

POTOMAC REALTY ADVISORS

1010 NORTH GLEBE ROAD

SUITE 800

ARLINGTON, VIRGINIA 22201

703-522-6200

September 16, 1988

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

**Re: Hampton Courts Apartments
Columbia, South Carolina**

Dear Sirs:

This is the investment report on the Hampton Courts Apartments, an existing 276 unit Class A garden apartment complex in Columbia, South Carolina. This proposed investment is in fee-simple and would be an outright acquisition for USF&G. The property is currently under contract for \$11,600,000 and the estimated closing costs are \$125,000 for a total investment of \$11,725,000. The property would be purchased subject to an existing first mortgage with a 30 month income guarantee of \$87,000 per month from the Seller. Exhibit 1 contains a summary of the purchase contract, and *Appendix A* is a copy of the fully executed purchase contract.

This report is somewhat different from other investment reports in an attempt to streamline our reports and also because of the number of Appendices. Attached as part of this report are Exhibits 1 through 18. Also part of this report but not attached are Appendices A through E, which are third party reports on the property that Potomac Realty Advisors have reviewed and approved. Gary Burke has a complete set of Appendices which he will make available for your review.

I. THE PROPERTY

A. INTRODUCTION

Hampton Courts is a 276 unit Class A garden apartment complex located in the Southeast section of Columbia, South Carolina. The subject property is on 15.925 acres of land and is comprised of 62% one-bedroom/one-bath units and 38% two-bedroom/two-bath units in 15 buildings of two and three-level design. The subject property has 220,490 net rentable square feet, and 456 surface parking spaces. It was completed in 1986 and is currently 95% leased.

The 172 one-bedroom/one-bath units are 475-850 square feet with a rental rate of \$365-483

or \$0.57-0.77 per square foot, and the 104 two-bedroom/two-bath units are 902-1165 square feet with a rental of \$510-620 or \$0.52-0.57 per square foot.

B. LOCATION

Hampton Courts is located in one of Columbia's prime neighborhoods, just 4 miles from the Central Business District. The property is strategically located just off of Garners Ferry Road, a major artery leading into the Central Business District. The new outer beltway (I-326), which is currently under construction will intersect with Garners Ferry Road approximately 1.5 miles south of the subject property, will enhance the accessibility of the subject area. Five-points, a shopping area with many specialty stores and restaurants located next to the University of South Carolina southeast of downtown Columbia, is 5 minutes from the subject property, and Richland Fashion Mall, with Bonwit Teller and J.B. White as principal anchors, is also only five minutes from the property. Phase I of this mall is currently under renovation, and Phase II will be completed in the Fall of 1989. When finished, this mall will be over 800,000 square feet. Columbia Mall, one of the major shopping centers in Columbia, with Rich's Department Store, Sears, J.C. Penney, and Belk's as anchors, is located 20 minutes from the property.

The main entrance to Fort Jackson, one of the country's largest infantry posts, is two miles east of the property, and the University of South Carolina Medical School and the Veteran's Administration Hospital is only one-half mile southeast of the property. Woodhill Mall, a neighborhood shopping center is one-half mile to the east. (See Exhibits 2 and 3).

C. ADJACENT LAND USES

Northwest of the subject property is a vacant parcel of land zoned for multi-family development. This parcel has a few acres of flood plane area which will make the property difficult and expensive to develop. Immediately north of the property is Woodhill Estates, an upscale condominium community with homes priced in the \$100,000's. Further north is Midlands Technical College and several free-standing retail buildings.

To the west of the property is Gills Creek and a surrounding flood plain. To the south of the property is a housing subdivision with homes priced from the upper \$200,000's to \$500,000. (See Exhibit 4).

D. THE SITE

The site is an irregularly-shaped parcel and contains 15.925 acres (See Exhibit 5). The site has approximately 815 feet of frontage on Pelham Drive, approximately 480 feet of frontage on Arborwood Drive, and approximately 778 feet of frontage on Gills Creek Parkway. The subject site slopes upward from Pelham Drive in a northerly direction and is above street grade. The site also has a gradual upward slope from the southern boundary

to the northern boundary.

Access to the site is from Pelham Drive via an asphalt-paved, 40-foot entry and from Gills Creek Parkway via one 40-foot entry. Both entrances are secured at night, with a card controlled security system at the Pelham Drive entrance. All paving within the project is bound by concrete curbs and gutters. *Appendix B - Appraisal* contains a detailed description of the site.

E. THE IMPROVEMENTS

Hampton Courts consists of 15 apartment buildings containing a total of 276 units. The project has a total of 220,490 net rentable square feet, plus a 7420 square foot clubhouse and a 548 square foot laundry/maintenance building (See Exhibits 6A-6I). The property is constructed of wood frame and steel reinforced concrete footings, with an attractive cedar and brick veneer exterior. Windows are single and double hung, with single pane glass. The roof has 225-pound fiberglass shingles over 1/2" exterior grade plywood supported by pre-engineered wood trusses. Gutters and downspouts are aluminum. Exhibit 7 is a summary of the building specifications.

Interior features include stucco painted walls, ceiling fans, vaulted ceilings upstairs, fireplaces (some units), microwave ovens, washer/dryer connections, dishwashers, disposals, outside storage, ceramic tile baths, walk-in closets, and patios or sunrooms. Exhibits 8A-8D are floor plans of the units.

Project amenities features a large pool and outdoor deck area; a luxury clubhouse with a large party room, fireplace, full kitchen, a universal weight room, a laundry center, women's and men's locker rooms, women's and men's steam rooms, and an aerobic room; 2 lighted tennis courts; control gates w/guardhouse; and surveillance cameras connected to the tenant's cable TV. In addition, Hampton Courts is one of only two apartment complexes among the competitive comparables with indoor racquetball courts.

Appendix C is the Engineering and Environmental Study of the subject property performed by GEO-Systems Design and Testing, Inc. in West Columbia, South Carolina.

II. THE MARKET

A. INTRODUCTION

The Columbia market has demonstrated steady growth since 1970. The reasons for this growth is Columbia's sound, stable economic base of government, college, military, and state financial centers as well as its emergence as an industrial center. Current projections by the South Carolina Employment Commission indicate that Columbia will increase in population by 31% by the year 2000.

B. COLUMBIA MARKET OVERVIEW

Columbia, the state capital, is located at the geographical center of South Carolina and is halfway between New York and Miami. Major arterial highways include I-20, which originates in Florence, South Carolina extends through Dallas; I-26, which originates in Charleston, South Carolina and extends into Asheville, North Carolina; and I-77, which originates in Columbia and travels north to Cleveland, Ohio. Columbia Metropolitan Airport in Lexington County serves 5 major airlines and services over 1,000,000 passengers a year.

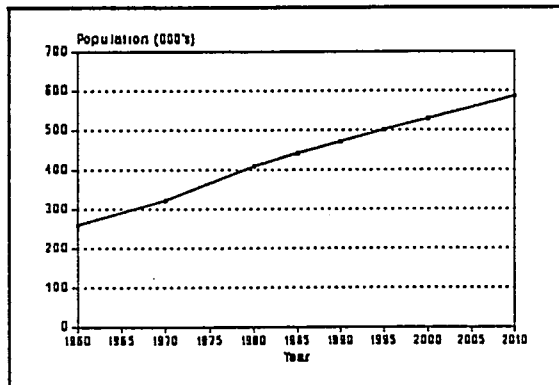


Figure 1 - Columbia MSA Population 1960 - 2010 (Source: SC Employment Commission)

Figure 1 shows Columbia's steady population growth. From 1960 to 1985 the population grew from 260,828 to 442,000, a 69% increase. The population is expected to increase 31% by the year 2000.

Figure 2 is a breakdown of Columbia's Labor Force. Government is 27% of the labor market, followed by wholesale and retail trade (21%), services and mining (18.3%) and manufacturing (13%). Columbia MSA's Total Employment has shown a steady increase from 1980 to 1985 from 175,460 persons to 203,850. Figure 3 shows a falling unemployment rate which is currently 2.8%.

There are 37 Fortune 500 companies in Columbia, and there are several major private and public projects under construction. The 16-story First Union Building is under construction, and Southern Bell's new regional headquarters was recently completed. The 2,300 seat Koger Center for the Arts will be completed later this year, and the \$25 million Convention and Visitors Bureau and the South Carolina Tax Commission will be opened next month. In nearby Aiken, the U.S. Department of Energy has awarded South Carolina a \$3.8 billion nuclear reactor project, the Savannah River Plant, which will generate 3,000 construction jobs.

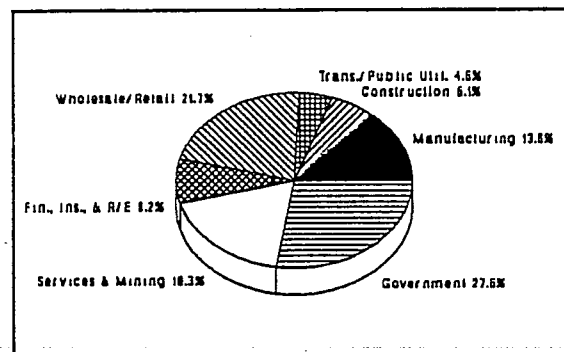


Figure 2 - Percent Employment by Industry, Columbia MSA (Source: SC Employment Commission)

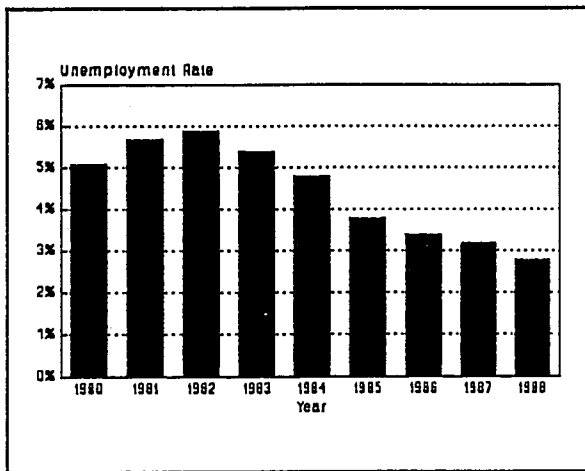


Figure 3 - Unemployment Rates for the Columbia MSA. (Source: SC Employment Commission)

