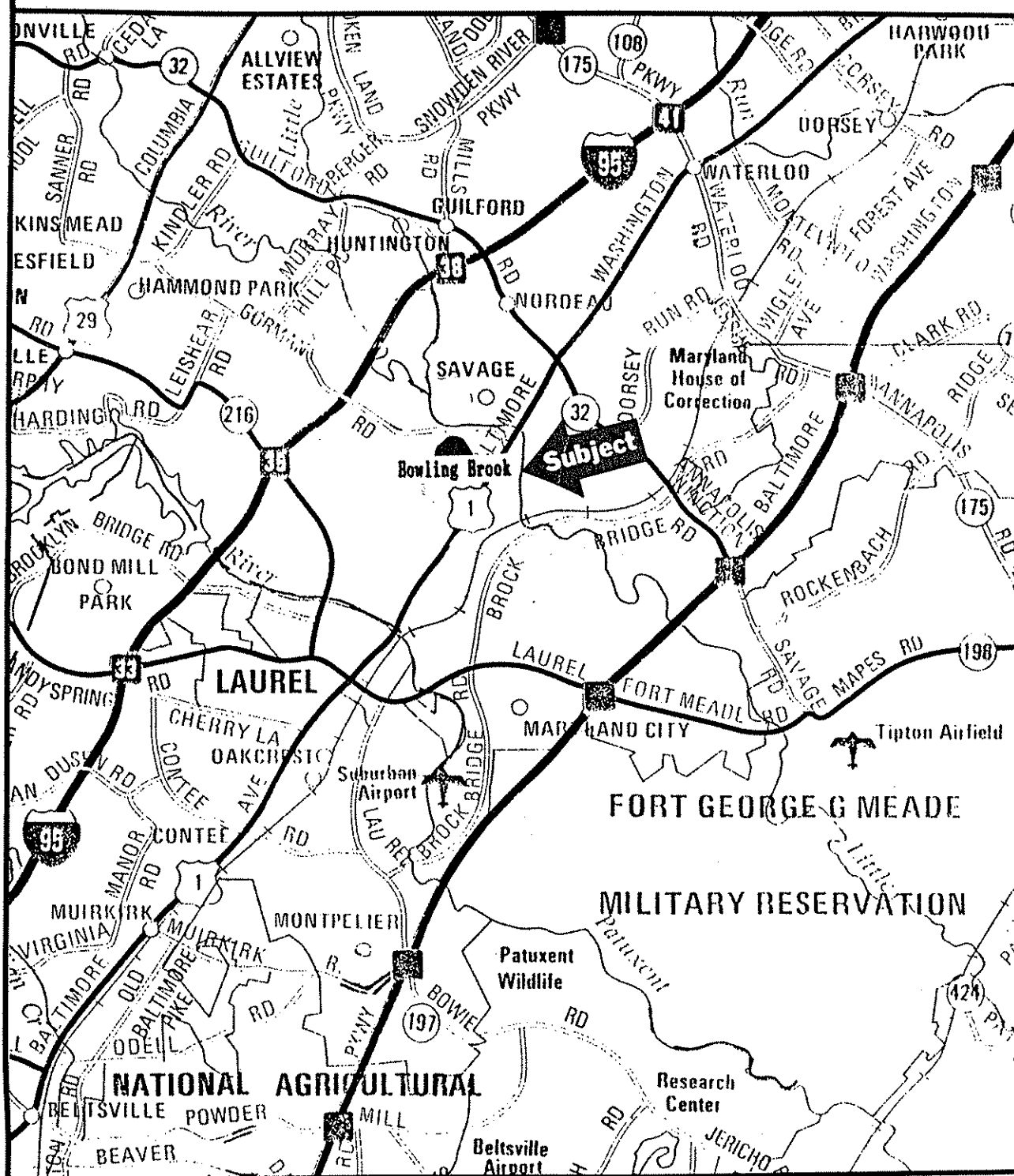
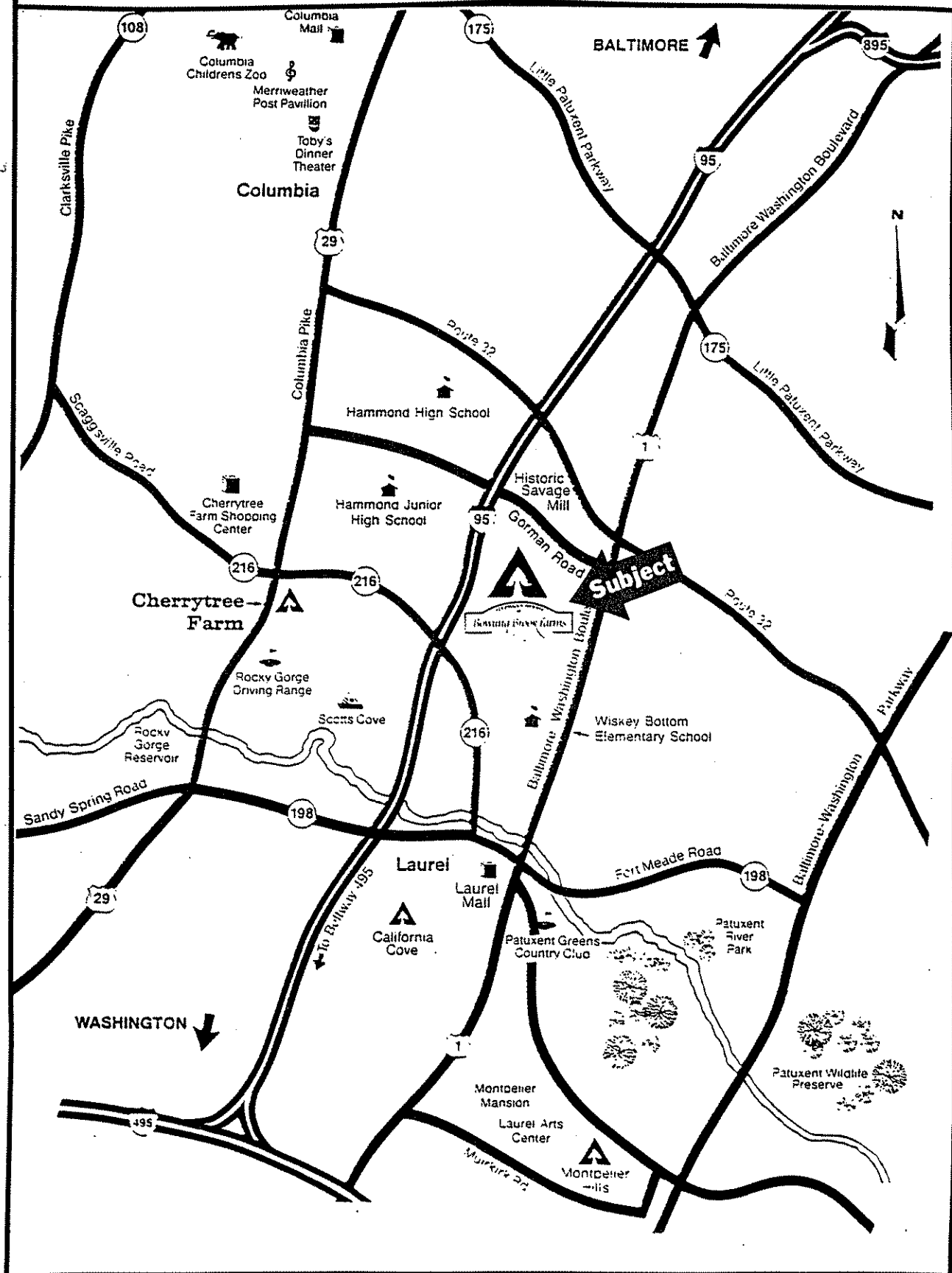
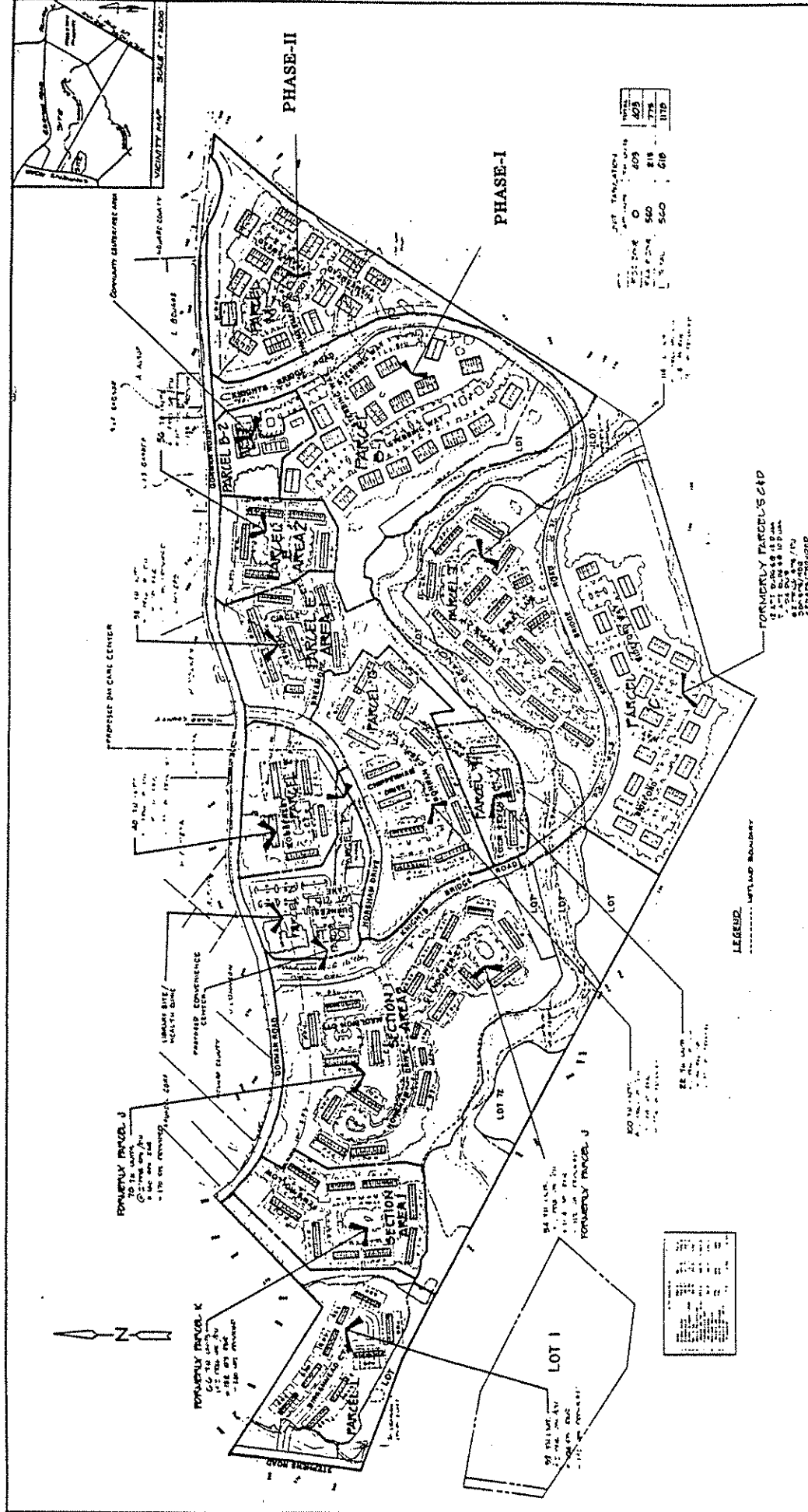


Exhibit II-3
Site Access Map

SITE ACCESS MAP





<p>OWNER: GORMAN ROAD LIMITED PARTNERSHIP 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>DEVELOPER: JAMES P. SHORT DEVELOPMENT CORP. 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>DATE: 10/19/88 SCALE: 1" = 200' PROJECT: BOWLING BROOK FARMS SIXTH ELECTION DISTRICT HOWARD COUNTY, MARYLAND</p>		<p>PLANNED CONVENIENCE CENTER 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>FORMERLY PARCEL 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 1 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 2 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 3 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 4 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 5 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 6 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 7 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 8 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 9 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 10 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 11 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 12 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 13 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 14 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 15 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 16 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 17 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 18 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 19 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 20 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 21 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 22 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 23 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 24 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 25 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 26 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 27 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 28 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 29 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 30 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 31 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 32 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 33 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 34 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 35 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 36 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 37 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 38 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 39 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 40 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 41 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 42 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 43 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 44 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 45 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 46 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 47 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 48 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 49 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 50 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 51 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 52 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 53 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 54 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 55 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 56 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4444</p>		<p>LOT 57 100 WEST ROAD, SUITE 300 TOWSON, MD 21204 (410) 551-4</p>
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PHASE TWO

PHASE ONE

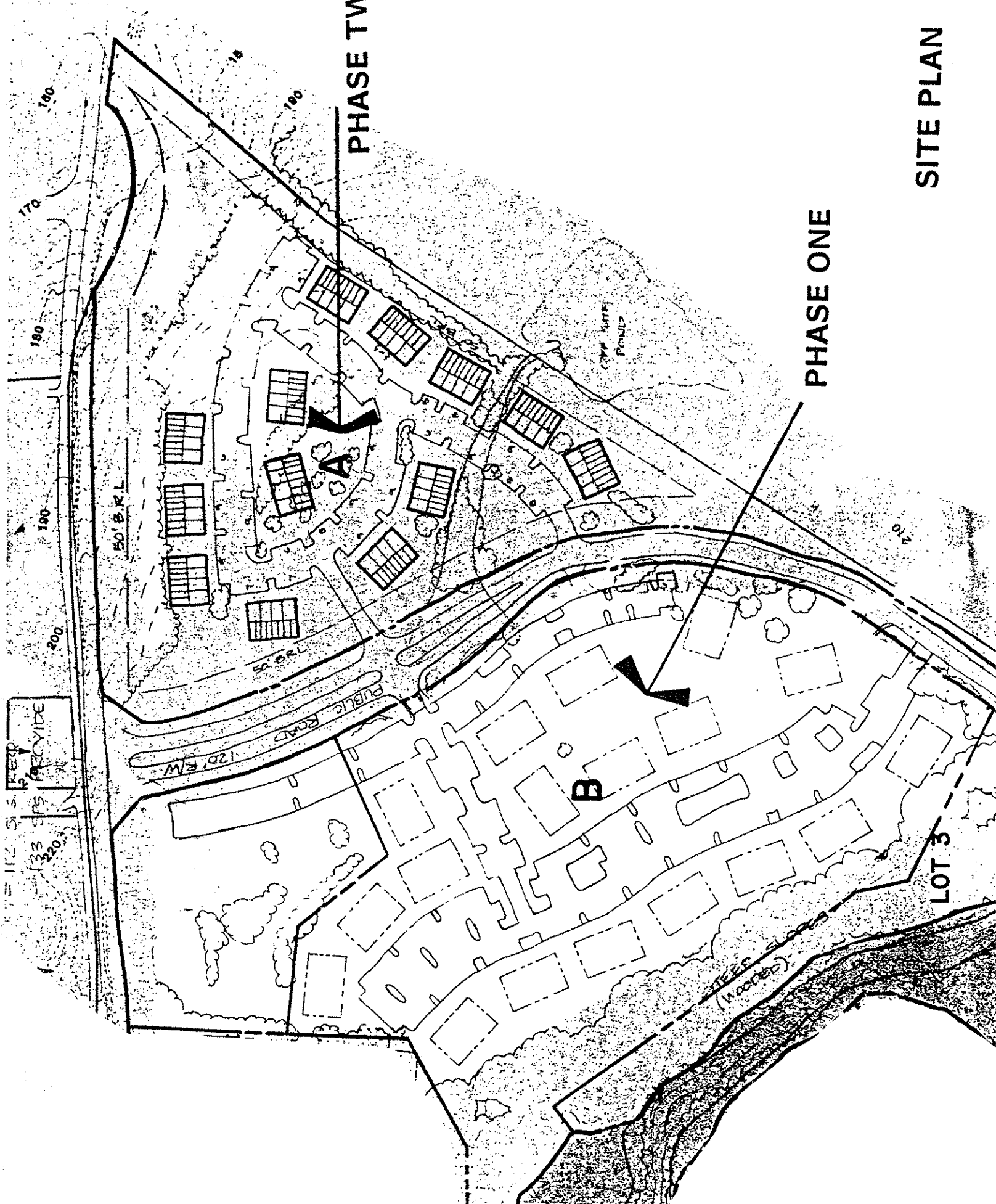
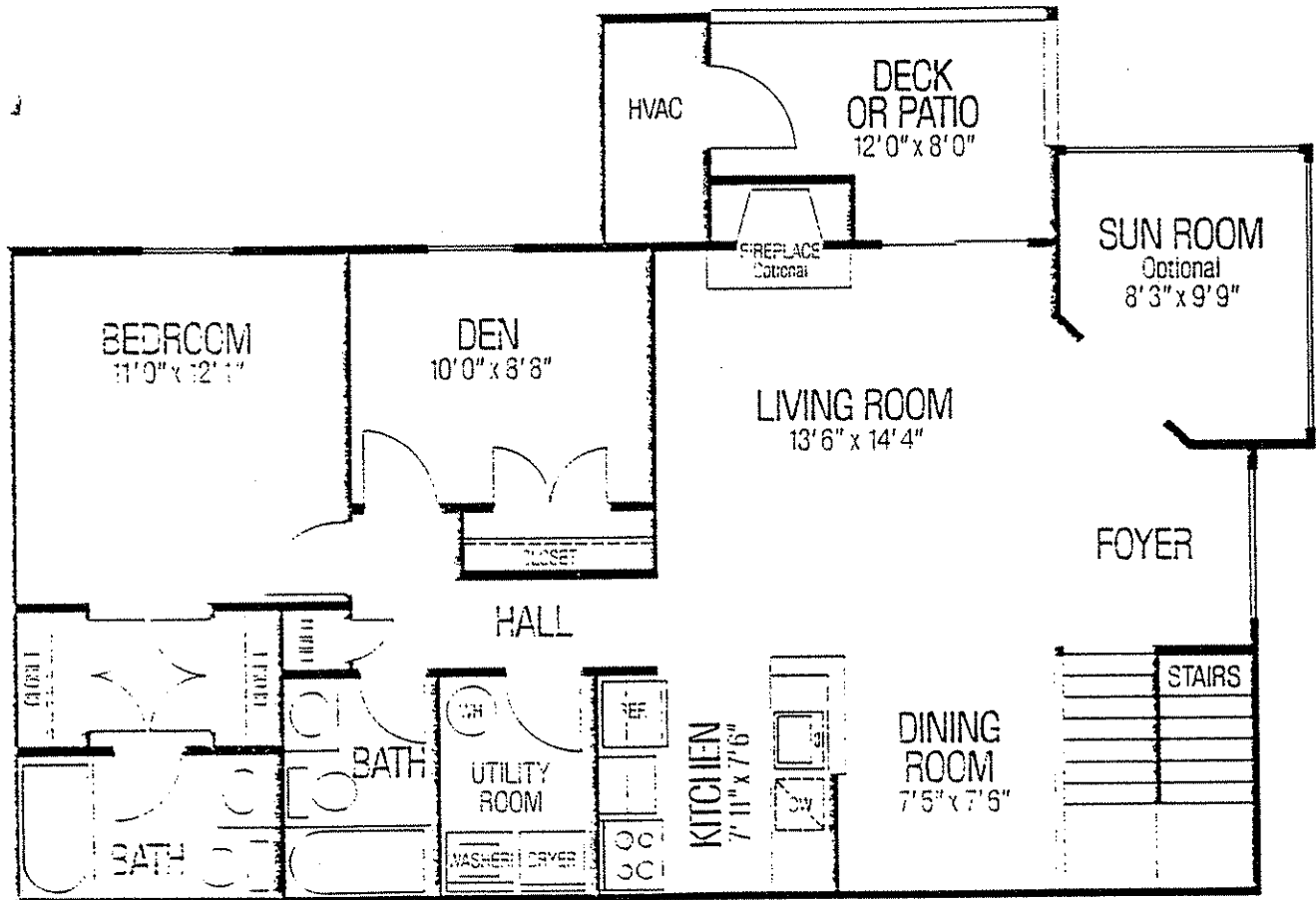