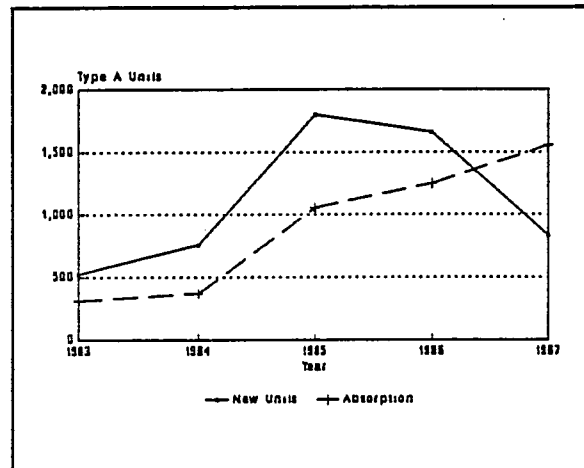


Figure 4 - New Type A Apartment Supply and Type A Apartment Absorption, Columbia MSA (Source: Central Midlands Regional Planning Council)

C. COLUMBIA APARTMENT MARKET

Demand has caught up with supply in the Columbia Apartment Market as overall vacancy has fallen to 6.7% after a high of 12% last year. Apartment construction fell dramatically since 1985 as the tax laws changes eliminated deep tax shelters and tax-exempt bond financing. Meanwhile, the absorption of Type A apartments increased from 1239 units in 1986 to 1364 units in 1987 and to 1422 units projected for 1988. (See Figures 4 and 5).

Columbia's demonstrated trend of growth in income and employment levels ranks it as the nation's 16th fastest growing employment center in the 1980's, according to Chase Econometrics. Columbia's large pool of skilled labor, low labor union membership, low cost levels, and high concentration of growth industries capable of capitalizing on these factors have contributed to this growth. The diversity and growth of the Columbia economy appears to continue at unabated levels with future projections showing Columbia to remain as one of the nation's twenty most dynamic markets. Improvements in the belt highway system in the southeast quadrant of the city should open up the subject neighborhood to

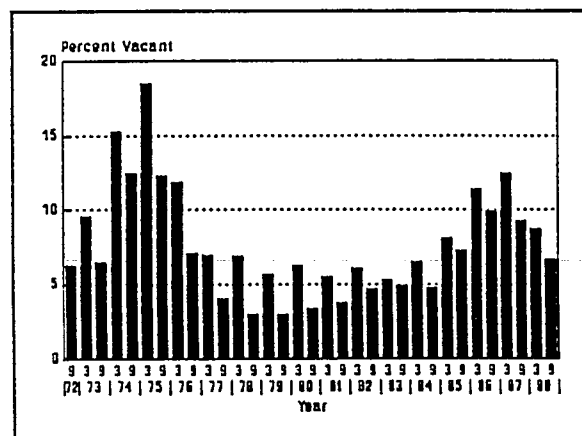


Figure 5 - Historical Vacancy Rates - Columbia MSA (Source: Central Midlands Regional Planning Council)

increased economic development, which should result in stronger housing demand in the southeast Columbia submarket over the long term.

D. COMPETITIVE APARTMENT PROPERTY SURVEY

Hampton Courts is a new Class A apartment project in the southeast quadrant of Columbia. It is currently 95% occupied with one-bedroom apartments leasing from \$0.55 -to \$0.77 per square foot per month and with two-bedroom apartments leasing from \$0.52 to \$0.57 per square foot per month. Nine properties were determined to be competitive with the subject property. Five of these properties were chosen because they were competitive in terms of quality, age, and rent levels but not location, and four of the properties were chosen because they were competitive in terms of location, but not quality, age and rent levels. Exhibits 9 and 10 are a summary of the competitive properties, Exhibit 11 is a map showing the location of each property.

The two Class A properties which are most competitive in terms of age and quality are Paces Run and St. Andrews Commons. Both of these projects were completed in late 1987 and are currently leasing up, which accounts for the 82-84% occupancy levels. The rental rates are similar to the subject's on a per unit as well as a per square foot basis except that the subject has a "mini" one-bedroom that leases for \$0.77 per square foot per month. Paces Run is in the northeast quadrant and St. Andrews is in the northwest quadrant of Columbia. Both properties are approximately a 20-minute drive from the subject.

The other Class A apartment project Comparables 3, 4, and 5 were completed in 1985 and 1986 and are 91% to 98% leased. The unit rental rates for are comparable to the subject, but the square foot rates at Bryton Pointe are 19% to 25% below the subject because of the large unit size.

Comparables numbers 6, 7, 8, and 9 are located in the same quadrant as the subject but these properties are 12 to 17 years old and have limited amenities. Except for Colonial Village which is currently being renovated, these properties have occupancies above 90%. The rent levels are well below the subject.

The key to the subject property's success is that it is the only new, Class A apartment complex in the southeast section of Columbia. This has enabled Hampton Courts to achieve high occupancy and premium rental rates. The tenant mix at Hampton Courts reflects the property's accessibility to good jobs. Forty-one percent (41%) are professionals such as lawyers and teachers, 12% work in health care, 11% are military officers and 16% are students (mostly medical students). (See Figures 6 and 7).

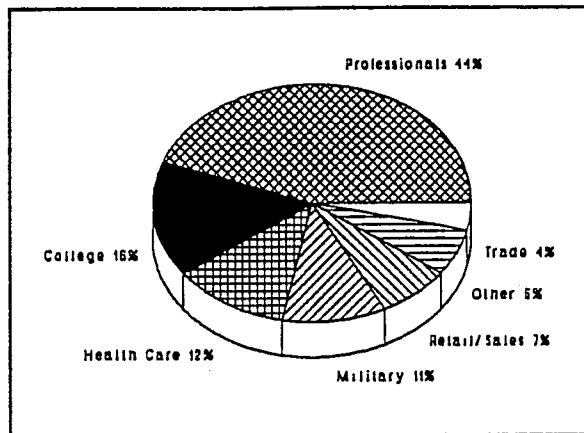


Figure 6 - Hampton Courts Resident Profile - Employment (Source: Potomac Realty Advisors)

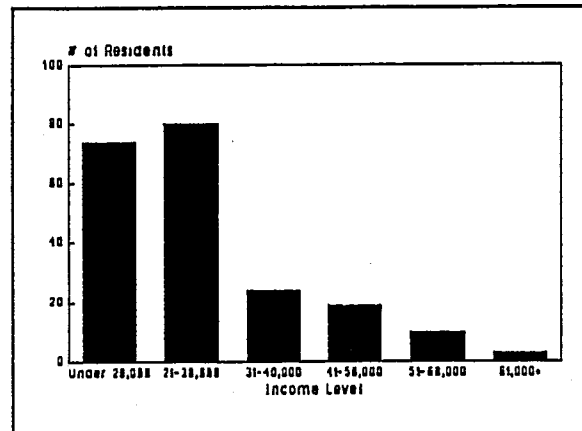


Figure 7 - Hampton Courts Resident Profile - Salaries (Source: Potomac Realty Advisors)

The apartment market in Columbia has strengthened due to sustained population growth and job creation as well as a decrease in building activity. Even if future Class A apartment projects are built in the southeast quadrant, the subject property should continue to perform well because of its ready accessibility to jobs, shopping, and schools and because of its extensive amenity package.

III. THE PROPERTY MANAGER AND DEVELOPER/GENERAL CONTRACTOR

A. THE PROPERTY MANAGER

The property will be managed by Horseshoe Development Group, Inc. who currently manages over 600 apartment units, including Hampton Courts Apartments. The resident manager is Gail Price, who has been responsible for bringing Hampton Courts to its current occupancy level of 95% as of September 12, 1988. Ms. Price has been in property management since 1970. Prior to joining Horseshoe Development, she worked for Tower Management in Kansas City, Missouri and the National Corporation for Housing Partnership where she was in charge of rehabilitation of troubled properties for the company's portfolio.

B. THE DEVELOPER/GENERAL CONTRACTOR

1. The Developer

The property was developed by the Horseshoe Development Group, Inc., owned by British European Finance which is capitalized with £6,000,000. The principals include William

Pickett and James Copeland. William W. Pickett, the President Chief Operating Officer of Horseshoe, has over thirteen years of real estate development and finance experience. James F. Copeland, Vice President of Horseshoe, has over twelve years of single and multi-family construction including land acquisition and development. Exhibit 12A and 12B shows the developer's track record and developer's organization chart.

2. The General Contractor

The general contractor for the property was The Pinkerton and Laws Company. Pinkerton and Laws is an Atlanta based, general contractor serving the southeast United States. Their expertise includes construction of hotels, office buildings, shopping centers, as well as apartment projects since 1955. They have grown to be the largest Atlanta General Contractor and are part of one of the world's leading international construction firms (SAE) headquartered in Paris.

IV. RISK AND RETURN

A. INTRODUCTION

The proposed investment is a purchase in fee-simple, subject to an existing mortgage. The purchase price is \$11,600,000, and the existing mortgage is in the amount of \$8,700,000, which would be paid down to \$6,000,000 at closing. The mortgage has an interest rate of 9.0% through December 1989, and an interest rate of 9.5% from January 1990 through December 1994 when the principal becomes due and payable unless extended by the lender. Mortgage payments are interest only through December 1989, and interest and principal based on a 30 year amortization through December 1994. It is Potomac's intent to negotiate a loan extension in exchange for the loan reduction.

B. VALUATION

1. Pro Forma Income and Expenses

The first year proforma income and expenses for Hampton Courts is presented in Exhibit 13. The annual cash flow projections are based on this proforma as well as the assumptions summarized in Exhibit 16. The Net Operating Income is expected to be \$896,131 which requires a \$147,869 payment by Seller as part of the 9% N.O.I. Guarantee. Consequently, the return on total costs is 7.6% while USF&G's return on equity is 8.8%.