Exhibit II-5
Sources and Uses of Funds

	TOTAL	PER UNIT	PER SQ. FT.
SOURCES:			
FHA Insured First Mortgage	\$10,600,000	\$70,667	\$74.58
USF&G Equity Investment	<u>500,000</u>	<u>3,333</u>	<u>3.52</u>
Total Sources	\$11,100,000	\$74,000	\$78.10
USES:			
Hard Costs			
Land Purchase	\$ 1,575,000	\$10,500	\$11.08
Land Improvements	1,039,106	6,927	7.31
Structures	5,513,770	36,758	38.79
Builders Overhead	137,610	917	0.97
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Soft Costs			
Construction Interest	\$ 816,070	\$ 5,440	\$ 5.74
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Architects & Engineers	230,000	1,533	1.62
Development Fee	<u>500,000</u>	<u>3,333</u>	<u>3.52</u>
Total Soft Costs	\$ <u>2,171,870</u>	\$14,479	\$15.28
Total Uses	\$11,100,000	\$74,000	\$78.10

Exhibit II-6A
Unit Floor Plans

ONE BEDROOM/DEN



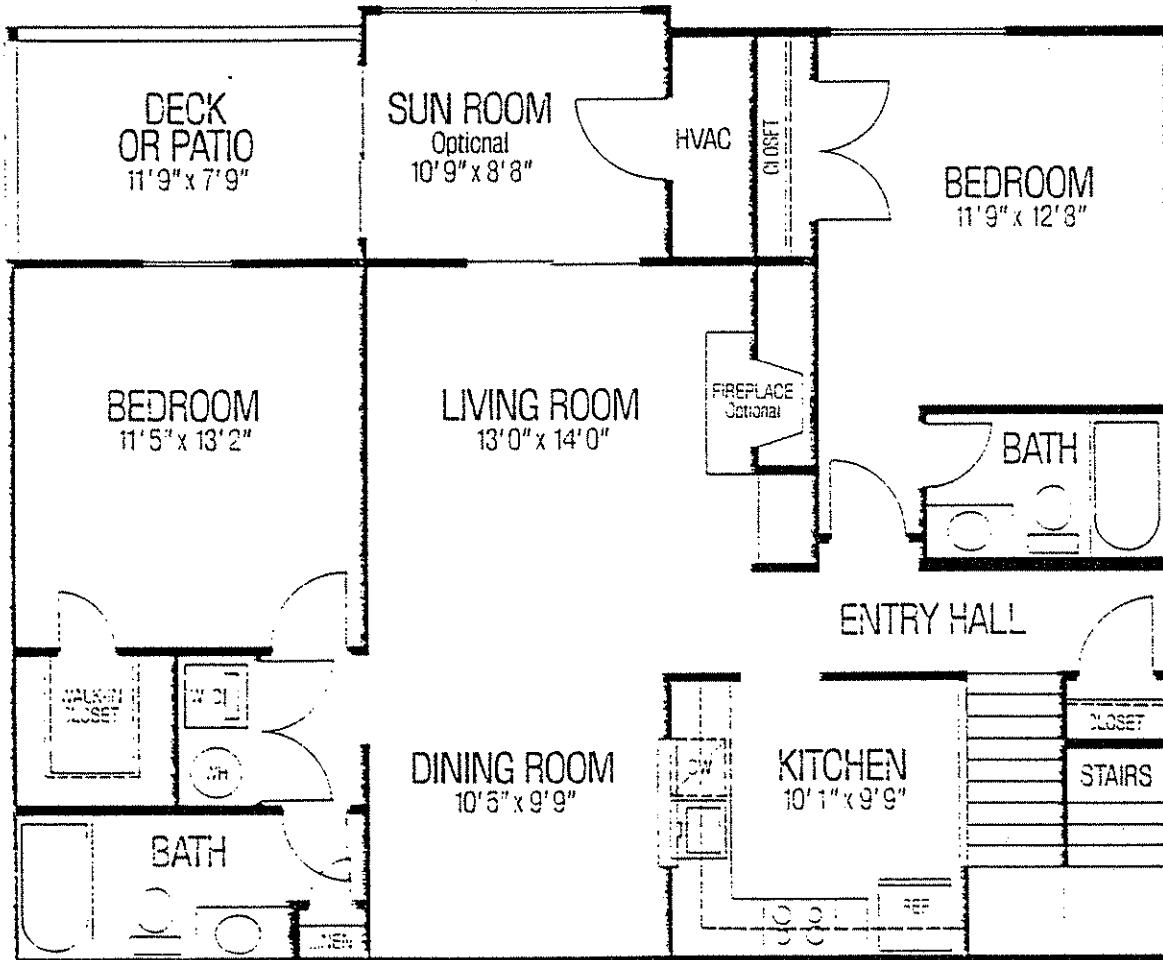


Exhibit II-6C
Unit Floor Plans

TWO BEDROOM MAJOR/MINOR

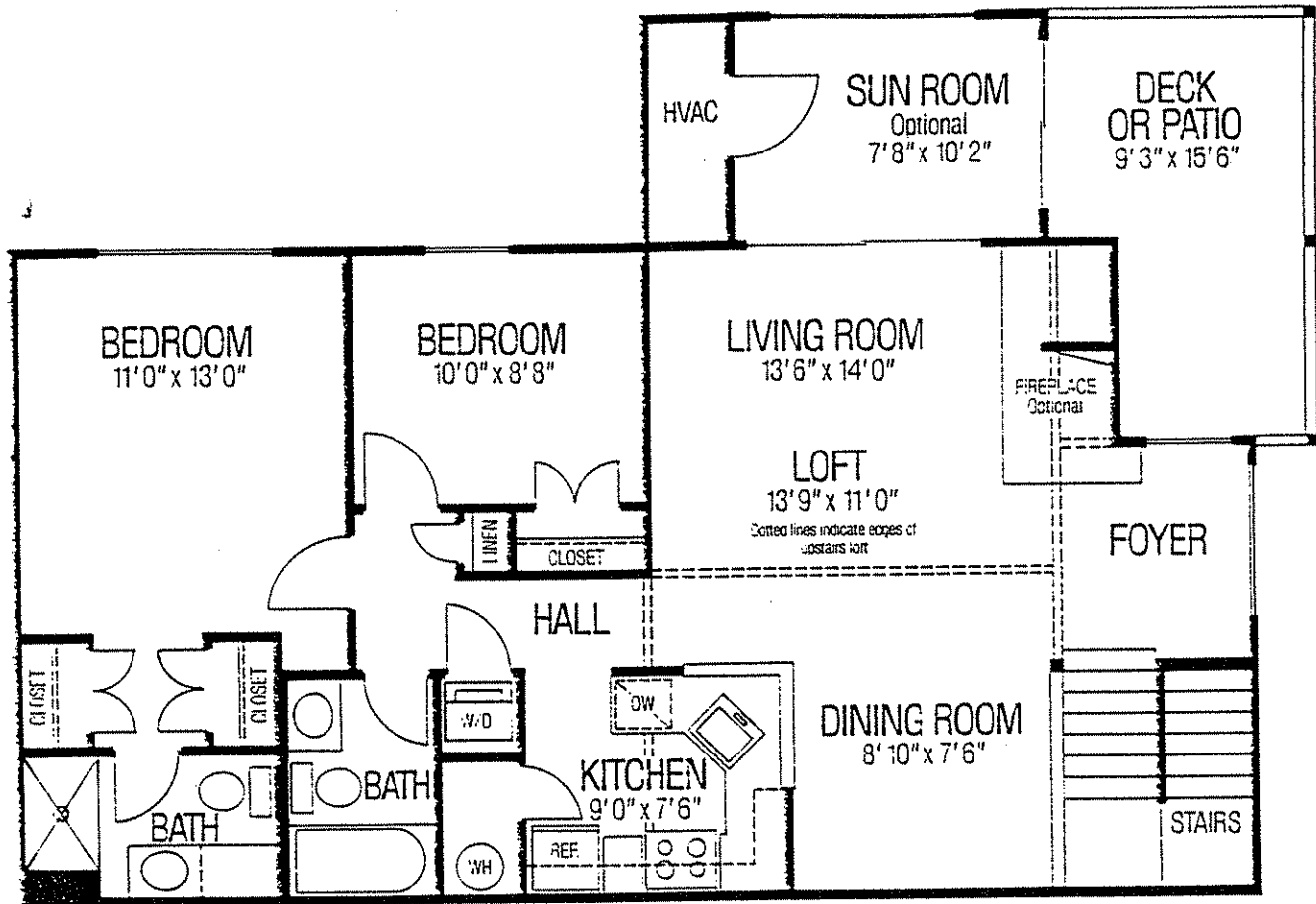


Exhibit II-7
BOWLING BROOK AMENITIES

Pantry
Separate Entrance
Spacious Deck or Patio
Ample Counter and Cabinet Space
Magic Chef 15 Cu. Ft. Refrigerator With Ice Maker
Magic Chef Automatic 7-Cycle Dishwasher
Kitchen Disposal
Magic Chef Electric Range, Conventional Oven and Microwave Oven
Some Models with Eat in Kitchens
Washer and Dryer
Linen Closet
Free Bowling Brook Club Membership
Mini Blinds in Every Window
Plentiful, Convenient Parking
Individually Controlled Heating & Air Conditioning in Every Unit

Also Available:

Carport
Fireplace
Sunroom
Loft

Exhibit II-8
Bowling Brook Apartments-Phase I
Leasing Schedule

	<u>1 BEDROOM & DEN</u>	<u>2 BEDROOM</u>	<u>2 BEDROOM MASTER</u>	<u>TOTAL</u>
FEBRUARY	2	2	0	4
MARCH	4	0	6	10
APRIL	6	2	3	11
MAY	15	1	9	25
JUNE	13	3	8	24
JULY	15	8	10	33
AUGUST	20	6	5	31
SEPTEMBER	3	10	9	22
OCTOBER	9	3	8	20
TOTAL	<u>87</u>	<u>35</u>	<u>58</u>	<u>180</u>

BOWLING BROOK FARMS, SECTION I
CURRENT RENTS

One Bedroom & Den

	<u>BASE RENT</u>	<u>FIRE- PLACE</u>	<u>SUN ROOM</u>	<u>FIREPLACE & SUNROOM</u>
1st Floor	\$715		\$765	
2nd Floor	\$720		\$770	
3rd Floor	\$725	\$735	\$775	\$785

Two Bedroom Major/Minor

	<u>BASE RENT</u>	<u>FIRE- PLACE</u>	<u>SUN ROOM</u>	<u>FIREPLACE & SUNROOM</u>
1st Floor	\$735		\$760	
2nd Floor	\$740		\$790	
3rd Floor	\$745	\$755	\$795	\$805

With Loft &
Fireplace

\$855

With Loft
Fireplace &
Sunroom

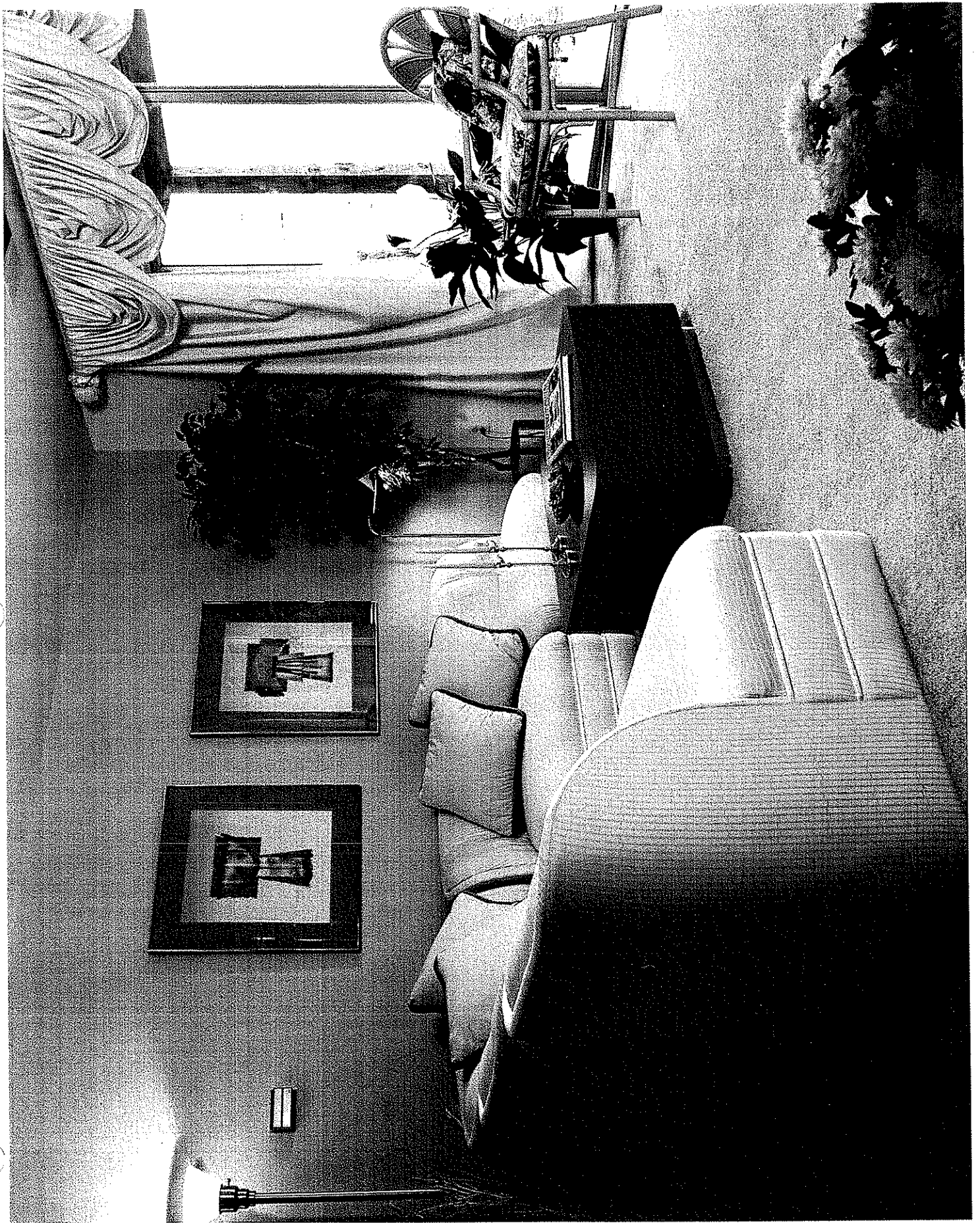
\$905

Two Bedroom Split Master

	<u>BASE RENT</u>	<u>FIRE- PLACE</u>	<u>SUN ROOM</u>	<u>FIREPLACE & SUNROOM</u>
1st Floor	\$770		\$820	
2nd Floor	\$775		\$820	
3rd Floor	\$780	\$790	\$850	\$860