Exhibit 14 shows the historical monthly rent collections for Hampton Courts. The July collections of \$97,256 differs from the first year proforma monthly collections of \$125,768 due to rental concessions that are currently being phased out. It is projected that all rental concessions will expire prior to closing, and property will achieve full proforma in 1989. A conservative underwriting, gross income is expected to increase only 2.5% in 1990, while

operating expenses are projected to increase 5%.

Appendix D is a copy of the most recent audited financial statements of the property.
Appendix E is a copy of the most recent rent roll for the property.

2. Market Appraisal

Potomac Realty Advisors has reviewed an appraisal prepared by R. D. Geronimo, MAI dated September 7, 1988. The market value of Hampton Courts Apartments is estimated to be \$11,750,000. The appraisal is summarized in Exhibit 15. The ratio of total cost to market value is 98.7%. *Appendix B* is a copy of this report.

C. RETURN

The returns for this investment are calculated over a ten-year holding period under two different scenarios. In Exhibits 17A and 17B, it is assumed that the lender will extend the loan until ten years after closing in exchange for a partial paydown of the existing mortgage. In Exhibits 18A and 18B, it is assumed that the loan is refinanced at the beginning of 1995 at 10%.

1. Annual Returns

The estimated annual cash returns to USF&G are presented in Exhibits 17A and 18A. The estimated cash on equity return to USF&G in the first year (which is also the first stabilized year) is 8.8%. The cash return from operations is 6.22%, and the N.O.I. guarantee increases the yield to 8.8% as the seller contributes \$147,868 to maintain the 9% guaranteed return on total costs. The returns on equity fluctuate between 6.83% in year 4 to 12.75% year 12 in Exhibit 17A, and between 6.83% and 12.33% in Exhibit 18A. The low return in equity in year 4 results from the expiration of the seller's N.O.I. Guarantee.

2. Cash Proceeds at Sale

At the time of sale, net proceeds are first used to pay off the outstanding mortgage balance then USF&G receives all remaining cash. The projected sales price is computed by capitalizing projected net operating income for year 11 at 8.5% and, selling expenses are estimated at 3% of total sales price. The estimated cash proceeds to USF&G from the sale in year 10 are \$10,481,958 (See Exhibits 17A and 18A).

3. Yield Analysis

The nominal yield for the base case (5% inflation, \$6,000,000 loan) is estimated to be between 13.0% and 13.2% depending on whether the loan is refinanced at 10% interest in the seventh year or extended at 9.5% interest. This represents a real or inflation adjusted return between 8.0% and 8.2%. The outright acquisition of this investment makes the

yield very sensitive to inflation. For example if the inflation rate is 7%, the real rate of return increases to between 8.5% and 8.7%, but if the inflation rate is 3%, the real rate of return decreases to between 7.3% and 7.5%. Exhibits 17B and 18B graphically present the nominal yield's sensitivity to changes in inflation and changes in the capitalization rate at sale.

D. RISK

In the proposed purchase, USF&G is exposed to all of the risks associated with outright ownership of a real estate investment. In an equity joint venture, USF&G has a partner/manager, and in a participating mortgage, USF&G has a borrower/manager. In both cases, the partner or borrower share part of the downside risk, but they also receive part of the upside benefits. In an outright purchase, USF&G receives all of the upside benefits in exchange for taking all of the downside risks. The structure of the purchase contract along with the due diligence and underwriting have minimized the major risks by providing seller guarantees, engineering and environmental reports, and property management operating budgets.

1. Market Risk

The major risk in the investment is the property's ability to continue to rent at high rental rates and high occupancy levels. A softening of the apartment market could be caused by a general recession in Columbia or an over supply of competitive properties. The diversity of Columbia's base and the concentration of employment in government, education, and military minimizes the probability of severe recession that would decrease jobs and reduce rental rates. The possibility of additional competitive properties is limited to the adjacent site which can support 304 units, and sites which are several miles south and further away from employment centers. The market is currently in equilibrium, and continued new job creation should decrease the possibility of over-supply even if competitive properties are built in the future.

The seller guarantee of a 9% return on total costs is backed by a letter of credit and ameliorates the market risk in the short term as the seller will subsidize the income stream for 36 or until Net Operating Income exceeds \$87,000 per month, whichever comes first.

2. Operational Risk

The operation risk is an important consideration in this investment because the property must be properly maintained and systematically upgraded to insure the property's "curb appeal" and competitive position in the market. The seller will manage the property during the lease-up period according to an approved operating budget which is summarized in the proforma (Exhibit 13) and detailed in (Appendix A). Potomac will closely monitor the property management by frequent on-site inspections and monthly operating and financial reports. During the guarantee period, the management can be terminated for cause, and

after the guarantee period the management can be terminated at will.

To further reduce the operation risk, extensive engineering and environment reports are being completed. Any problem areas such as building settling or asphalt failure will be remedied and guaranteed before Closing.

3. Financial Risk

The financial risks in this investment has two dimensions: default and refinancing risk. If the loan is paid down to \$6,000,000, the debt coverage ratio will be 1.66 and the breakeven occupancy level 72.6% so the risk of default is remote. If the loan is not reduced, the debt coverage ratio and breakeven occupancy level are 1.14 and 88% respectively, which is still acceptable considering that the expected yield increases to 15.1% because of the high leverage.

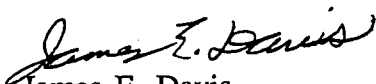
If the loan is reduced to \$6,000,000 but not extended and matures in 6 years, the property must be either sold or refinanced. If the property were refinanced at a 10% interest rate, the yield would remain acceptable (13.0%), or if the property were sold at an 8.5 capitalization rate, the yield, would remain acceptable (11.5%).

V. CONCLUSIONS AND RECOMMENDATIONS

Hampton Courts Apartments is a two-year old, 95% leased, 276 unit class A garden apartment complex in 15 buildings of two and three story design in Columbia, South Carolina. The project was developed and leased by Horseshoe Development Group who will continue to manage and lease the property. The Columbia economy has been strong through the 1980's and is projected to remain strong through the year 2000. The expected return on total capital for this investment provides an adequate return for the risks involved. Therefore, Potomac Realty Advisors recommends that the Real Estate Investment Committee for the United States Fidelity & Guaranty Company approve the purchase of the Hampton Court Apartments under the terms and conditions outlined in *Appendix A - Purchase Contract*. October 6, 1988 is the outside date for Committee Approval.

If you have any questions, please feel free to call Dan Kohlhepp or me.

Sincerely,


James E. Davis
Vice President

VI. EXHIBITS

EXHIBIT 1
SUMMARY OF PURCHASE CONTRACT

- * Seller: Hampton Courts Property, Inc.
- * Purchase Price: \$11,600,000
- * Deposit: \$50,000 Letter of Credit. Deposit to be increased to \$100,000 after Due Diligence Period (October 6)
- * Existing Mortgage: \$8,700,000
 - Mortgagee: North Carolina Federal Savings and Loan Association
 - Amount: \$8,700,000
 - Rate: 9% interest only until December 1989; then 9.5% amortized over 30 years
 - Term: 6 years. Principal is due and payable December 1994.

Paydown Provision: The loan is prepayable at any time with no penalty. Currently we are negotiating to paydown the loan to \$6,000,000; in return we are asking the lender to extend the maturity date 2 to 4 years.

- * Free-Look Period: The contingency period is for 45-days, beginning August 22, 1988 and continuing through October 6, 1988. During this due diligence period we are to complete all of our inspections including appraisal, engineering, financial studies, market studies, survey and title and committee approval.
- * Income Guarantee: The Seller's providing an Net Operating Income (N.O.I.) Guarantee of \$87,000 per month for a period of 30 months following closing. The Guarantee provides that if property is not producing an N.O.I. of \$87,000 per month during the 29th and 30th month net of all concessions, then the N.O.I. Guarantee will continue for an additional 6 months. During the guarantee period the Seller will manage the property, and the management agreement is cancelable for cause.

The N.O.I. Guarantee is secured by a \$1,000,000 irrevocable letter of credit.

- * Closing: The Closing is to take place on or before October 31, 1988 with the provision that it may be extended for an additional thirty (30) days by increasing the deposit by \$100,000.

EXHIBIT 2
REGIONAL LOCATION MAP

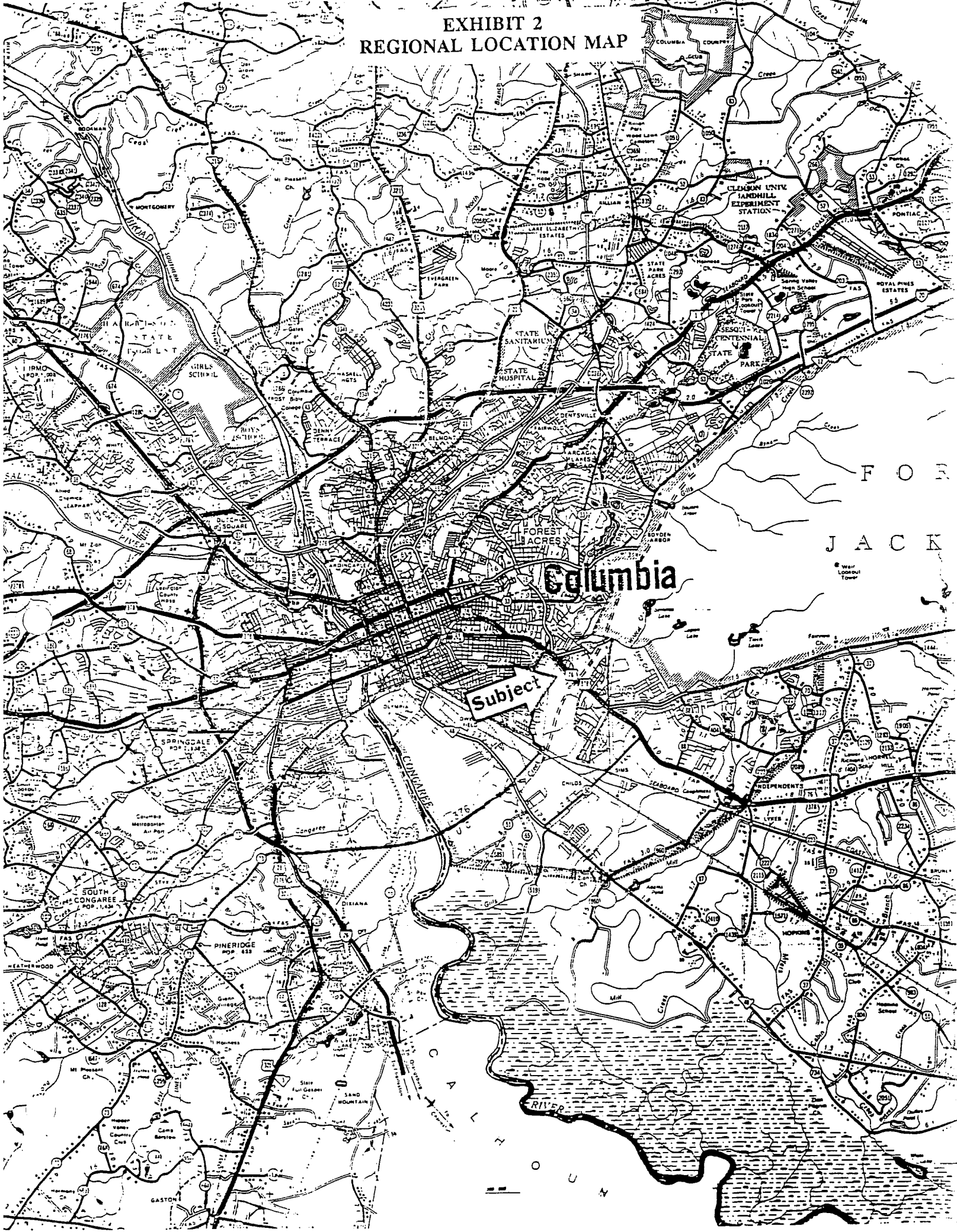


EXHIBIT 3 SITE VICINITY MAP



LEGEND:

- 1 - Central Business District
- 2 - Garners Ferry/Outer Beltway Intersection
- 3 - Five Points
- 4 - University of South Carolina Main Campus
- 5 - Columbia Mall
- 6 - Woodhill Mall
- 7 - Fort Jackson Main Entrance
- 8 - Midlands Tech. College
- 9 - U.S.C. Medical School
- 10 - V.A. Hospital
- 11 - Richland Fashion Mall