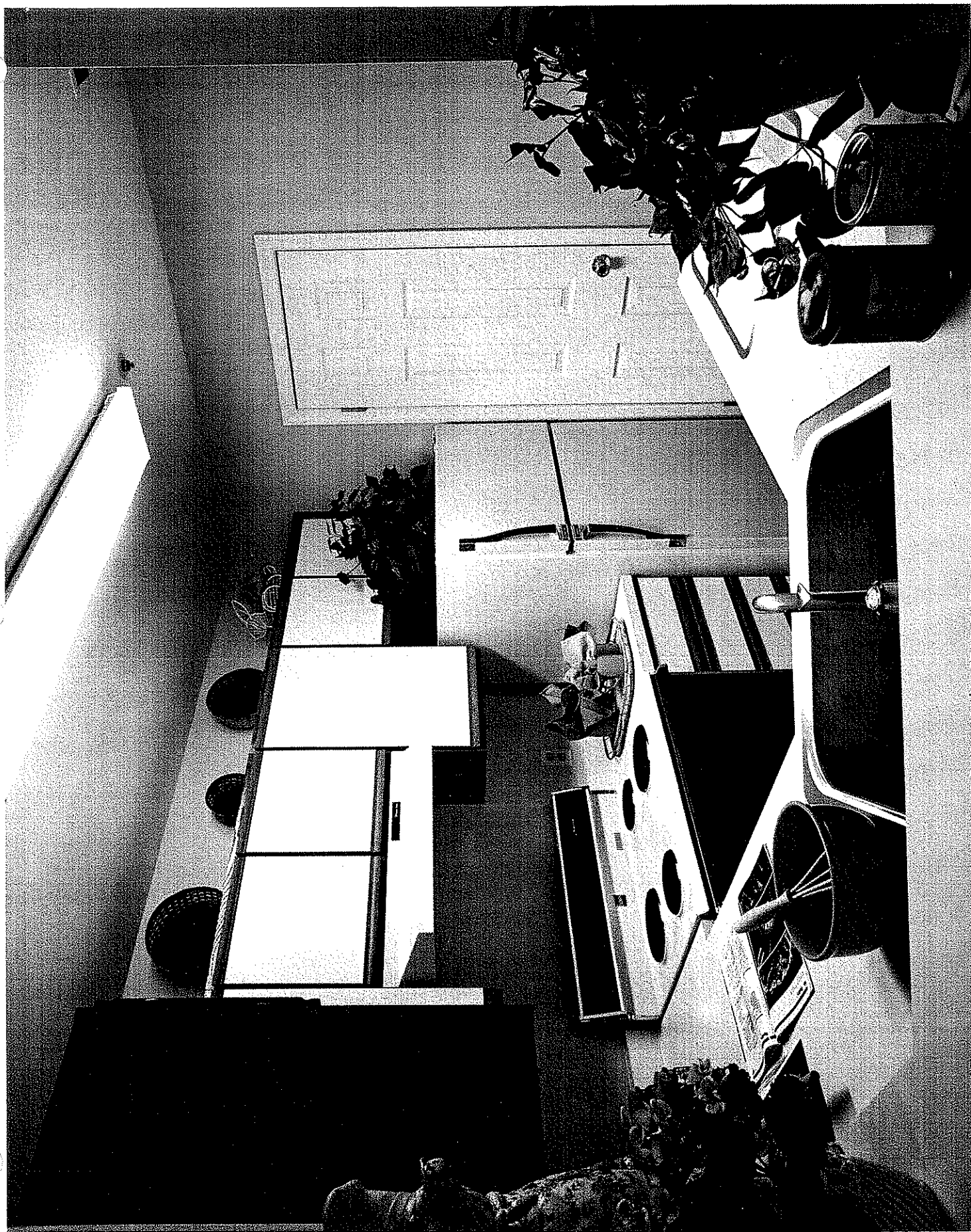
Total Number of Units:	216
Total Completer to Date:	180
Total Rented as of 10/17/89	156
Total Occupied as of 10/17/89:	130