EXHIBIT 4
AERIAL PHOTOGRAPH

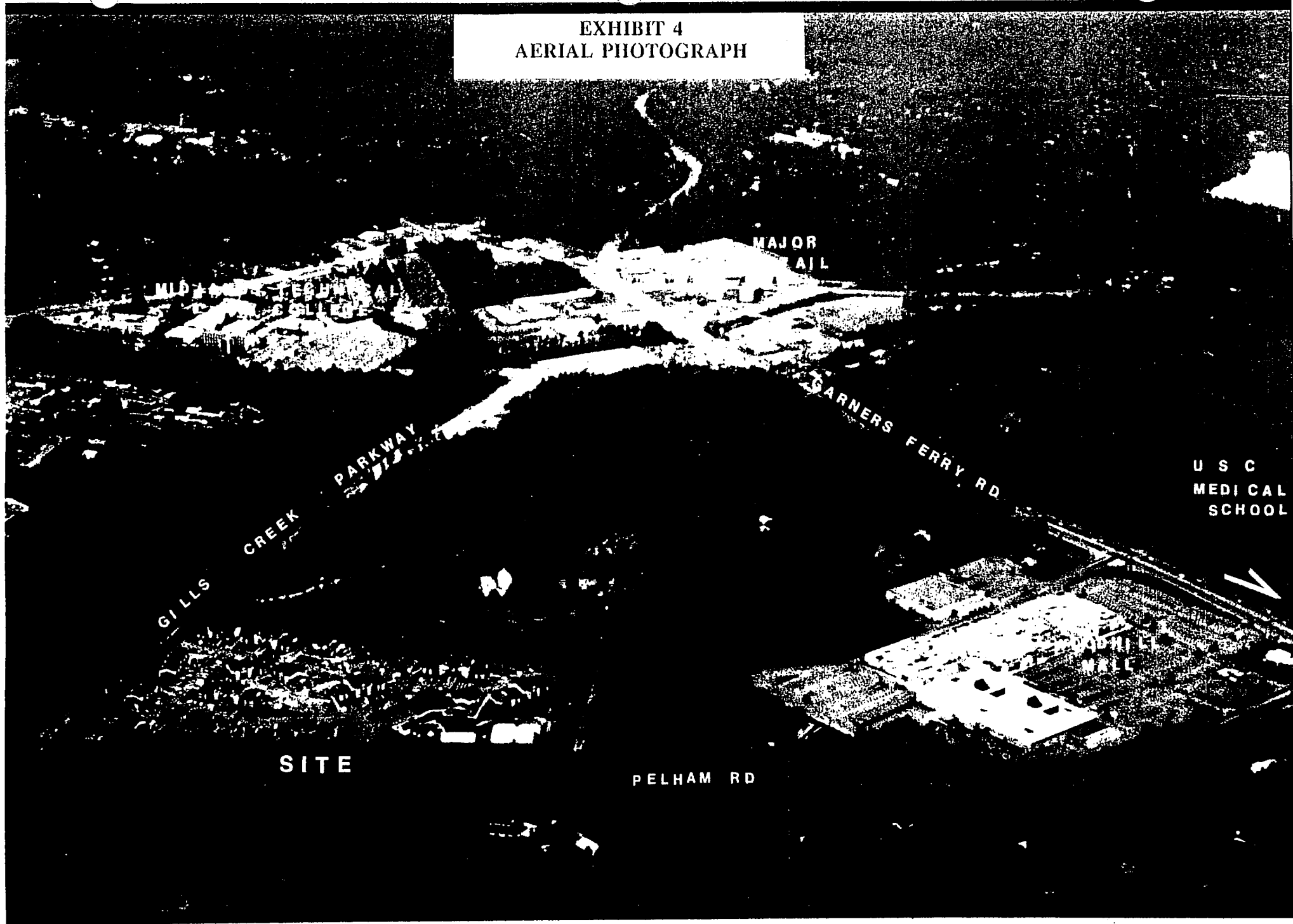


EXHIBIT 5 SITE PLAN

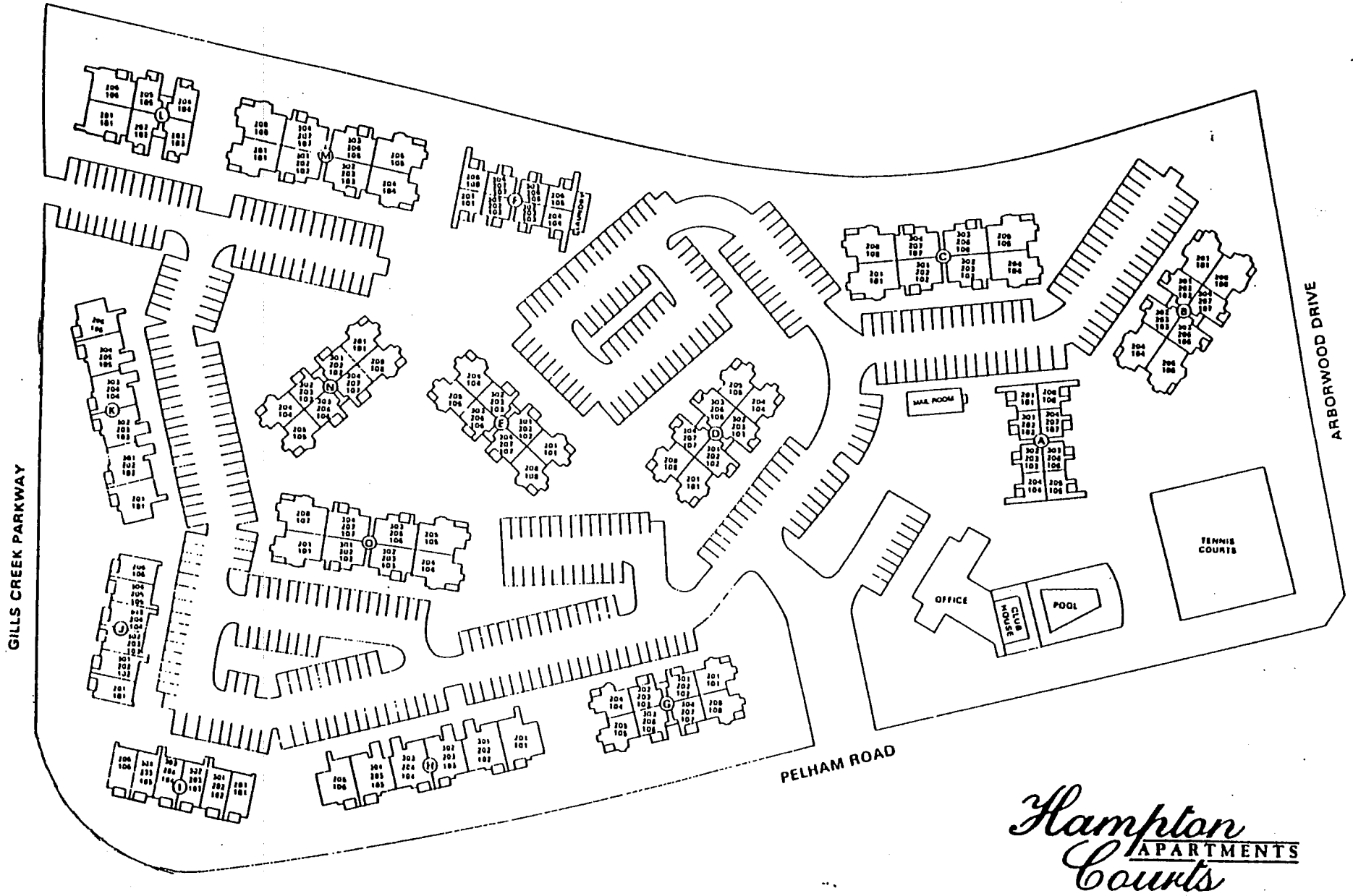


EXHIBIT 6-A
MAIN ENTRANCE



EXHIBIT 6-B
CLUBHOUSE

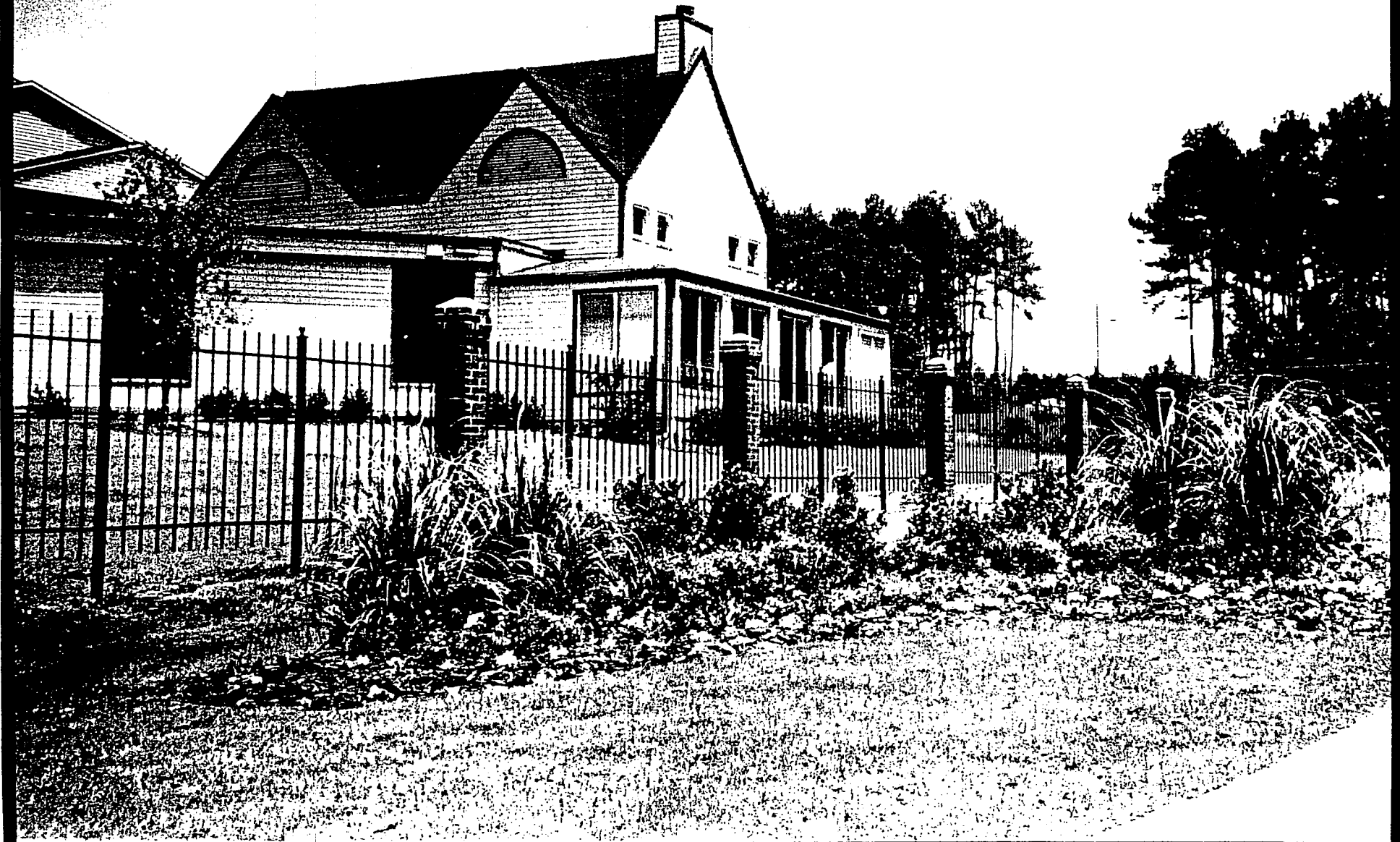


EXHIBIT 6-C
CLUBHOUSE INTERIOR

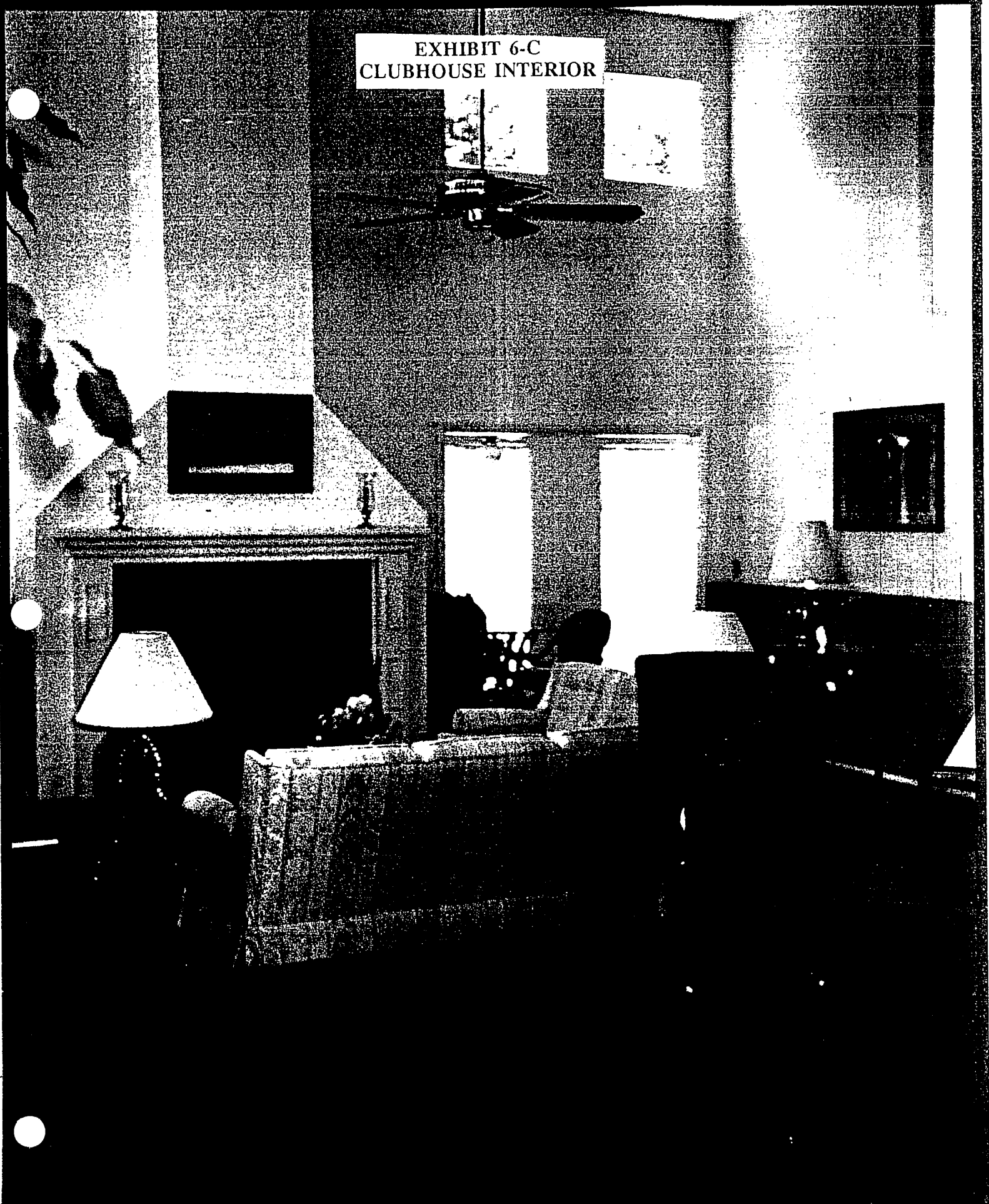


EXHIBIT 6-D
CLUBHOUSE INTERIOR



EXHIBIT 6-E
SWIMMING POOL



EXHIBIT 6-F
WHIRLPOOL



EXHIBIT 6-G
EXERCISE ROOM

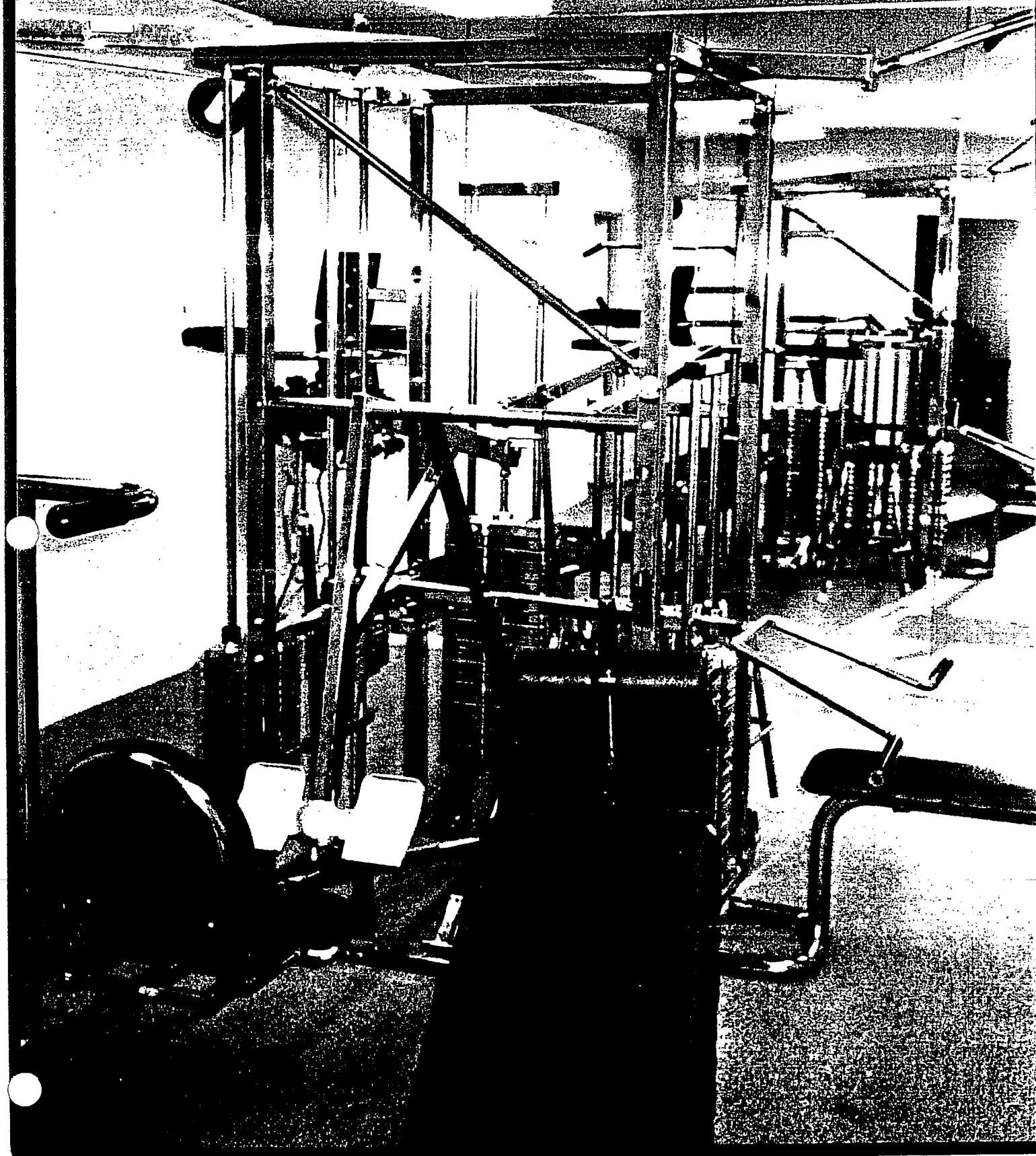


EXHIBIT 6-H
AEROBICS ROOM



EXHIBIT 6-I
TYPICAL BUILDING



EXHIBIT 7
BUILDING SPECIFICATIONS

Architecture:	Contemporary - cedar and brick siding two and three story complex.
Construction Type:	Class D - Multiple Residences.
Built:	1986.
Foundation:	Steel reinforced concrete footings.
Structural Support:	Wood truss and joists. Foundation walls and party walls are 8" and 12" concrete block with steel reinforcing bars.
Exterior Walls:	Brick veneer and wood siding, stained and painted, over wood and thermal sheathing.
Roof Type:	225-pound fiberglass shingle over 1/2" exterior grade plywood supported by pre-engineered wood trusses. All buildings have prefinished aluminum gutters and downspouts.
Windows:	Aluminum frame, single and double-hung with single pane glass.
Roof Drainage:	Aluminum gutters and leaders.
Entrance Doors:	Sliding glass doors are aluminum with factory baked-on enamel and 1/8" tempered insulated glass. Exterior unit doors are 1-3/4" metal over an insulation core with metal frame and full-weather stripping, interior doors are 1-3/8" hollow core flush type, closet doors are 1-3/8" louvered metal bifolds.
Interior Walls & Ceilings:	2" x 4" wood studs at 16" and 24" on center with 1/2" gypsum sheathing, taped and painted. Water resistant gypsum in bathrooms taped and painted with ceramic tile in all baths, kitchens and entries, carpeting with suitable padding in all other areas.

Flooring: 4" poured concrete slab on the ground level, upper story levels are wood floor joists with 3/4" tongue and groove subflooring. The floor finishes include sheet tile in all baths, kitchens and entries, carpeting with suitable padding in all other areas.