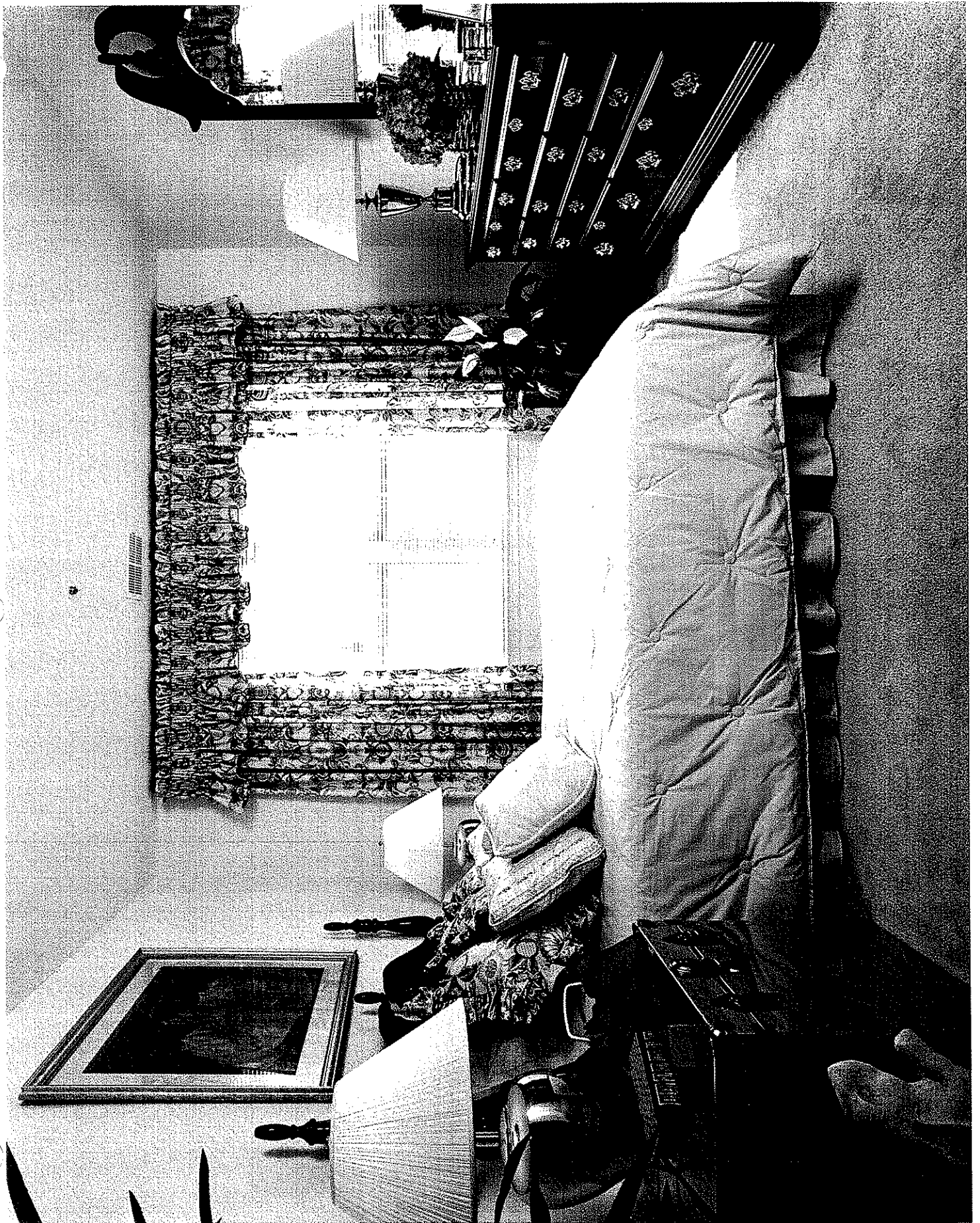








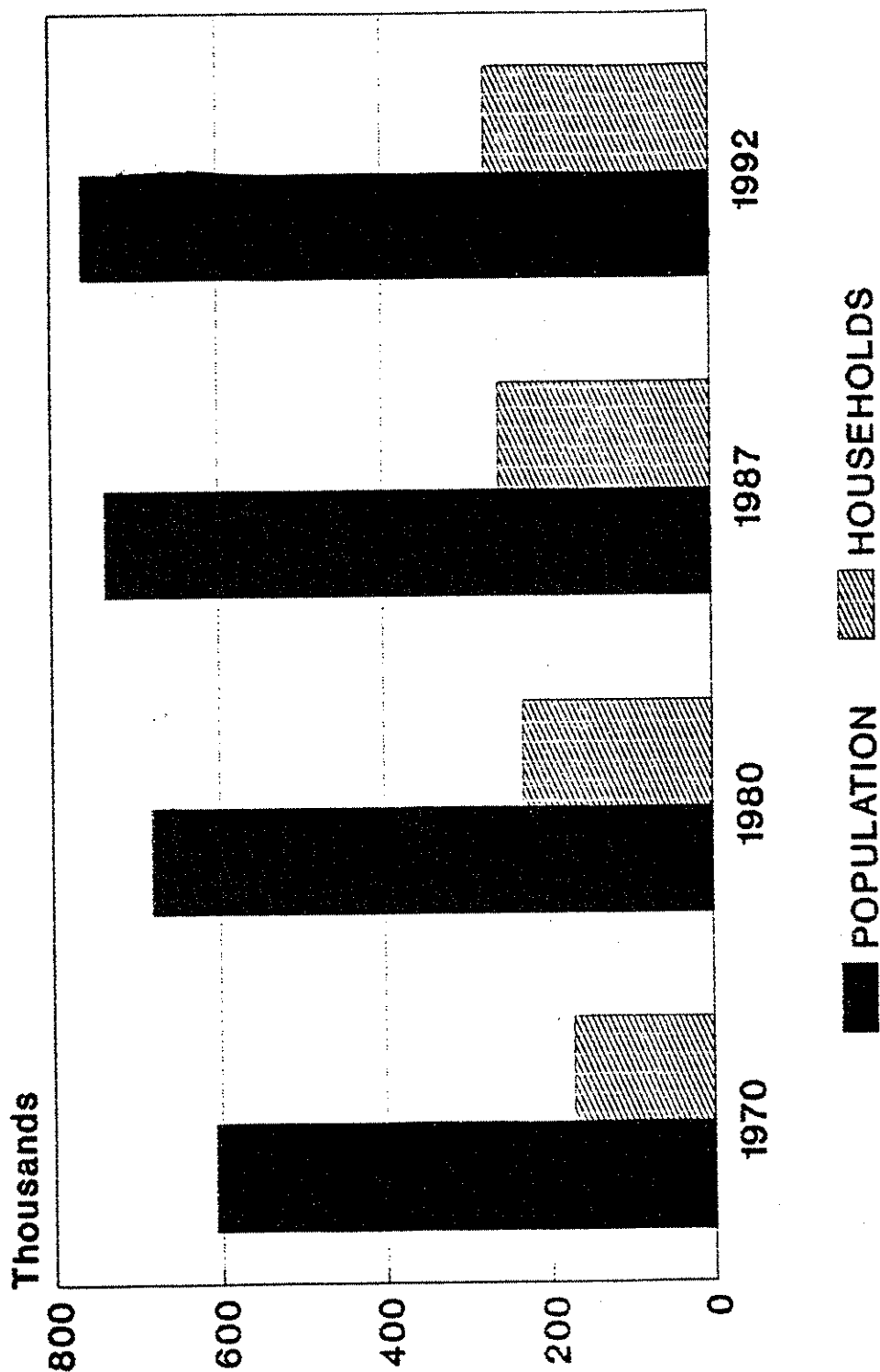






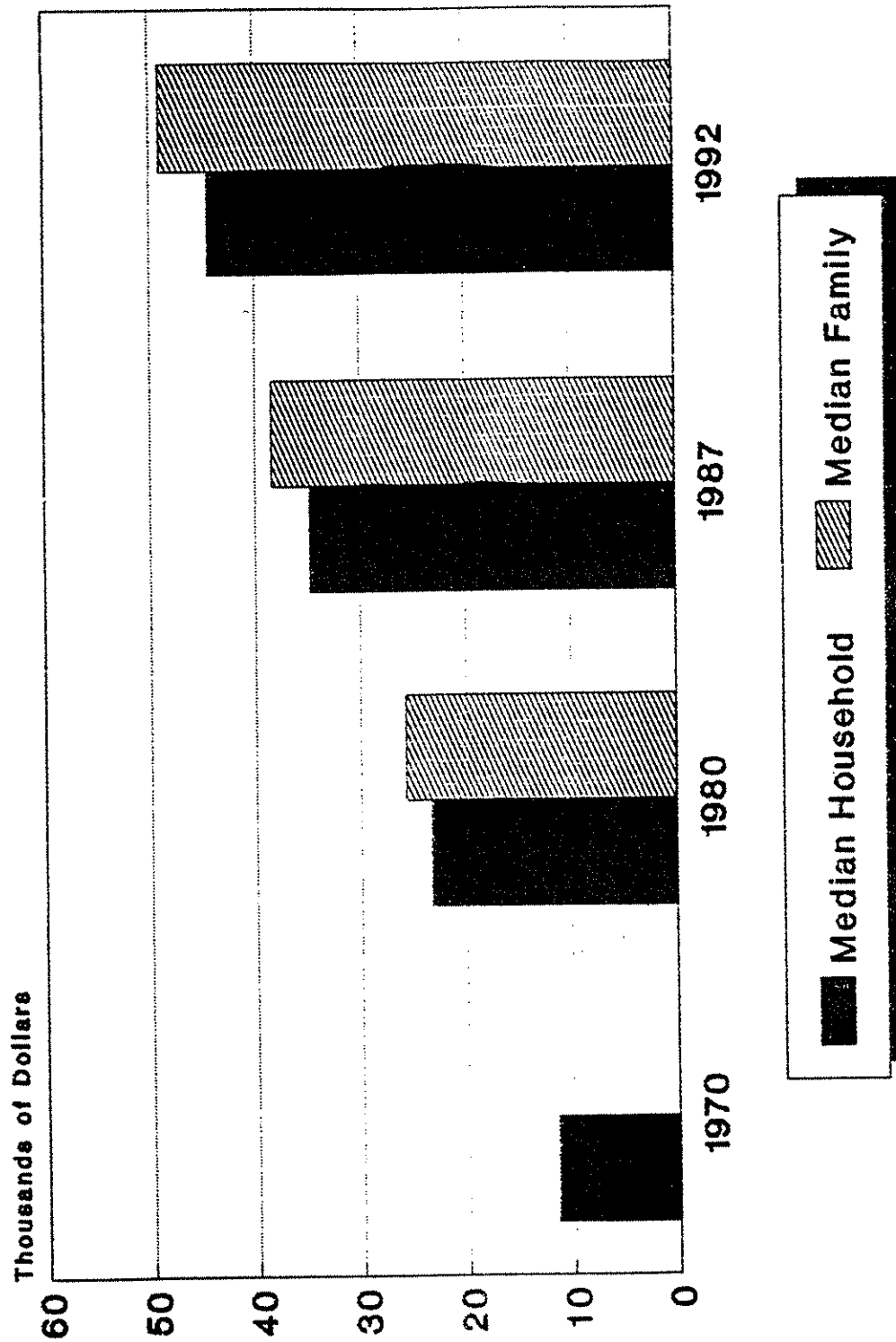
III. DEMOGRAPHICS

BALTIMORE/WASHINGTON CORRIDOR POPULATION TRENDS



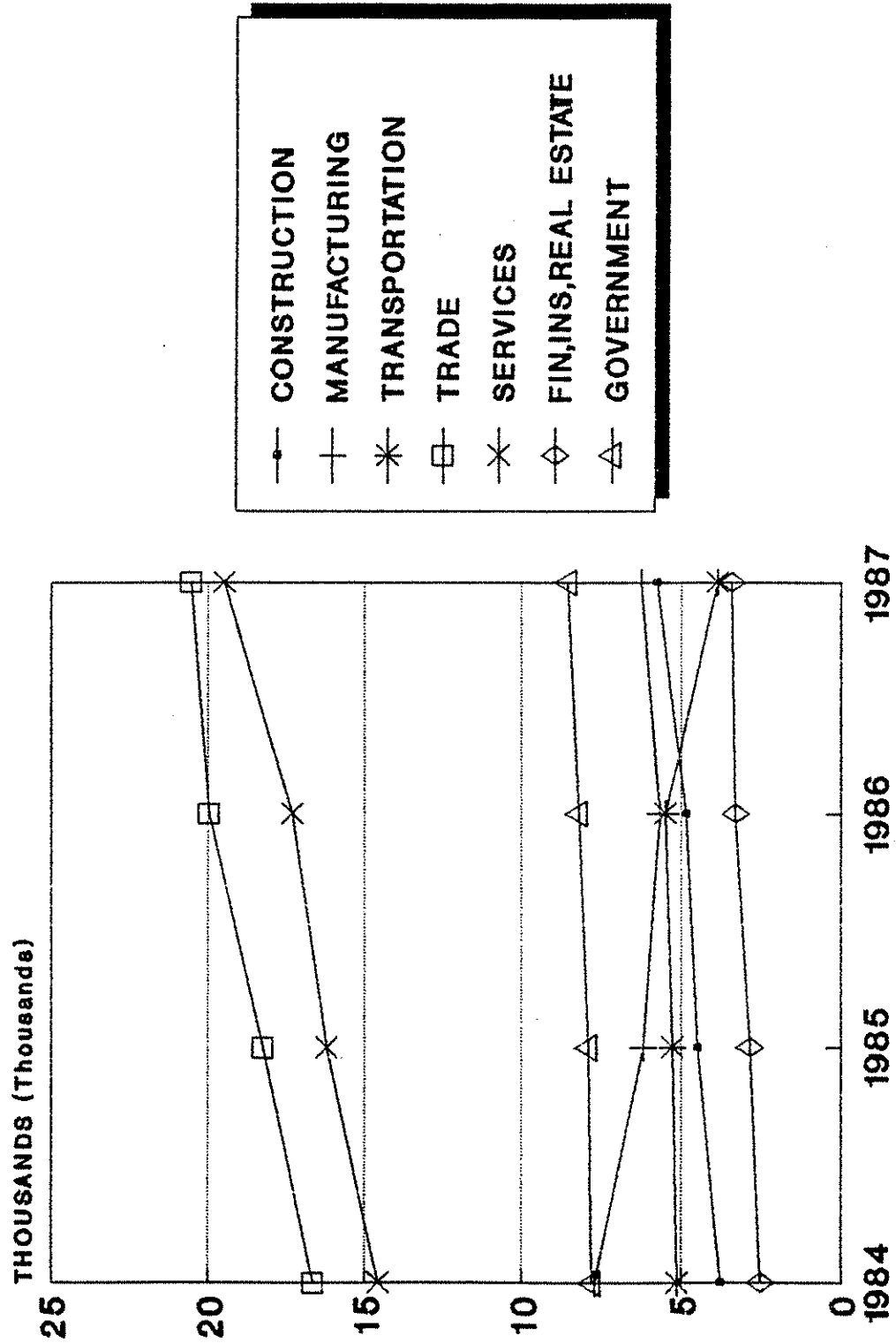
BALTIMORE/WASHINGTON CHAMBER OF COMMERCE

BALTIMORE/WASHINGTON CORRIDOR INCOME TRENDS



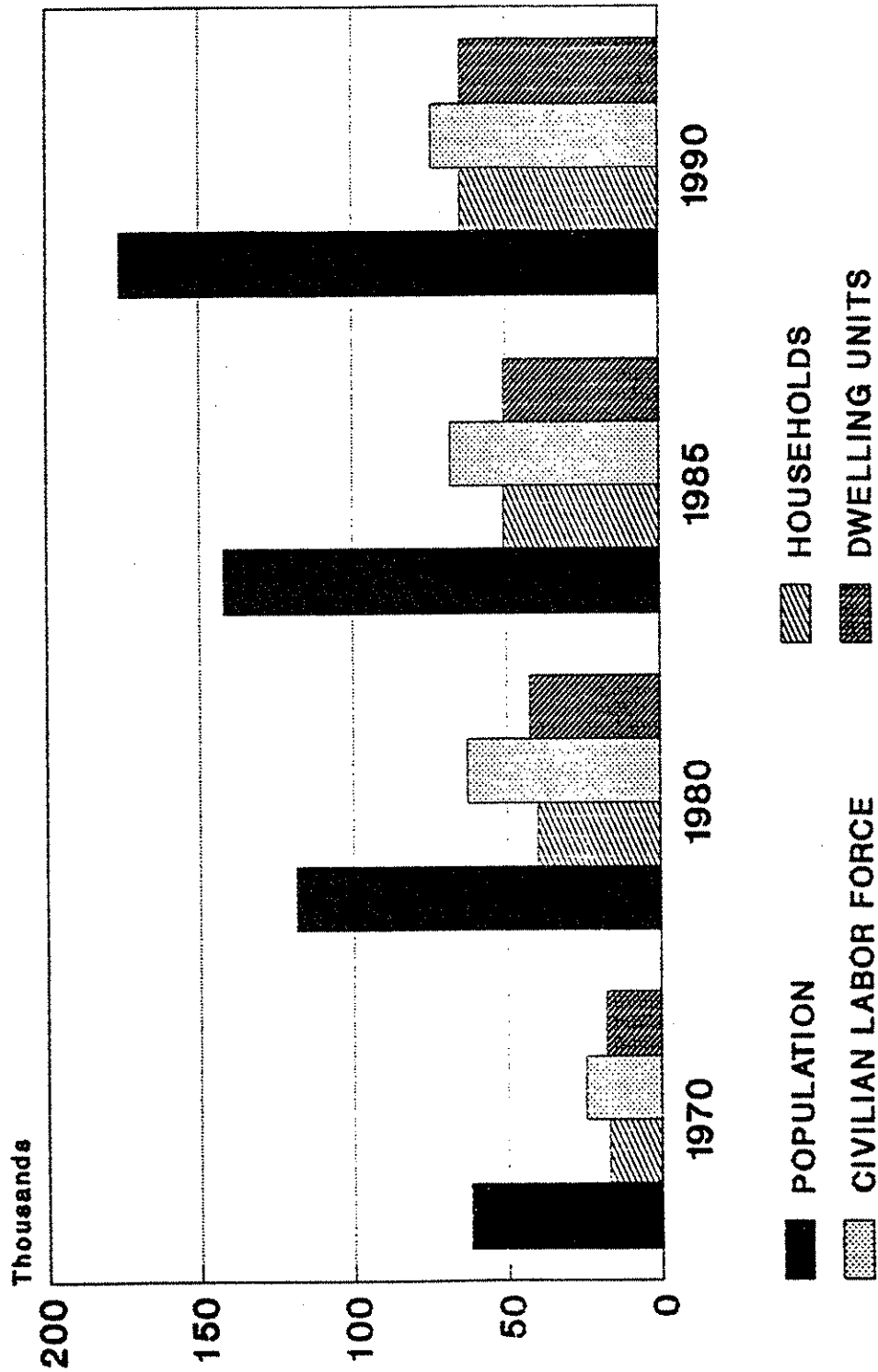
BALTIMORE/WASHINGTON CHAMBER OF COMMERCE

HOWARD COUNTY, MARYLAND EMPLOYMENT BY MAJOR CATEGORY



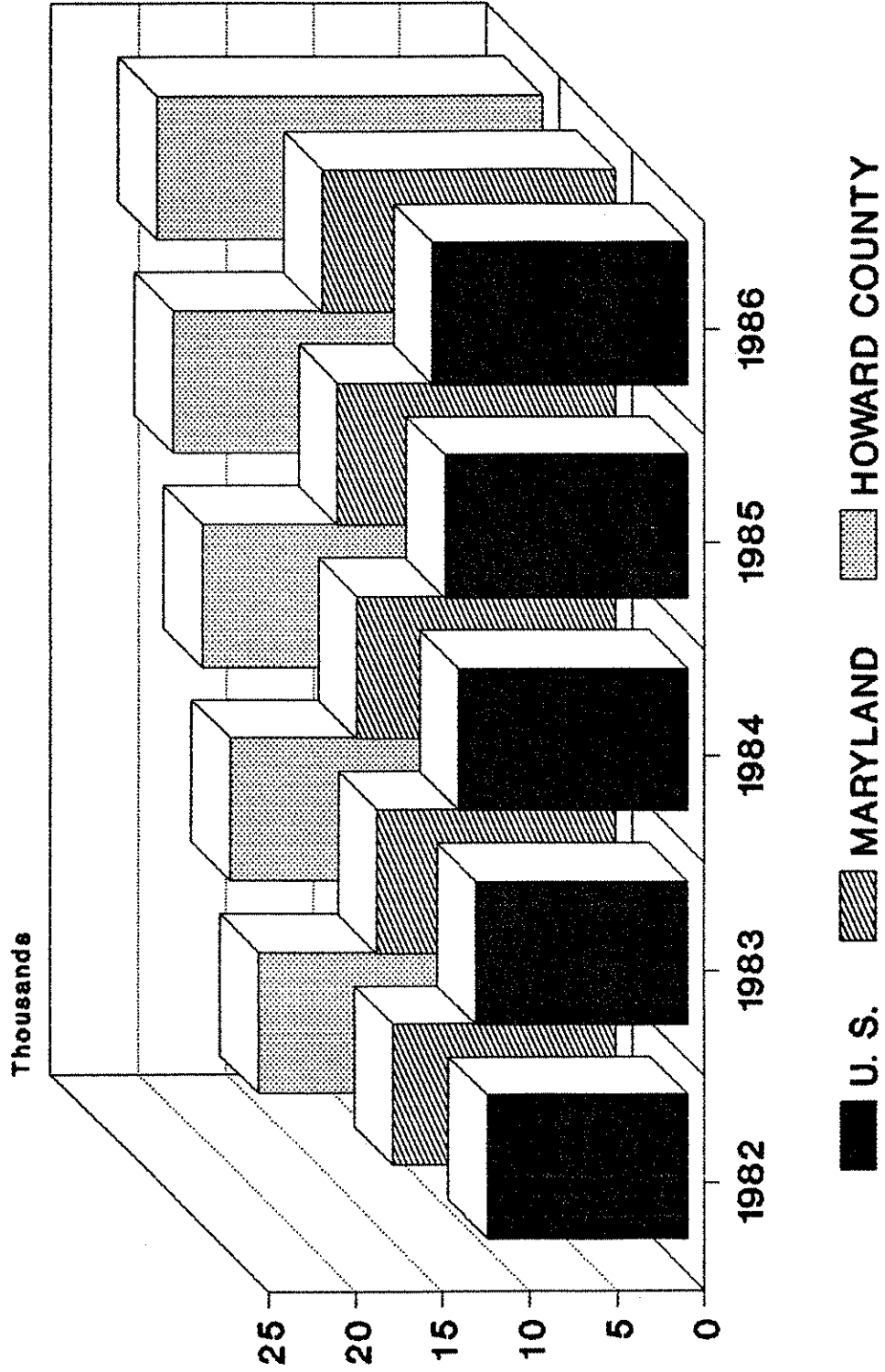
BUREAU OF ECONOMIC ANALYSIS

HOWARD COUNTY, MARYLAND POPULATION TRENDS



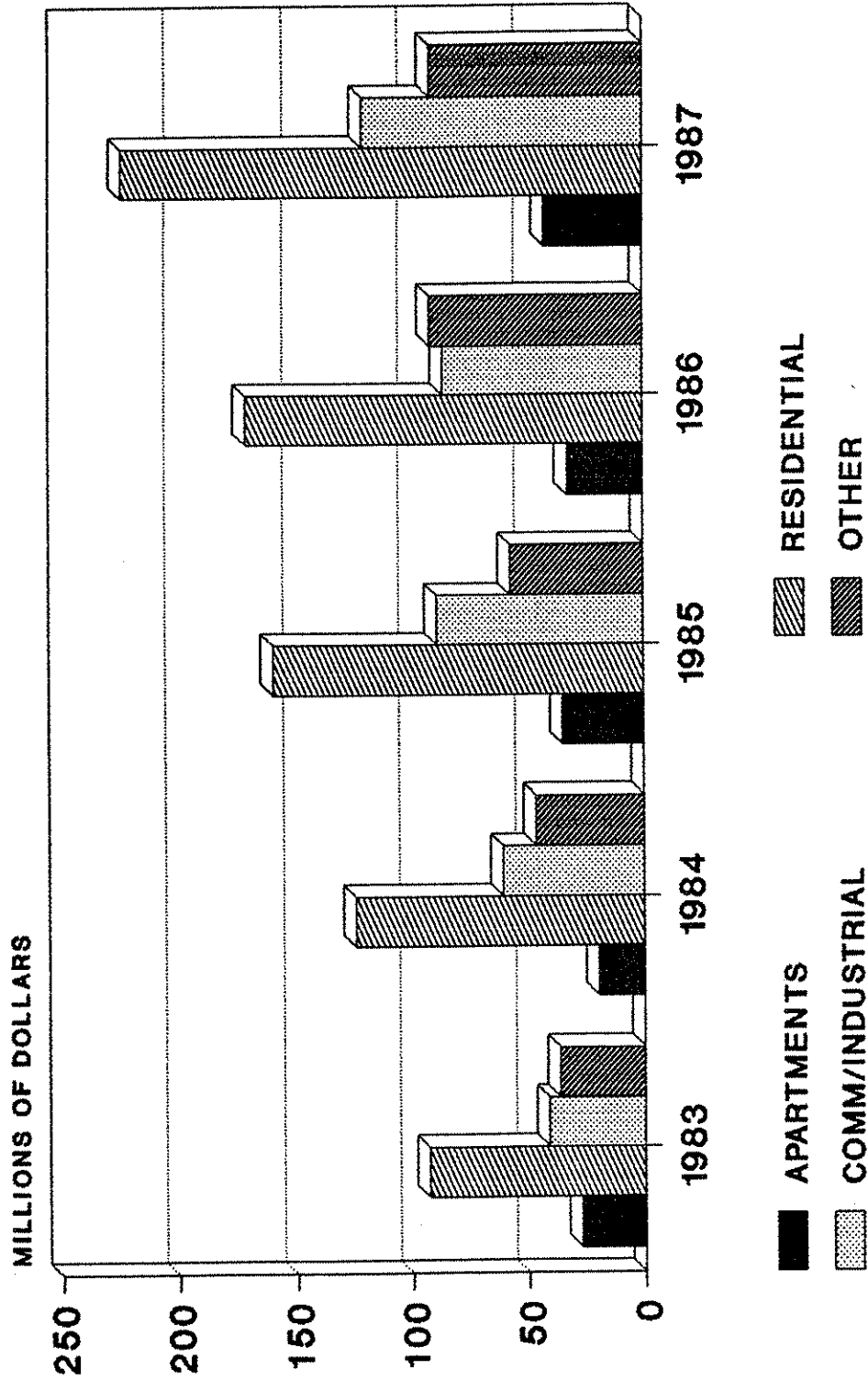
HOWARD COUNTY PLANNING & ZONING DEPT.

PER CAPITA PERSONAL INCOME MARYLAND



U. S. DEPARTMENT OF COMMERCE

BUILDING PERMITS HOWARD COUNTY, MARYLAND



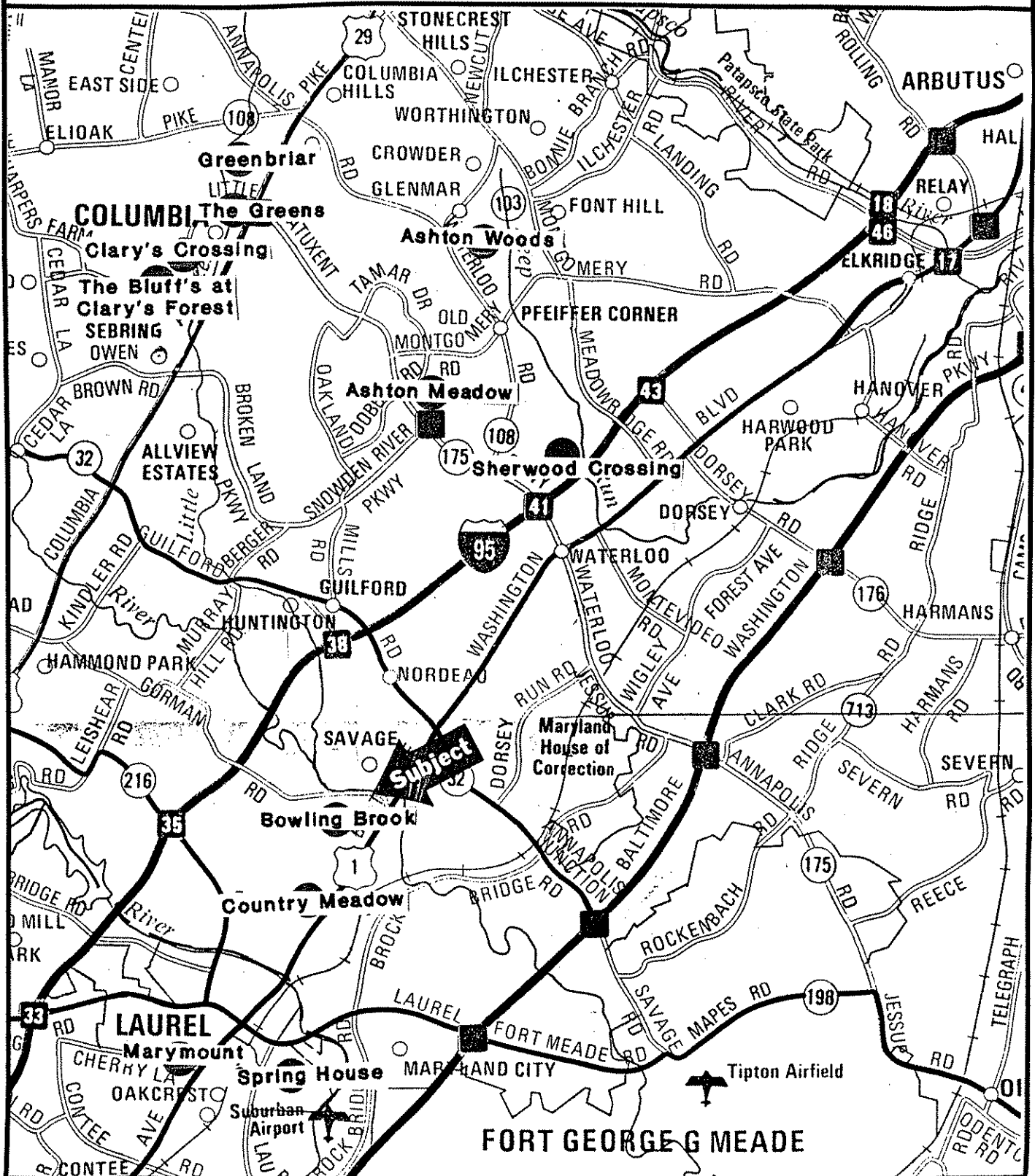
HOWARD COUNTY DEPARTMENT OF PUBLIC WORKS

MARKET COMPARABLES
SURVEY

COMPETITIVE PROPERTY SURVEY

PROPERTY	B.B.	Country Meadows	Sherwood Crossing	Spring House	The Greens	Marymont	The Bluffs	Clary's Crossing	Greenbriar
Occ. %		80 left	95%	97%	96%	96%	96%	98%	99%
# Units	216	216	634	220	168	308	196	198	336
H/C units		None	21	yes ?	None	None	Yes ?	36	12
App. fee	\$25	\$20	\$25	\$20	\$25	\$35 p.p.	\$25	\$25	\$25
One Br		\$625	\$620	\$690	\$713	\$585	\$525	\$570	\$660 /\$650
						\$645	\$540	\$610	\$680/ \$670
						\$690	\$555		\$695/ \$680
One/Den	\$715	\$650	\$690	\$735	N/A	N/A	N/A	\$690	N/A
	\$720								
	\$735								
w/ family		\$675							
Two Br	\$735	\$735	\$695	\$770	\$778	\$795	\$600	\$740	\$760/\$830
	\$770			\$805	\$848	\$800	\$615		\$775/\$850
						\$885	\$630		\$790/\$875
w/ family		\$760							
Two/Den	N/A	N/A	\$750	N/A	N/A	N/A	N/A	N/A	N/A
Three Br	N/A	\$815	\$860	N/A	N/A	N/A	N/A	\$890	\$920-\$960
F/P-Chg?	\$10	no	\$15	yes \$25	yes \$30	yes	no	yes \$30	yes
S/R-Chg?	\$50	no	no	no	yes \$40	\$25	no	no	no
Loft-Chg?	\$100	no	no	no	yes \$100	no	no	no	no
Sec. Dep.	\$250	\$350	\$250	\$250	\$250	\$150p.p.	income	\$150	\$250
Refund?	yes	yes	yes	\$125	yes	yes	yes	yes	yes
Short Trm	1,3,6	no	6 mo	3,6 mo	6 mo	3,6 mo	no	yes 6mo	yes 6 mo
Extra Chg	yes	N/A	no	15%	\$50 mo	\$100mo		no	\$20 mo
Pets ?	no	no	yes 20#	yes 25#	yes 20#	yes 15#	no	yes	yes
Extra Chg	n/a	N/A	\$10	\$10	no	\$100		\$100	\$10
Pat Dep?	n/a	N/A	\$150	\$250	\$250	\$200		\$100	\$150
Refundble	n/a	N/A	yes	\$225	yes	yes		yes	no
Specials	1 mo	yes	yes	no	no	yes	no	no	no
Icemaker	yes	no	no	no	no	yes	no	no	yes
Microwave	yes	yes	yes	no	no	no	no	no	yes
Wshr/Dryr	yes	yes	yes	yes	yes	conn.	no	yes	yes
D/W-Disp.	yes	yes	yes	yes	yes	yes	yes	yes	yes
Mini Bl	yes	yes	yes	yes	no	yes	yes	yes	yes
Vrticl Bl	no	yes	yes	no	no	yes	no	yes	no
Crprt-Chg	yes-25	no	yes \$15	yes \$25	yes \$30	no	no	no	no
Cable	yes	yes	yes	yes	yes	yes	yes	yes	yes
Clubhse	yes	yes	yes	PG	yes	yes	no	yes	yes
Pool	yes	yes	yes	PG	yes	yes	no	yes	yes
Wdg. Pool	yes	yes	no	PG	no	yes	no	no	yes
Jacuzzi	yes	no	yes	PG	no	no	no	yes	yes
Rcqtball	yes	no	no	PG	no	no	no	no	no
Tennis//	yes 1	yes 1	yes 2	PG	no	no	no	yes 1	yes 1
Volleybl	yes	no	yes	no	no	no	no	yes	no
Wght. Rm.	yes	yes	yes	PG	no	yes	no	yes	yes
Sauna	no	yes	no	no	no	yes	no	no	no
Tanning	no	no	no	no	yes	no	no	no	yes

COMPETITIVE PROPERTY SURVEY MAP



MARKET COMPARABLESMONTH Sept/OctPROPERTY NAME: Country MeadowsOCCUPANCY %: 80 left to rentADDRESS: 9713 Queen Annes Lace Laurel, MD. 20707PHONE #: 498-6004# OF UNITS: 216 H/C UNITS: NoneAPP. FEE: \$20.00RENT STRUCTUREONE BEDROOM: \$625.00 870 s.f.# OF BATH: 1ONE BEDROOM/
DEN: \$650.00 980 s.f.1Family \$675.00 1105 s.f.1TWO BEDROOM: \$735.00 1147 s.f.2 fullw/ family rm \$760.00 1358 s.f.2TWO BEDROOM/
DEN: N/ATHREE BEDROOM: \$815.00 1257 s.f.2SECURITY DEPOSIT REQUIRED: \$350.00REFUNDABLE: yesSHORT TERM LEASES: none

TERM: _____

PETS ALLOWED: no FEE: _____

PET DEPOSIT REQ'D: _____

PET DEPOSIT REFUNDABLE: _____

SPECIALS CURRENTLY OFFERED: \$200 off 1st month rent on 2 bedroom units only

MARKET COMPARABLESMONTH Sept/OctPROPERTY NAME: Sherwood CrossingOCCUPANCY %: 80ADDRESS: 6731 Old Waterloo Road Balto., MD. 21227PHONE #: 799-8142# OF UNITS: 634 H/C UNITS: 21APP. FEE: \$25.00RENT STRUCTUREONE BEDROOM: \$620.00 800 s.f.# OF BATH: 1ONE BEDROOM/
DEN: \$690.00 900 s.f.TWO BEDROOM: \$695.00\$715.00 w/o fp-920 s.f.\$730.00 w/fp 920 s.f.TWO BEDROOM/
DEN: \$750.00 1st flr-fp\$780.00 2/3 flr-fpTHREE BEDROOM: \$860.00\$880.00SECURITY DEPOSIT REQUIRED: \$250.00REFUNDABLE: yesSHORT TERM LEASES: 6 monthTERM: N/APETS ALLOWED: yes-20lbs FEE: \$10 add'l .PET DEPOSIT REQ'D: \$150.00PET DEPOSIT REFUNDABLE: fullySPECIALS CURRENTLY OFFERED: Cash rebate \$500- 1 year leaseModerate income program

MARKET COMPARABLESMONTH Sept/Oct

PROPERTY NAME: Spring House OCCUPANCY %: 97%
ADDRESS: 9401 Spring House Lane Laurel, MD. 20708 PHONE #: 490-8833
OF UNITS: 220 H/C UNITS: yes APP. FEE: \$20

RENT STRUCTURE

ONE BEDROOM: \$690.00 w/o fp 703 s.f. # OF BATH: 1
\$715.00 w/ fp 1

ONE BEDROOM/
DEN: \$735.00 w/o fp 844 s.f. 1
\$760.00 w/ fp 1

TWO BEDROOM: \$770 837 s.f. 1
\$805 w/o fp 934 s.f. 2
\$830 w/ fp 2
\$840 w/ fp & bay window

TWO BEDROOM/
DEN: _____

THREE BEDROOM: _____

SECURITY DEPOSIT REQUIRED: \$250.00 REFUNDABLE: \$125.00

SHORT TERM LEASES: yes TERM: 3 months

PETS ALLOWED: -25 lbs FEE: \$10 PET DEPOSIT REQ'D: \$250

PET DEPOSIT REFUNDABLE: all but \$25.00

SPECIALS CURRENTLY OFFERED: none

MARKET COMPARABLESMONTH Sept/OctPROPERTY NAME: The GreensOCCUPANCY %: 96%ADDRESS: 12215 Little Patuxent Pkwy.PHONE #: 997-4774# OF UNITS: 168H/C UNITS: noneAPP. FEE: \$25.00RENT STRUCTUREONE BEDROOM: \$713.00 1005 s.f.# OF BATH: 1ONE BEDROOM/
DEN: N/ATWO BEDROOM: \$778.00 1125 s.f.2\$848.00 1250 s.f.2TWO BEDROOM/
DEN: N/ATHREE BEDROOM: N/ASECURITY DEPOSIT REQUIRED: \$250.00REFUNDABLE: yesSHORT TERM LEASES: 6 monthsTERM: \$50 month extraPETS ALLOWED: yes FEE: noPET DEPOSIT REQ'D: \$250.00PET DEPOSIT REFUNDABLE: yesSPECIALS CURRENTLY OFFERED: None

MARKET COMPARABLESMONTH Sept/Oct

PROPERTY NAME: Marymont OCCUPANCY %: 96%
ADDRESS: 8220 Marymont Drive Laurel, MD. 20707-0040 PHONE #: 498-4111
OF UNITS: 308 H/C UNITS: None APP. FEE: \$35 per person if
unmarried

RENT STRUCTURE

ONE BEDROOM:	<u>\$585.00</u>	<u>564 s.f.</u>	# OF BATH:	<u>1</u>
	<u>\$645.00</u>	<u>667 s.f.</u>		<u>1</u>
	<u>\$690</u>	<u>777 s.f.</u>		<u>1</u>
ONE BEDROOM/ DEN:	<u>N/A</u>			
TWO BEDROOM:	<u>\$795.00</u>	<u>935 s.f.</u>		<u>1</u>
	<u>\$800.00</u>	<u>984 s.f.</u>		<u>2</u>
	<u>\$885.00</u>	<u>1115 s.f.</u>		<u>2</u>
TWO BEDROOM/ DEN:	<u>N/A</u>			
THREE BEDROOM:	<u>N/A</u>			

SECURITY DEPOSIT REQUIRED: \$150 per person REFUNDABLE: yes
SHORT TERM LEASES: 3 months TERM: \$100 extra per month
PETS ALLOWED: -15 lbs. FEE: \$100 one time fee PET DEPOSIT REQ'D: \$200
PET DEPOSIT REFUNDABLE: yes

SPECIALS CURRENTLY OFFERED: One month free on one bedroom units

MARKET COMPARABLESMONTH Sept/ Oct

PROPERTY NAME: The Bluffs @ Calry's Forest OCCUPANCY %: 96%
ADDRESS: 12100 E Little Patuxent Pkwy. Columbia 21044 PHONE #: 995-0900
OF UNITS: 196 H/C UNITS: yes APP. FEE: \$25

RENT STRUCTURE

ONE BEDROOM:	<u>\$525.00- 1st flr 680 s.f.</u>	# OF BATH:	<u>1</u>
	<u>\$540.00- 2nd flr</u>		<u>1</u>
	<u>\$555.00- 3rd flr</u>		<u>1</u>
ONE BEDROOM/ DEN:	<u>N/A</u>		
TWO BEDROOM:	<u>\$600.00- 1 st flr 850 s.f.</u>		<u>1</u>
	<u>\$615.00- 2nd flr</u>		<u>1</u>
	<u>\$630.00- 3rd flr</u>		<u>1</u>
TWO BEDROOM/ DEN:	<u>N/A</u>		
THREE BEDROOM:	<u>N/A</u>		

SECURITY DEPOSIT REQUIRED: Governed by income REFUNDABLE: yes
SHORT TERM LEASES: None TERM: _____
PETS ALLOWED: No FEE: _____ PET DEPOSIT REQ'D: _____
PET DEPOSIT REFUNDABLE: _____
SPECIALS CURRENTLY OFFERED: None

MARKET COMPARABLESMONTH Sept/Oct

PROPERTY NAME: Clary's Crossing OCCUPANCY %: 98%
ADDRESS: 11311 Little Patuxent Pkwy. Columbia 21044 PHONE #: 964-5557
OF UNITS: 198 H/C UNITS: 36 APP. FEE: \$25.00

RENT STRUCTURE

ONE BEDROOM:	<u>\$570</u>	<u>695 s.f.</u>	# OF BATH:	<u>1</u>
	<u>\$610</u>	<u>823 s.f.</u>		
ONE BEDROOM/ DEN:	<u>\$690</u>	<u>933 s.f.</u>		
TWO BEDROOM:	<u>\$740</u>	<u>1100 s.f.</u>		<u>2</u>
TWO BEDROOM/ DEN:	<u>None</u>			
THREE BEDROOM:	<u>\$890</u>	<u>1466 s.f.</u>		<u>2</u>

SECURITY DEPOSIT REQUIRED: \$150.00 REFUNDABLE: yes
SHORT TERM LEASES: yes TERM: 6 month - no difference in price
PETS ALLOWED: yes FEE: \$100 one time fee PET DEPOSIT REQ'D: \$100
PET DEPOSIT REFUNDABLE: yes
SPECIALS CURRENTLY OFFERED: None

MARKET COMPARABLESMONTH Sept/Oct

PROPERTY NAME: Greenbriar
ADDRESS: 5685 Columbia Road Columbia 21044
OF UNITS: 336 H/C UNITS: 12

OCCUPANCY %: 99%
PHONE #: 730-0001
APP. FEE: \$25.00

RENT STRUCTURE

ONE BEDROOM: 1A - \$660-\$695 798 s.f.
1B \$650-\$680 770 s.f.