HVAC: Each dwelling has electric strip heating systems and high-efficiency electric air conditioning systems. Each unit also contains a ceiling fan in the master bedrooms.

Hot Water: Individual tank-type electric 40 gallon glass lined water heaters (State).

Electrical: 120-150 amp service depending upon unit type with adequate outlets and fixtures.

Plumbing: Water piping is copper above grade and PVC below grade. Sanitary sewage is PVC as per code requirements.

Furnishings: Tenant supplied.

Illumination: Incandescent/fluorescent.

Kitchen Appliances,
Finishes & Equipment: Kitchen equipment includes refrigerator with frost-free freezer, dishwasher, garbage disposal, microwave oven, range/oven, range hood with fan and light, and washer/dryer connections off of balcony/patio or in sunroom. The appliances are all manufactured by Kenmore.

Bathrooms: Fixtures include porcelain coated steel tubs, vitreous china water closets with water saver tanks and stainless steel kitchen sinks. Showers are fitted with water flow restrictors. All baths have exhaust fans. All cabinets and vanities are wood with plastic laminated tops and 4" backsplash. Bathrooms contain separate mirrors with recessed medicine cabinets and towel bars.

Elevators: None.

Insulation:

Exterior walls have vapor barrier-faced batts and insulated siding with R-value of R-16; ceilings have batts or blown insulation with R-value of 30; all exterior butt joints and joints between dissimilar materials are caulked.

Fireplaces:

Prefabricated metal fireplaces with screens, flues, dampers and caps; slate hearths are provided.

Balconies/Patios:

Concrete slab patios and wood decking for balconies.

Miscellaneous:

All windows are provided with traverse rods and drapes. All units also are provided with Cable TV reception capability or central antenna. Unit amenities include fireplaces in some units, vaulted ceilings, walk-in closets, bay windows and ceiling fans.

General Contractor:

Pinkerton & Laws - Atlanta, Georgia

EXHIBIT 8-A FLOOR PLANS

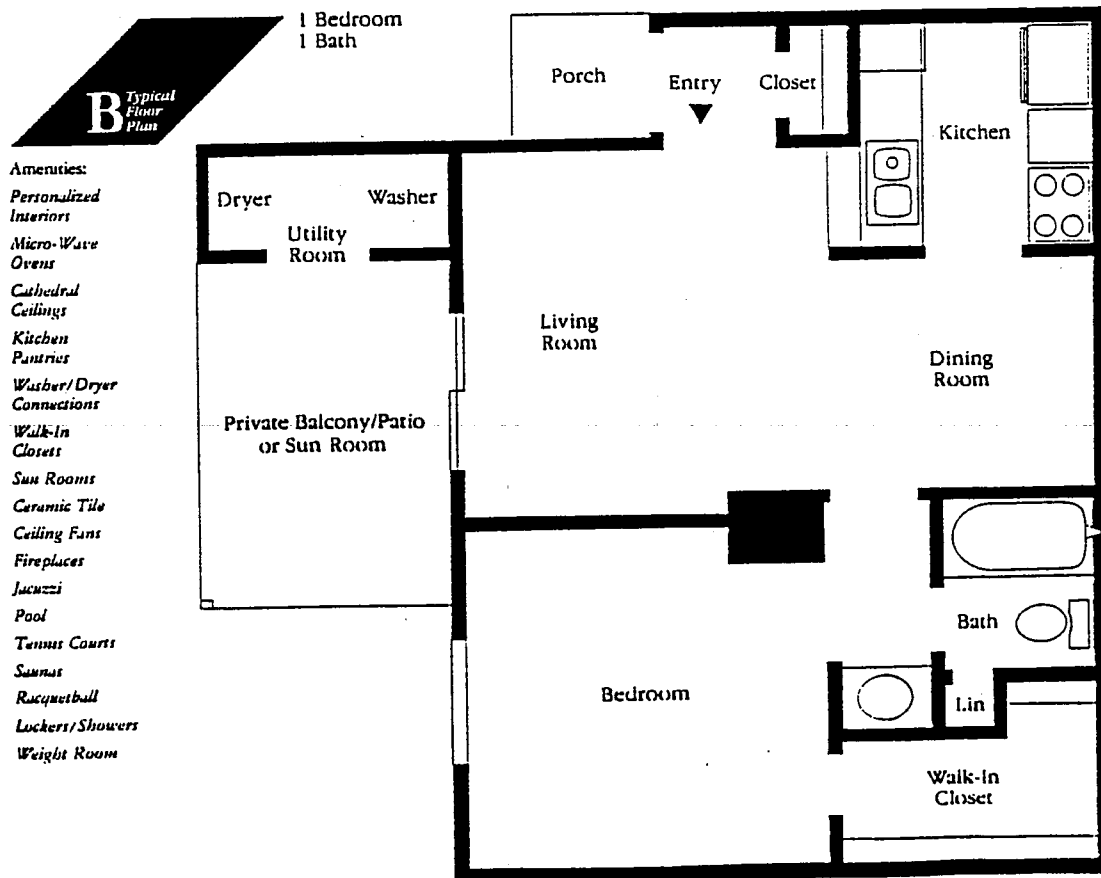
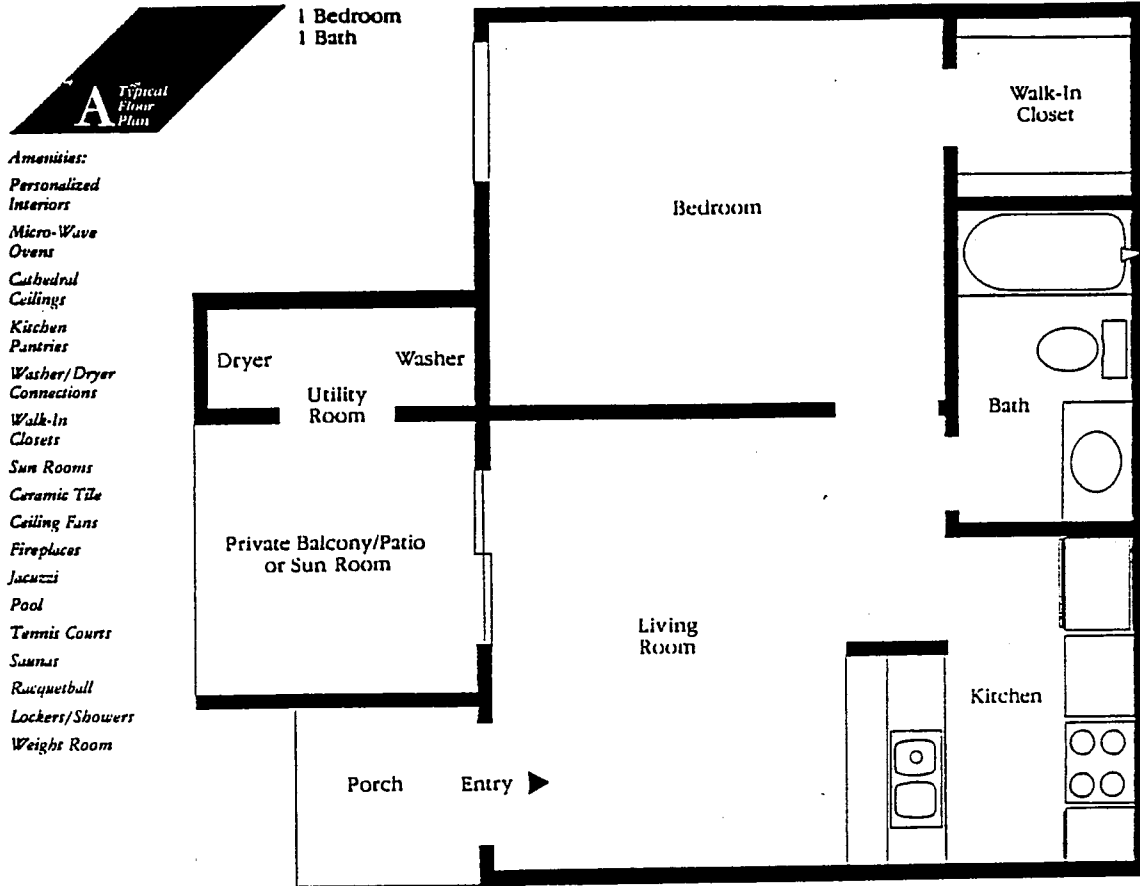