OF BATH: 1
1

ONE BEDROOM/
DEN: N/A

TWO BEDROOM: \$760-\$790 1049 s.f.
\$830-\$875 1162 s.f.

1 1/2
2

TWO BEDROOM/
DEN: N/A

THREE BEDROOM: \$920-\$960 1274 s.f.

2

SECURITY DEPOSIT REQUIRED: \$250.00

REFUNDABLE: yes

SHORT TERM LEASES: yes

TERM: 6 month- \$20.00 adl1. per mo.

PETS ALLOWED: yes FEE: \$10.00

PET DEPOSIT REQ'D: \$150.00

PET DEPOSIT REFUNDABLE: None

SPECIALS CURRENTLY OFFERED: None

Exhibit III-17

Proposed Multi-family Development in the Subject Market Area

Ashton Meadow

Currently under construction this project is being developed by Summit Properties. The project is located at the intersection of Tumar Drive and Dobbin Road just off Route 108, five miles north of the subject. The project will contain 176 units and will have an amenity package comparable to the subject. Leasing is expected to commence in the spring of 1990.

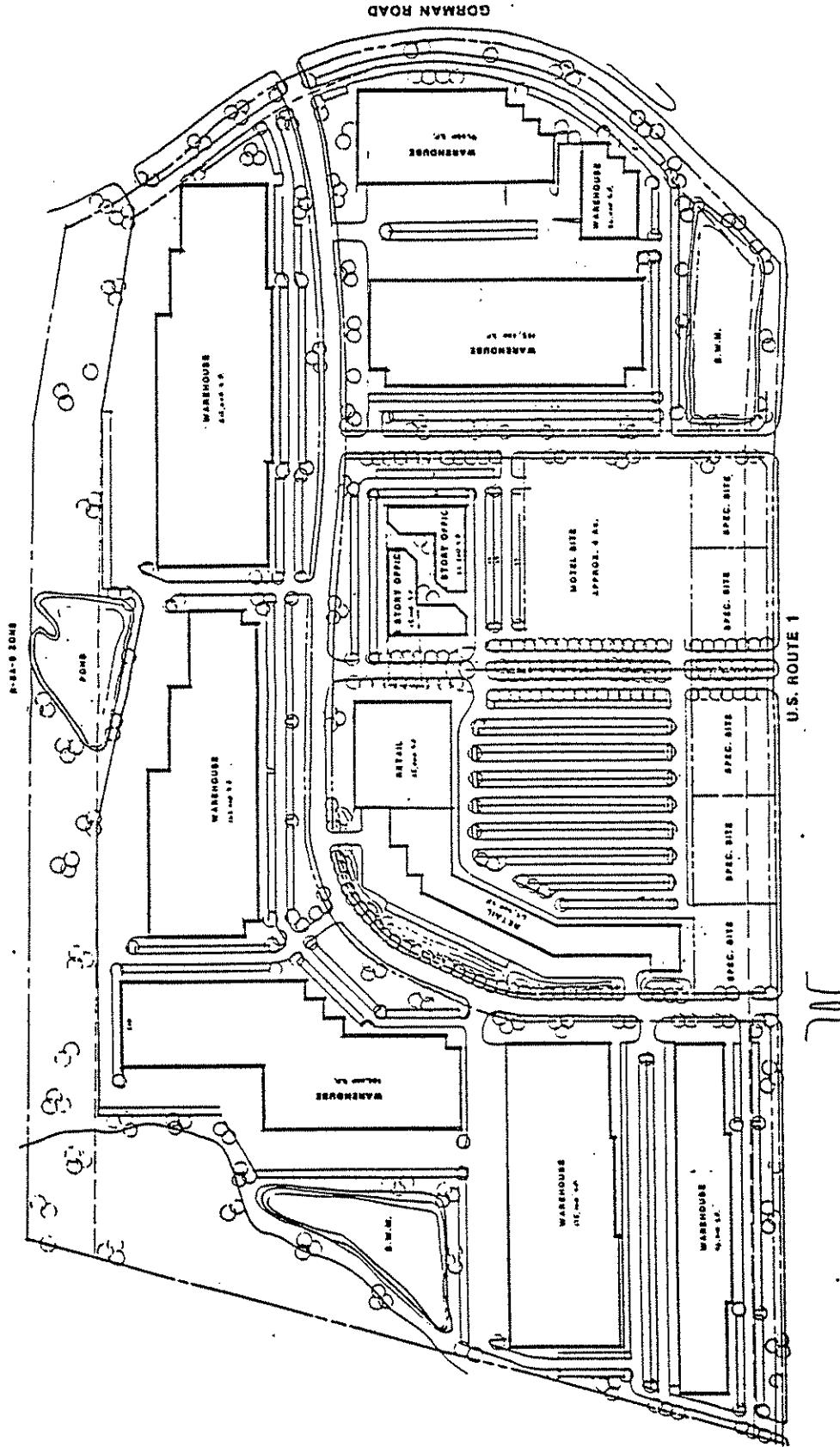
Aston Woods

This project is currently in the planning stage and is being delayed due to the Howard County moratorium. This project is being developed by Summit Properties and would include 202 units of comparable design and amenities to the subject. The project is located at the intersection of Maryland Route 108 and Route 104 eight miles north of the subject. Groundbreaking was scheduled to occur in October of 1989 with completion late in 1990.

Exhibit III-18
Planned Development in the Baltimore/Washington
Corridor Directly Affecting the Subject Property

Freestate Business Center

The Freestate Racetrack, which is located adjacent to the project site, has recently reached agreement to sell the property to the Cafritz Group, Inc. to develop a mixed use commercial office and warehouse business park, containing 103 acres bordering Route 1 and Gorman Road. The property will be developed into 200,000 square feet of retail, 150,000 square feet of office, 1,000,000 square feet of warehouse, a hotel and restaurants. Zoning for the project has been approved with groundbreaking scheduled to commence in 1991. The estimated buildout value is \$90,000,000. The proposed site plan is attached.



SITE DEVELOPMENT PLAN

Scale: 1" = 100'

DATE: 05-85

BY: E.L.M.

DEVELOPMENT PROPOSAL FOR THE FREESTATE PROPERTY AT U.S. ROUTE 1 SCHEME IV HOWARD COUNTY, MD.

ROBERT T. HOFMANN AND ASSOCIATES INC., ARCHITECTS

JAMES F. KNOTT DEVELOPMENT CORPORATION

Project Development Record

Completion Date	Location	Major Tenant	Total SF
<u>ANNE ARUNDEL COUNTY</u>			
12/86	Central Avenue	Commerce Electric, Chesapeake Building Supply, Bloom Associates, Alling & Cory	140,000 (100% leased)
12/82	Patapsco	Sears, Leslie Enterprises, Caton Parts	99,900 (100% leased)
<u>BALTIMORE COUNTY</u>			
12/85	Canton	Ford Motor Company, Toyota	120,000 (100% leased)
6/83	Citation Road	Baltimore County	50,000 (100% leased)
12/85	Rossville	Borg Warner, Martin Marietta, Pavsner Press, Holabird Sports, Baltimore County Government	350,000 (95% leased)
12/88	Owings Mills	Executone Information Systems, Hart Industries, Healthco International, Inc., Lever Brothers Company	141,000 (70% leased)
<u>HARFORD COUNTY</u>			
12/86	Paca	Convergence Corporation, EAI Corporation	51,480 (100% leased)
12/85	Riverside	Pier I Imports	252,400 (100% leased)
<u>HOWARD COUNTY</u>			
11/87	BWIP	National Business Archives, Contel ASC, Little Caesar's	142,600 (100% leased)
6/87	Corridor North	Whirlpool, Domino's Polar Water, Custom Machinery	131,040 (92% leased)
10/89	Dorsey Run Industrial Park	National Business Archives	143,000 (100% leased)
6/87	Corridor North	Pierce Archives	66,000 (100% leased)
5/85	Maryland Food Center	Terminal Corp., Forman, Service Warehousing	354,000 (100% leased)

JAMES F. KNOTT DEVELOPMENT CORPORATION

Project Development Record

Completion Date	Location	Major Tenant	Total SF
6/88	Route 100	Lennox Industries, American National Can, B. Green & Company	342,800 (100% leased)
		<u>DENTON, MD.</u>	
11/88	Denton Plaza	Jamesway, Meatland, Thrift Drug	97,056 (97% leased)
		<u>SHREWSBURY, PA</u>	
12/86	Market Square	Value Foods, McCrorys	76,356 (100% leased)

JAMES F. KNOTT DEVELOPMENT CORPORATION

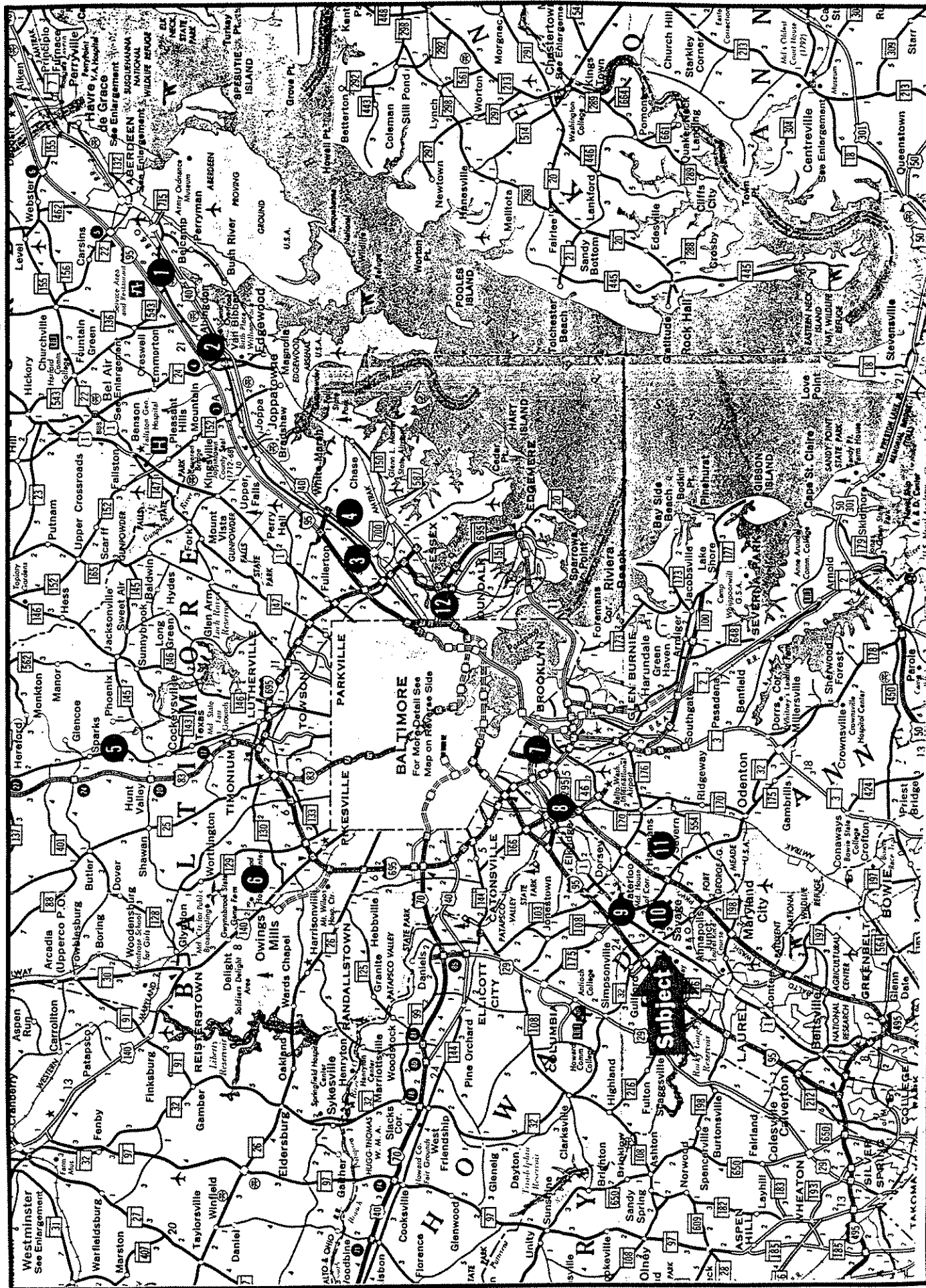
Projects Currently Under Development

DATE	LOCATION	DESCRIPTION
1/91	Bellona Cross Roads (Baltimore County)	71,000 SF - Office Building
5/91	Biscayne Bay (Balto Co)	240 Mobile Homes
5/90	Dorsey Run (Howard Co) Building A	950,000 SF - Industrial park 140,000 SF bulk distribution building
Subject	Gorman Road (Howard Co)	208 acres, 560 Apartments, 625 Townhomes built by Washington Homes Winchester Homes, BBI Homes, Ryland Group (all available townhouse lots are sold)
Under Development	Highlands (Balto. Co)	1,500,000 SF - Office Park, 175 acres 66,000 SF - Office Building
Under Development	Paca (Harford Co) Building A Building B	14.7 acres, Office, R&D and light industrial (250,000 SF) 33,000 SF - Office Building 57,000 SF - Flex Building
Under Development	Riverside (Harford Co)	150,000 SF - Addition to Pier I
Under Development	Rolling Heights (Balto Co)	80 acres - Office, R&D and light industrial
Under Development	Rossville (Balto. Co)	465,000 SF - Warehouse
Under Development	Seward (Harford Co)	306 acres - Industrial Park
6/90	Stayton Center at BWIP (Howard County)	200,000 SF - small bay flex buildings

**James F. Knott Development Company
Map Index of Major Completed Developments**

Index	Number Project
1.	Riverside Business Park 252,000 Square Feet Warehouse/Distribution
2.	William Paca Industrial Park 51,000 Square Feet Office/Warehouse
3.	Rossville Industrial Park 235,000 Square Feet Office/Warehouse Rail/Distribution 550,000 Planned
4.	Pulaski Industrial Park 50,000 Square Feet Rail/Manufacturing
5.	Highlands Business Park 1.2 Million Square Feet Low to Mid-rise Office R&D/Warehouse
6.	Owings Mills Business Center 140,000 Square Feet Office/Warehouse/Distribution
7.	Patapsco Industrial Park 250,000 Square Feet Office/Warehouse/Distribution
8.	Route One Hundred Business Park 350,000 Square Feet Warehouse/Distribution
9.	Baltimore Washington Industrial Park 265,000 Square Feet Office/Warehouse
10.	Corridor North Industrial Park 200,000 Square Feet Office/Warehouse
11.	Maryland Wholesale Food Center 355,000 Square Feet Warehouse/Distribution
12.	Canton 120,000 Square Feet Warehouse

JAMES F. KNOTT DEVELOPMENT COMPANY MAJOR COMPLETED DEVELOPMENTS LOCATION MAP



BOWLING BROOK PHASE II
PRO FORMA INCOME STATEMENT
AT STABILIZED OCCUPANCY
MOST LIKELY CASE

INCOME		PER UNIT
RESIDENTIAL RENTS	\$1,493,730	\$9,958
LAUNDRY AND OTHER INCOME	9,000	60
	-----	-----
GROSS INCOME	\$1,502,730	\$10,018
LESS VACANCIES AT 5%	75,137	501
	-----	-----
GROSS COLLECTED INCOME	\$1,427,594	\$9,517
EXPENSES		
OPERATIONS	\$28,204	\$188
MAINTENANCE	60,000	400
UTILITIES	23,000	153
TAXES & INSURANCE	122,250	815
MARKETING	24,200	161
CLUBHOUSE RENTAL	35,000	233
MANAGEMENT FEE	49,966	333
REPLACEMENT RESERVE	35,091	234
	-----	-----
TOTAL EXPENSES	\$377,711	\$2,518
	=====	=====
NET OPERATING INCOME	\$1,049,883	\$6,999
PROJECT DEBT SERVICE	985,496	6,570
	=====	=====
NET CASH FLOW AFTER DEBT SERVICE	\$64,387	\$429
USF&G CUMULATIVE PREFERENCE DUE	122,000	813
	-----	-----
CUMULATIVE PREFERENCE UNPAID CARRIED TO NEXT OPERATING YEAR	\$ 57,613	\$384
	-----	-----
CASH FLOW TO SPLIT	\$ - 0 -	\$0