EXHIBIT 8-B FLOOR PLANS

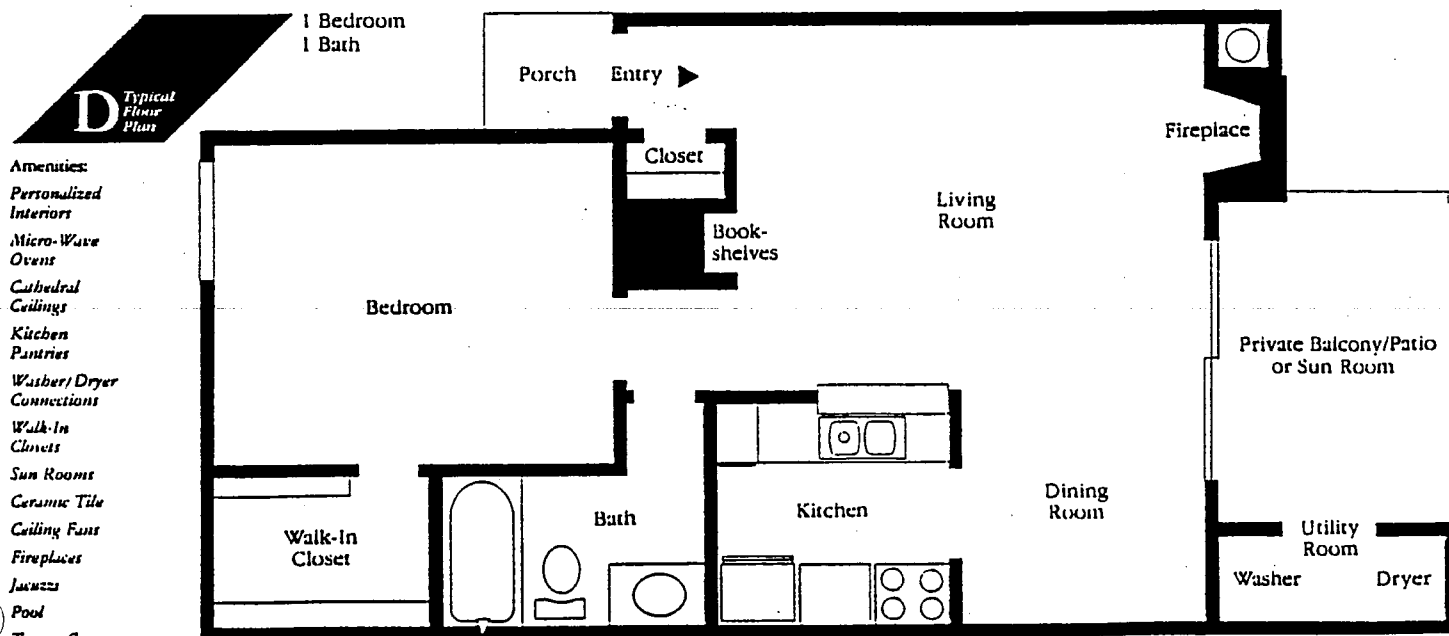
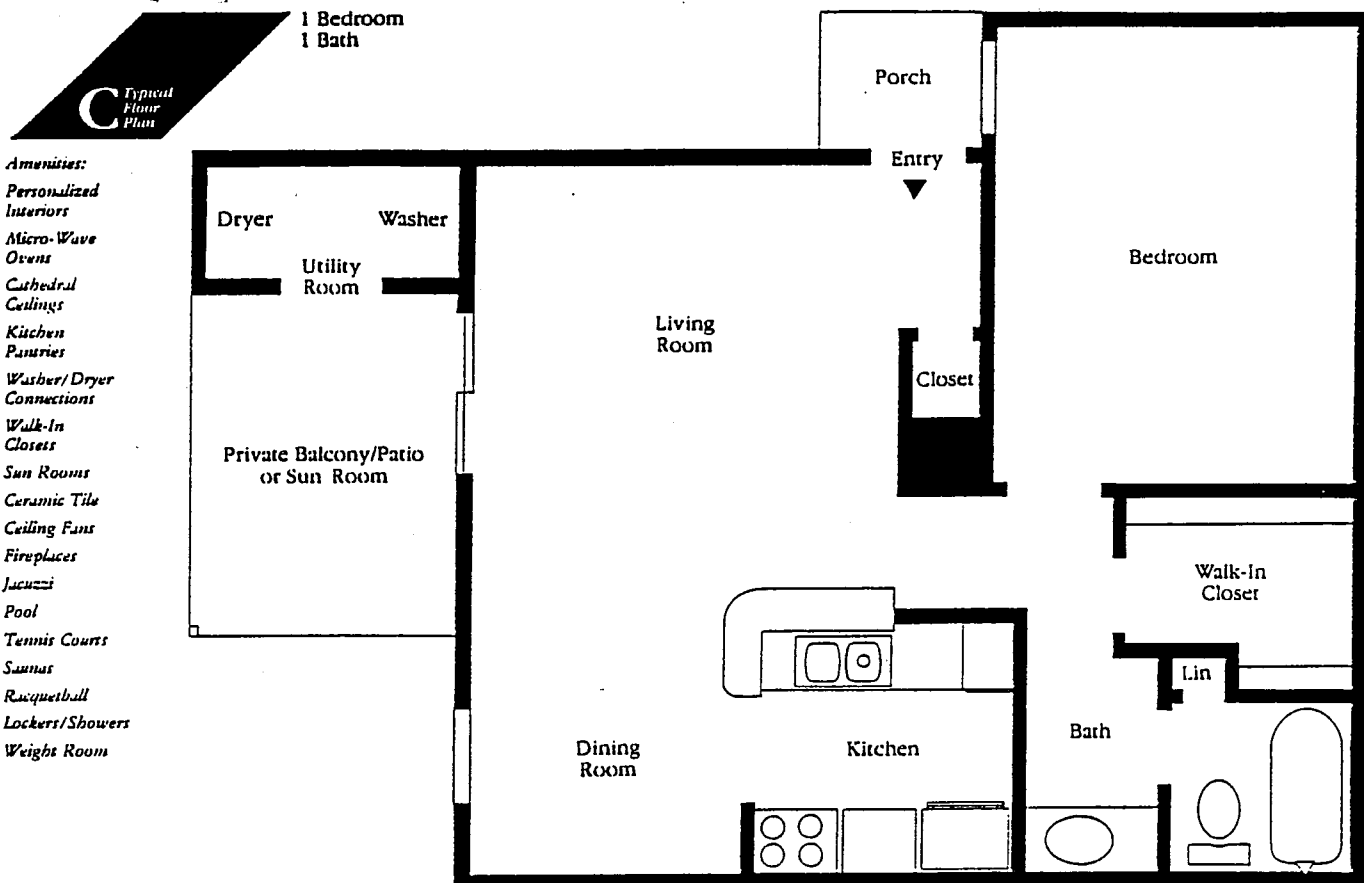