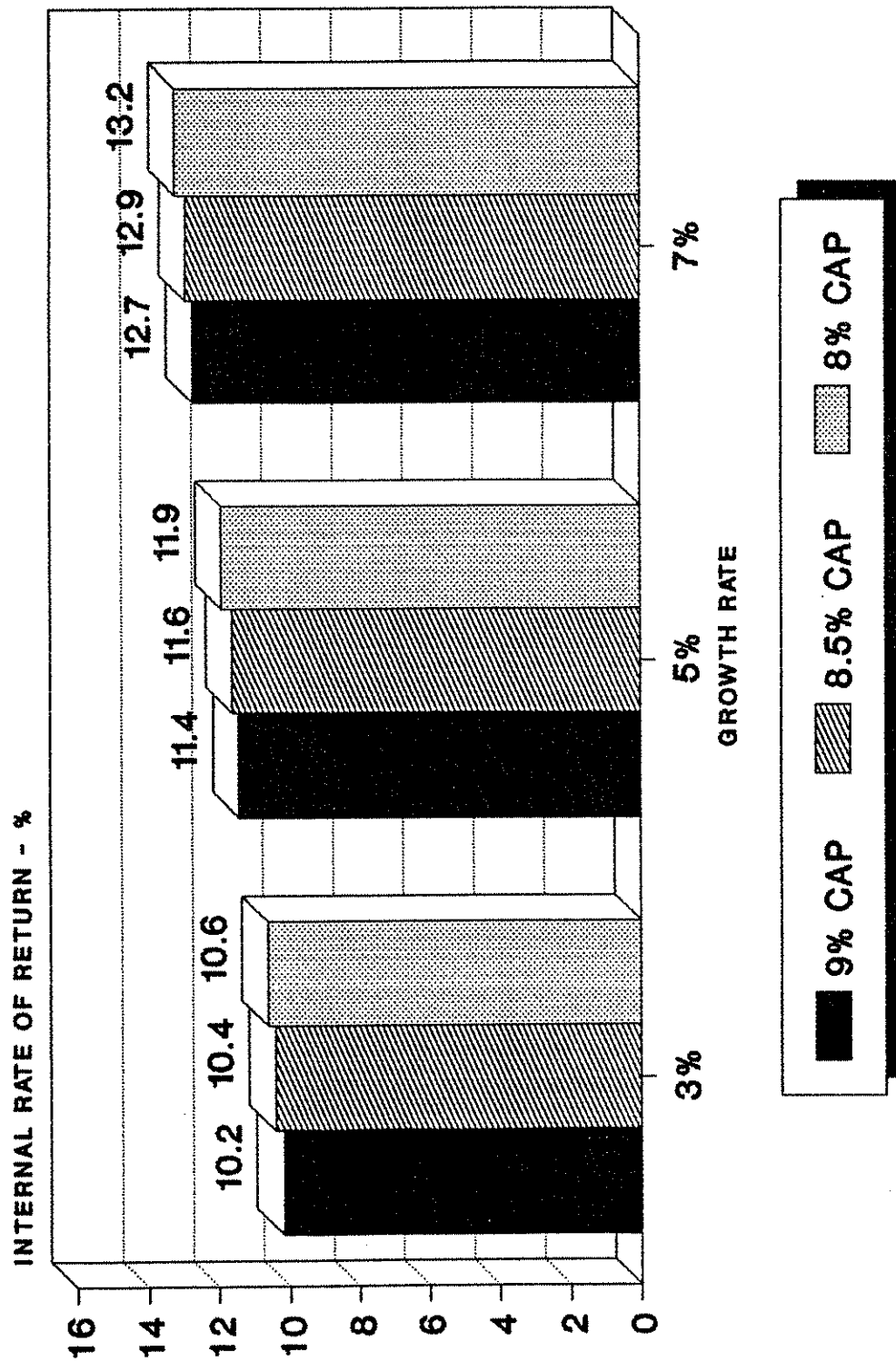
BOWLING BROOK PHASE II
USF&G YIELD SUMMARY
MOST LIKELY

NOTE:	(1)	(2)	(3)	(4)		
LOAN YEAR	ANNUAL DEBT SERVICE	CASH FLOW FROM OPERATIONS	OUTSTANDING LOAN BALANCE	CASH FLOW FROM SALE	TOTALS	CURRENT RETURNS
1	925,086	64,387			989,473	8.91%
2	925,110	116,638			1,041,748	9.39%
3	925,136	171,315			1,096,451	9.88%
4	925,164	162,124			1,087,288	9.80%
5	925,195	200,768			1,125,963	10.14%
6	925,228	232,080			1,157,308	10.43%
7	925,265	264,871			1,190,136	10.72%
8	925,304	299,205			1,224,509	11.03%
9	925,347	335,152			1,260,499	11.36%
10	925,394	372,784	10,606,205	4,773,339	16,677,722	

ESTIMATED YIELD (IRR): 12.24%

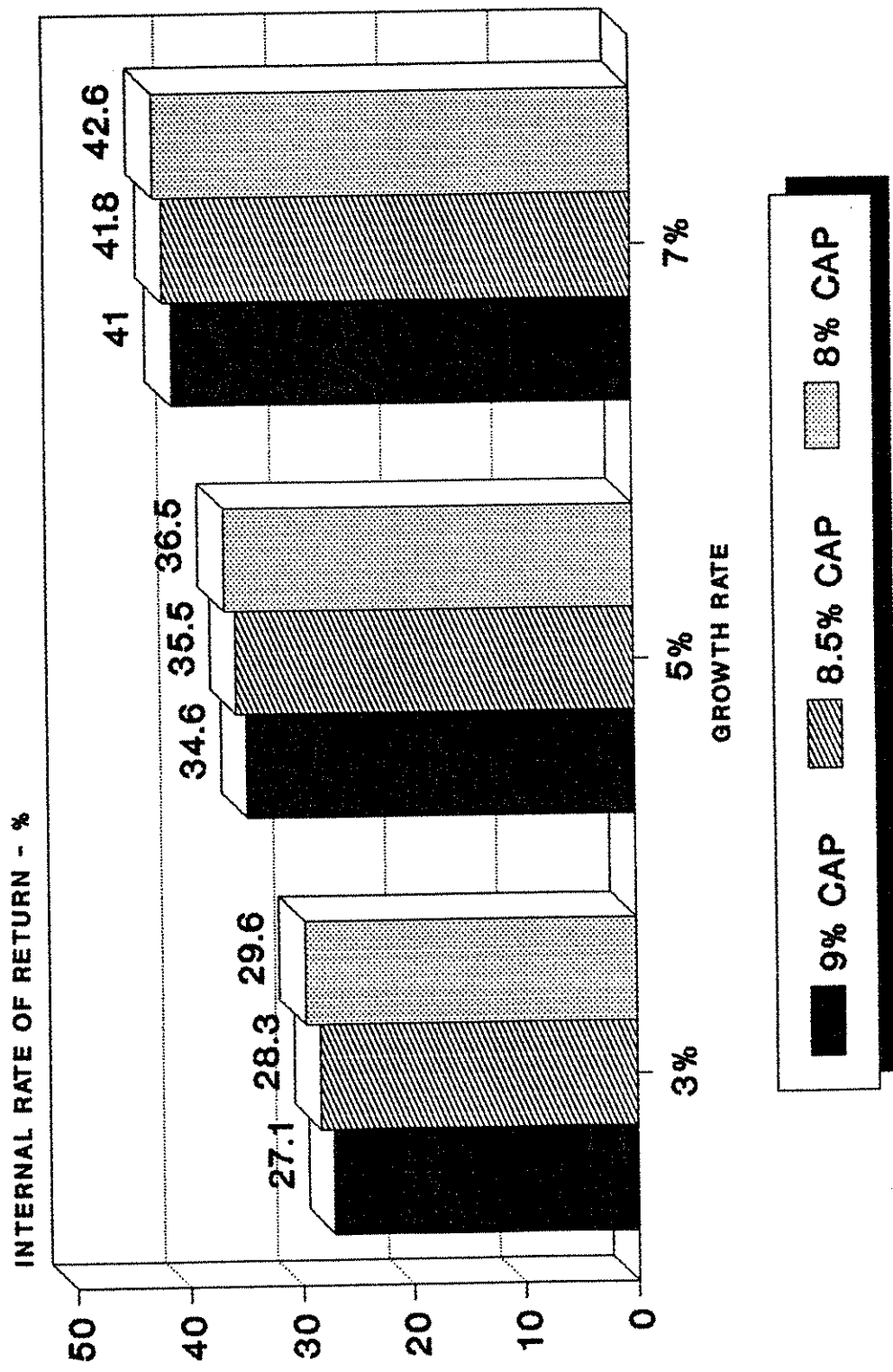
- (1) FOURTY YEAR AMORTIZATION LESS .07% FOR SERVICING
- (2) USF&G RECEIVES 100% OF PROJECT CASH FLOW UNTIL IT HAS RECEIVED ITS PREFERRED RETURN THEN IT RECEIVES 50% OF THE PROJECTS CASH FLOW.
- (3) UNAMORTIZED BALANCE OF THE MORTGAGE LOAN (\$10,106,205) PLUS THE EQUITY INVESTMENT OF \$500,000.
- (4) USF&G'S CASH FLOW FROM SALE IS DERIVED BY SUBTRACTING THE SUM OF THE OUTSTANDING LOAN BALANCE AND USF&G'S ORIGINAL EQUITY INVESTMENT FROM THE NET SALES PROCEEDS (\$19,277,693) AND MULTIPLYING THE RESULT BY 50%, SUBJECT TO USF&G RECEIVING IT'S CUMULATIVE PREFERRED RETURN.

BOWLING BROOK PHASE II SENSITIVITY ANALYSIS ALL INVESTED FUNDS



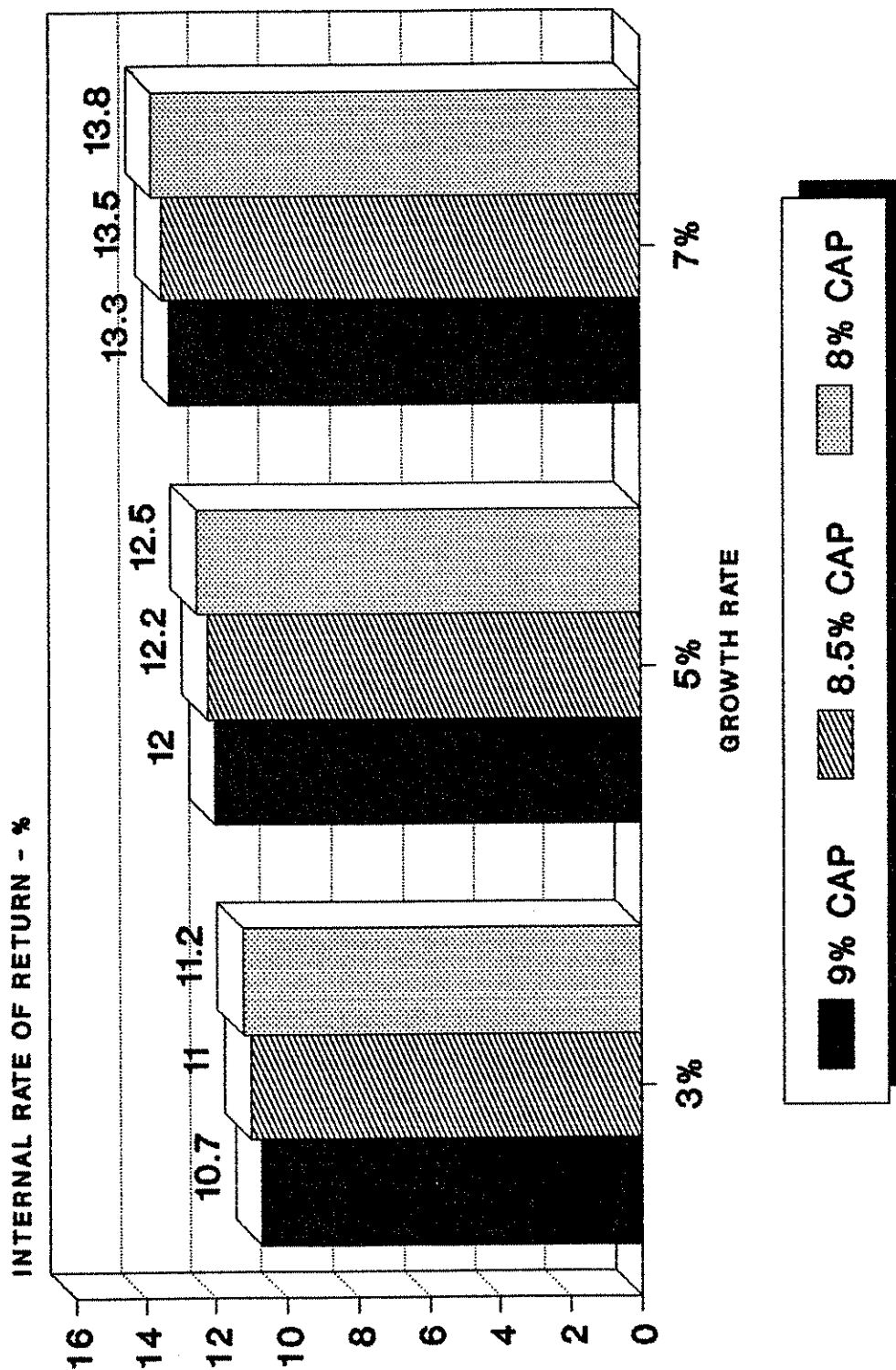
CONSERVATIVE CASE - \$11,100,000 FUNDING

BOWLING BROOK PHASE II SENSITIVITY ANALYSIS EQUITY CAPITAL



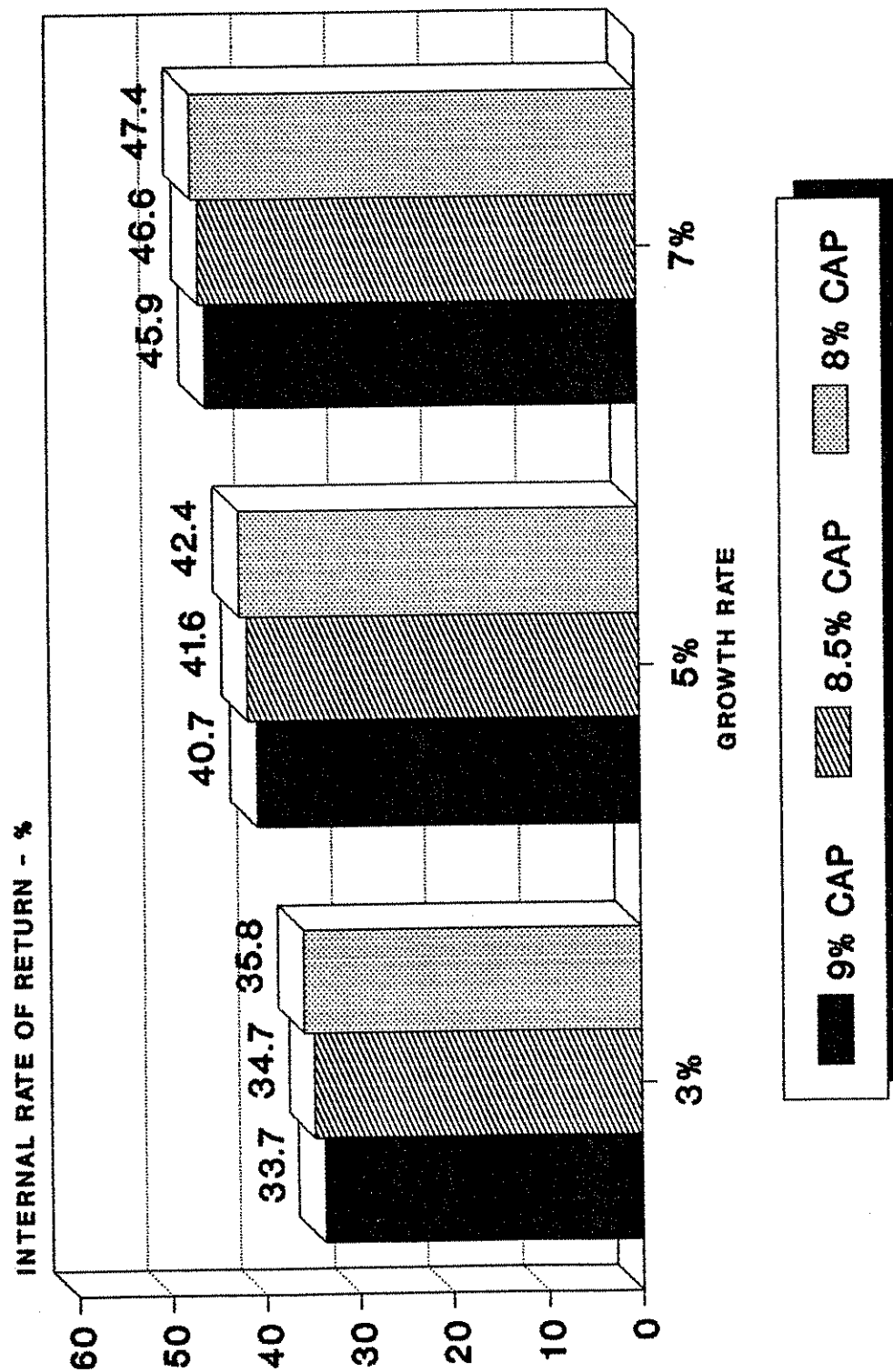
CONSERVATIVE CASE - \$500,000 FUNDING

BOWLING BROOK PHASE II SENSITIVITY ANALYSIS ALL INVESTED FUNDS



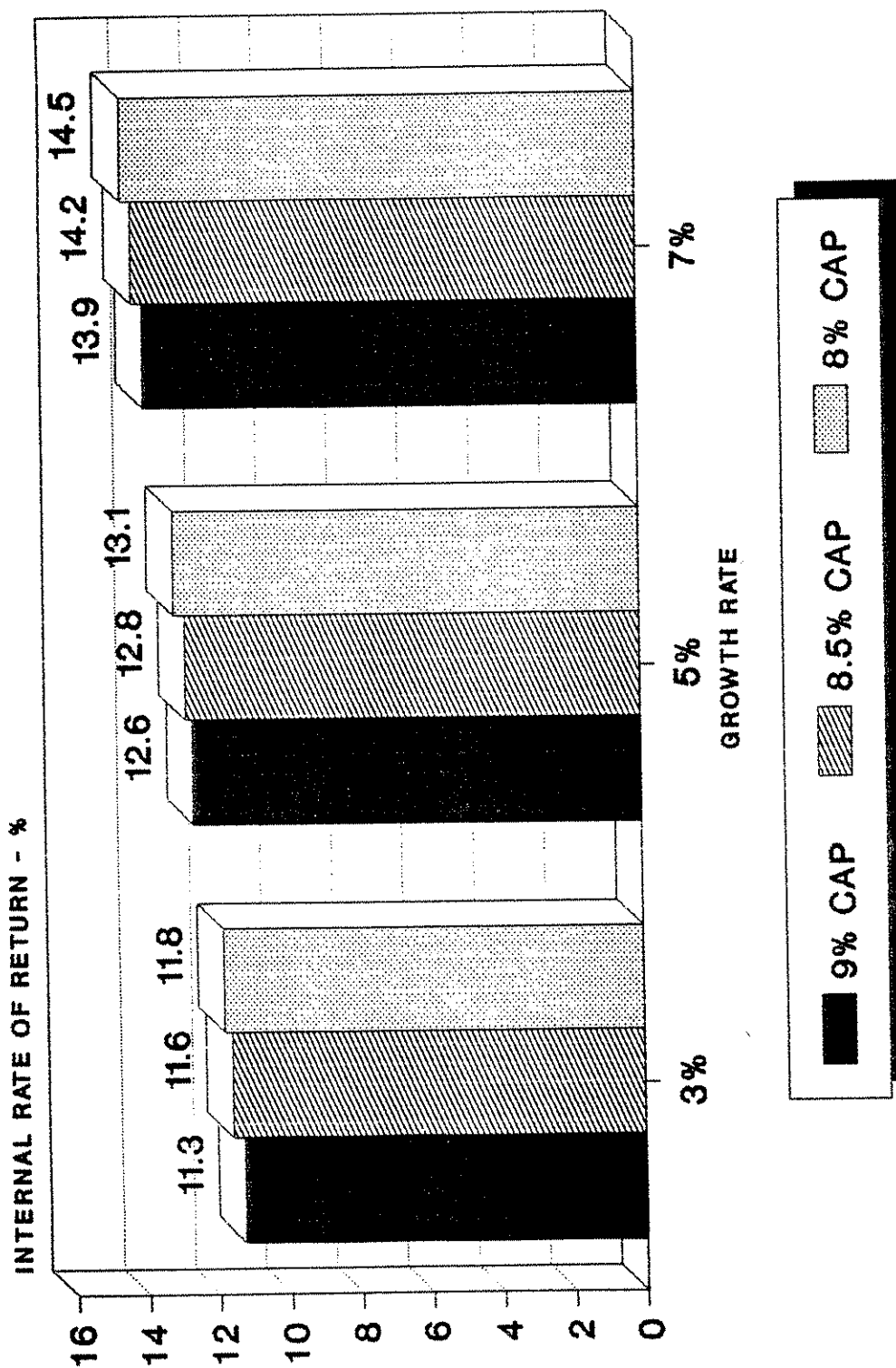
MOST LIKELY CASE - \$11,100,000 FUNDING

BOWLING BROOK PHASE II SENSITIVITY ANALYSIS EQUITY CAPITAL



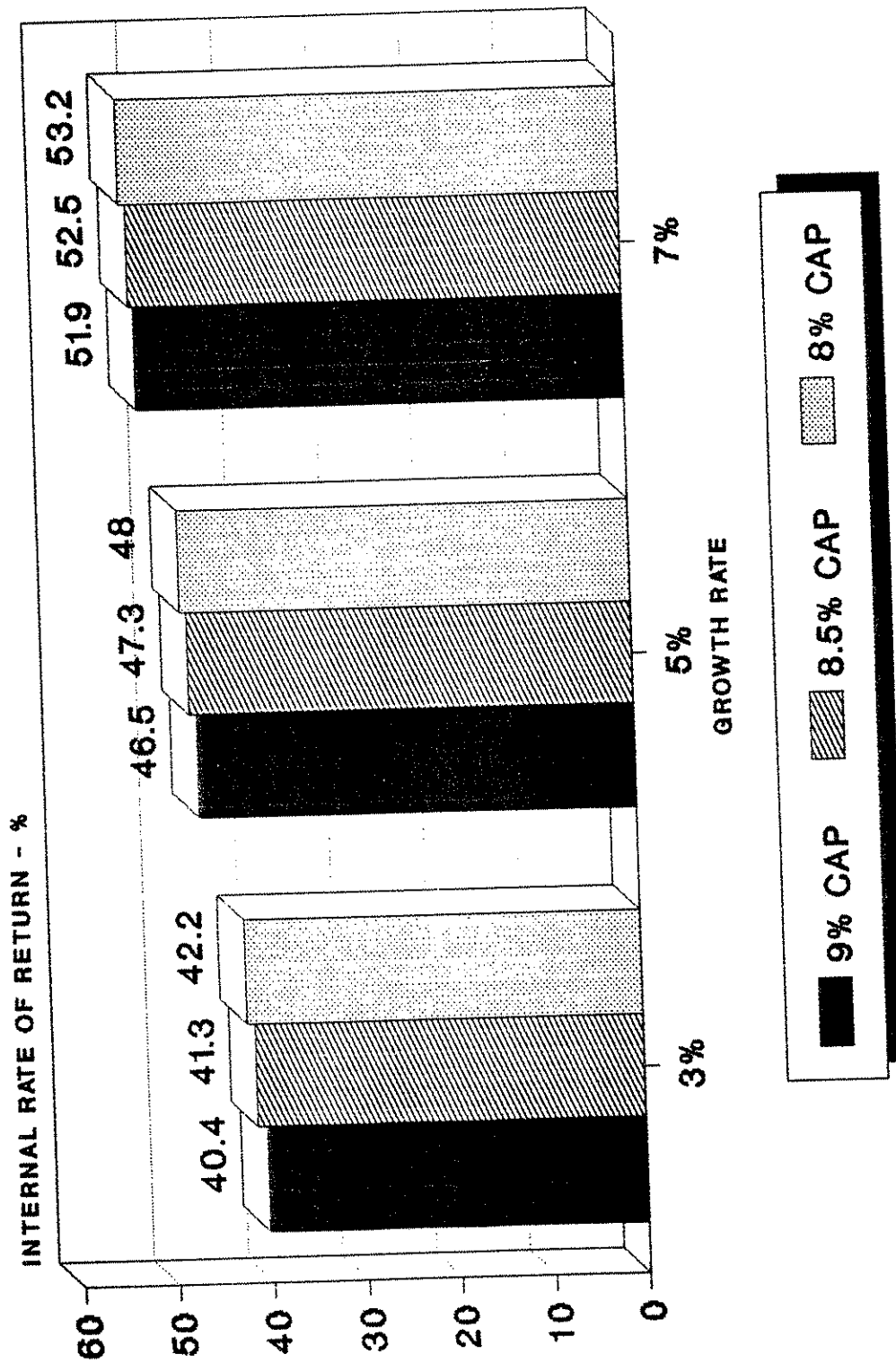
MOST LIKELY CASE - \$500,000 FUNDING

BOWLING BROOK PHASE II SENSITIVITY ANALYSIS ALL INVESTED FUNDS



OPTIMISTIC CASE - \$11,100,000 FUNDING

BOWLING BROOK PHASE II SENSITIVITY ANALYSIS EQUITY CAPITAL



OPTIMISTIC CASE - \$500,000 FUNDING

VALUATION ANALYSIS

Cost Approach:¹

	Reproduction Costs (142,130 Gross Square Feet @ \$69.12)	\$ 9,824,026
+	Land Value @ \$11,300 per unit (150 units)	1,695,000
+	Developer's Profit @ 10%	<u>1,279,891</u>
=	Estimated Value	\$12,798,917
	Rounded to:	\$12,790,000

Income Approach:

Direct Capitalization Method

	Net Operating Income	\$ 1,049,883
:	Overall Capitalization Rate	<u>8.5%</u>
=	Estimated Value	\$12,351,562
	Rounded to:	\$12,350,000

The prospective market value of the subject property at stabilized occupancy (estimated to be June 30, 1991 will be:

Twelve million three hundred and fifty thousand dollars

(\$12,350,000)

Indicated Investment-to-value ratio=90%
(\$11,100,000 divided by \$12,350,000)

¹Based on "Means Square Foot Costs" 10th Annual Edition - 1989 trended at 5% annually for 18 months.

DETERMINATION OF AVAILABLE CASH FLOW:

PROJECT NAME..... BOWLING BROOK FARMS PHASE II - SAVAGE, MARYLAND
PAGE 2
REPORT DATE..... 29-Nov-89

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
AVERAGE RENT PER UNIT	830	871	915	961	1009	1059	1112	1168	1226	1287
ANNUAL RENTAL INCREASE	0.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
VACANCY %	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
RENTAL INCOME										
RESIDENTIAL RENTS	1492730	1568417	1646837	1729179	1815638	1906420	2001741	2101828	2206920	2317265
LAUNDRY AND OTHER	9000	9450	9923	10419	10940	11487	12061	12664	13297	13962
GROSS RESIDENTIAL	1502730	1577867	1656760	1739598	1826578	1917907	2013802	2114492	2220217	2331227
LESS VACANCIES	-75137	-78893	-82638	-86980	-91329	-95895	-100690	-105725	-111011	-116561
TOTAL RESIDENTIAL	1427594	1498973	1573922	1652618	1735249	1822011	1913112	2008767	2109206	2214666
RETAIL/OFFICE RENTAL	0	0	0	0	0	0	0	0	0	0
VACANCIES 20.00% 1ST YR.	0	0	0	0	0	0	0	0	0	0
5.00% YR 2-10	0	0	0	0	0	0	0	0	0	0
TOTAL RETAIL/OFFICE	0	0	0	0	0	0	0	0	0	0
GARAGE INCOME	0	0	0	0	0	0	0	0	0	0
TOTAL GROSS INCOME	1427594	1498973	1573922	1652618	1735249	1822011	1913112	2008767	2109206	2214666
EXPENSES:										
ANNUAL EXPENSE INCREASE	0.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
EXPENSES PER UNIT	2518	2646	2781	2924	3076	3266	3343	3487	3638	3796
MANAGEMENT FEE RATE	3.50%	3.75%	4.00%	4.25%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
MANAGEMENT FEE	49966	56211	62957	70236	78086	81991	86090	90395	94914	99660
RESERVE FOR REPLACEMENTS	35091	35091	35091	35091	35091	35091	35091	35091	35091	35091
CLUBHOUSE RENTAL	35000	35000	35000	35000	35000	35000	35000	35000	35000	35000
OTHER EXPENSES	257654	270537	284064	298267	313180	326839	345281	362545	380672	399706
TOTAL EXPENSES	377711	396839	417111	438594	461357	480921	501462	523031	545678	569457
NET OPERATING INCOME	1049883	1102134	1156810	1214024	1273892	1341091	1411650	1485737	1563528	1645209
DEBT SERVICE (INCLUDING MIP)	985496	985496	985496	985496	985496	985496	985496	985496	985496	985496
NET INCOME	64387	116638	171315	228528	288396	355595	426154	500241	578033	659714
DEVELOPERS' GUARANTEE	0	0	0	0	0	0	0	0	0	0
AVAILABLE CASH FLOW	64387	116638	171315	228528	288396	355595	426154	500241	578033	659714

10 YEAR

PROJECTION

CAPITALIZATION RATE	8.00%	8.50%	9.00%
NOI FOR 2001	1765974	1765974	1765974
PROJECTED SALES PRICE	22074677	20776167	19621935
LESS SALES EXPENSES @ 3.00%	-662240	-623285	-588658
NET SALES PROCEEDS	21412437	20152882	19033277
LESS EXISTING DEBT ORIGINAL EQUITY	-10106205	-10106205	-10106205
	-500000	-500000	-500000
TOTAL TO DISTRIBUTE	10806232	9546677	8427073
LESS CUMULATIVE RETURN DUE INVESTOR	0	0	0
LESS DEVELOPERS EQUITY	0	0	0
BALANCE TO SPLIT	10806232	9546677	8427073
TOTAL PROCEEDS TO INVESTOR	5403116	4773339	4213536

INTERNAL RATE OF RETURN FOR INVESTOR -

ALL FUNDS	8.00%	8.50%	9.00%
COMMITMENT FEES AT CLOSING	0	0	0
INITIAL INVESTMENT	-111100000	-111100000	-111100000
CASH FLOW AT END OF YEAR	989473	989473	989473
CASH FLOW AT END OF YEAR	1041748	1041748	1041748
CASH FLOW AT END OF YEAR	1096451	1096451	1096451
CASH FLOW AT END OF YEAR	1087288	1087288	1087288
CASH FLOW AT END OF YEAR	1125962	1125962	1125962
CASH FLOW AT END OF YEAR	1157309	1157309	1157309
CASH FLOW AT END OF YEAR	1190135	1190135	1190135
CASH FLOW AT END OF YEAR	1224509	1224509	1224509
CASH FLOW AT END OF YEAR	1260500	1260500	1260500
CASH FLOW AT END OF YEAR	17307499	16677721	16117919

COMMITMENT FEES AT CLOSING

INITIAL INVESTMENT	1990
CASH FLOW AT END OF YEAR	989473
CASH FLOW AT END OF YEAR	1041748
CASH FLOW AT END OF YEAR	1096451
CASH FLOW AT END OF YEAR	1087288
CASH FLOW AT END OF YEAR	1125962
CASH FLOW AT END OF YEAR	1157309
CASH FLOW AT END OF YEAR	1190135
CASH FLOW AT END OF YEAR	1224509
CASH FLOW AT END OF YEAR	1260500
CASH FLOW AT END OF YEAR	17307499

INTERNAL RATE OF RETURN

12.5%	12.2%	12.0%
42.4%	41.6%	40.7%

DEBT CAPITAL	8.00%	8.50%	9.00%
-10600000	-10600000	-10600000	-10600000
925086	925086	925086	925086
925110	925110	925110	925110
925136	925136	925136	925136
925164	925164	925164	925164
925195	925195	925195	925195
925228	925228	925228	925228
925265	925265	925265	925265
925304	925304	925304	925304
925347	925347	925347	925347
11031599	11031599	11031599	11031599

EQUITY CAPITAL	8.00%	8.50%	9.00%
-500000	-500000	-500000	-500000
64387	64387	64387	64387
116638	116638	116638	116638
171315	171315	171315	171315
162124	162124	162124	162124
200768	200768	200768	200768
232080	232080	232080	232080
264871	264871	264871	264871
299205	299205	299205	299205
335152	335152	335152	335152
6275900	5646122	5086320	