EXHIBIT 8-C FLOOR PLANS

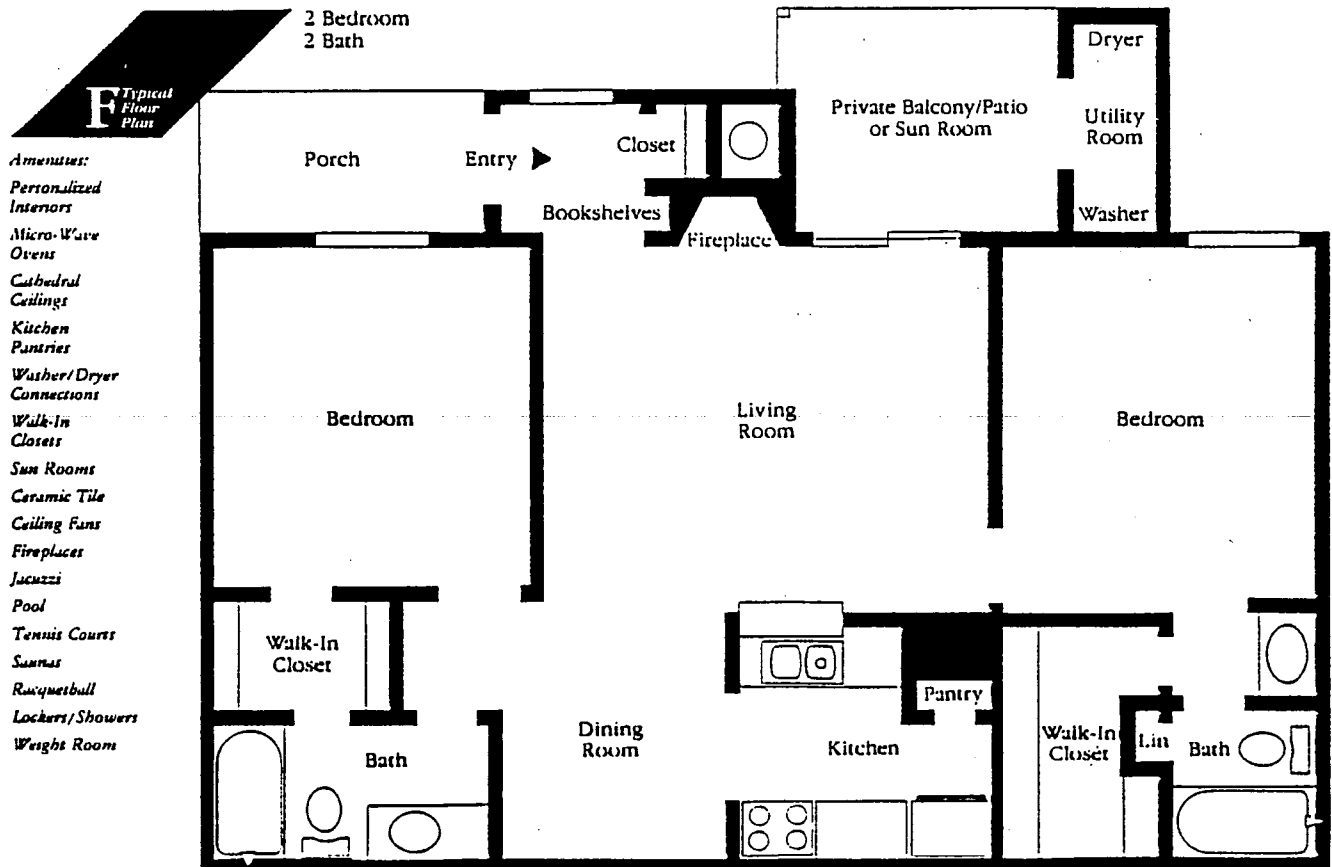
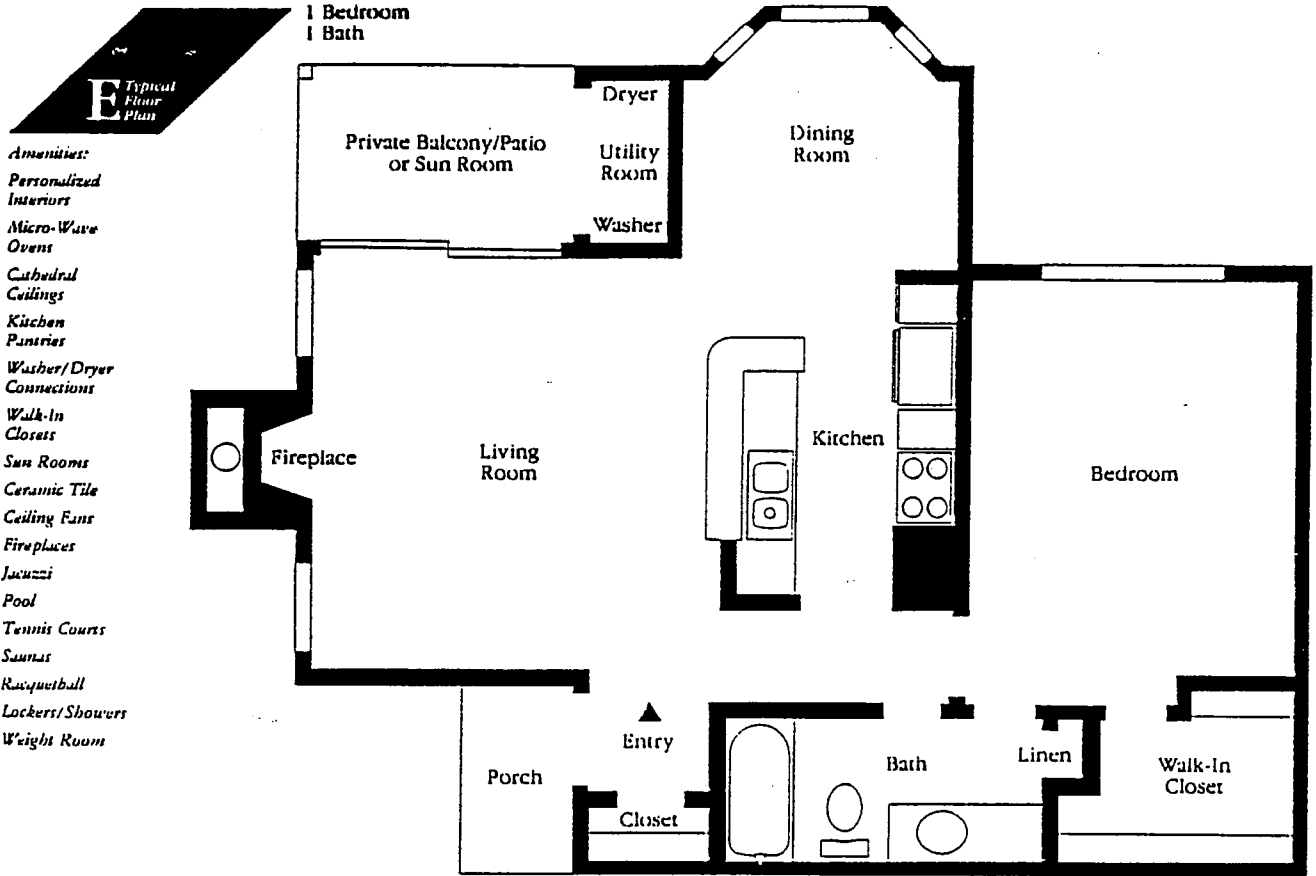


EXHIBIT 8-D FLOOR PLANS

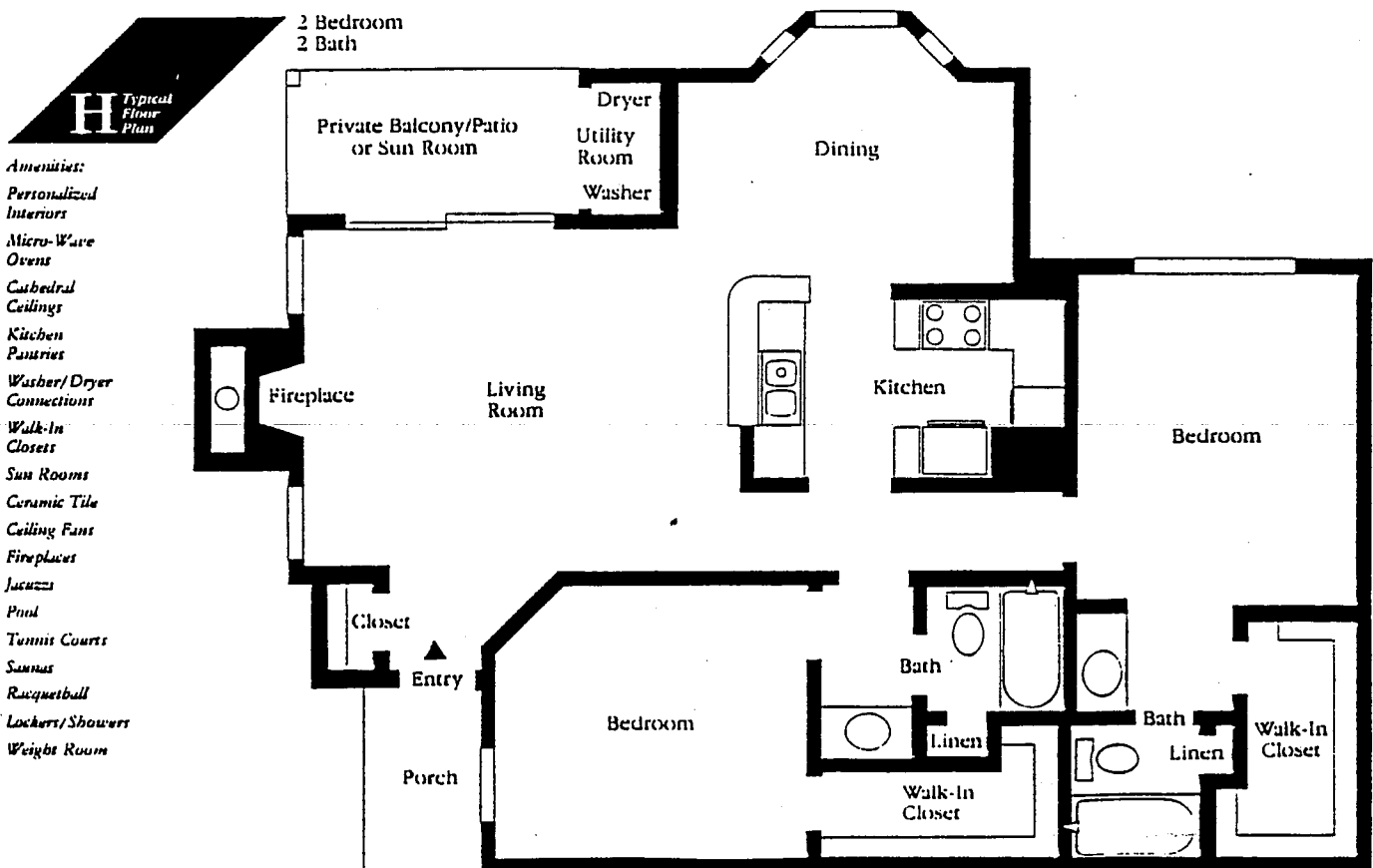
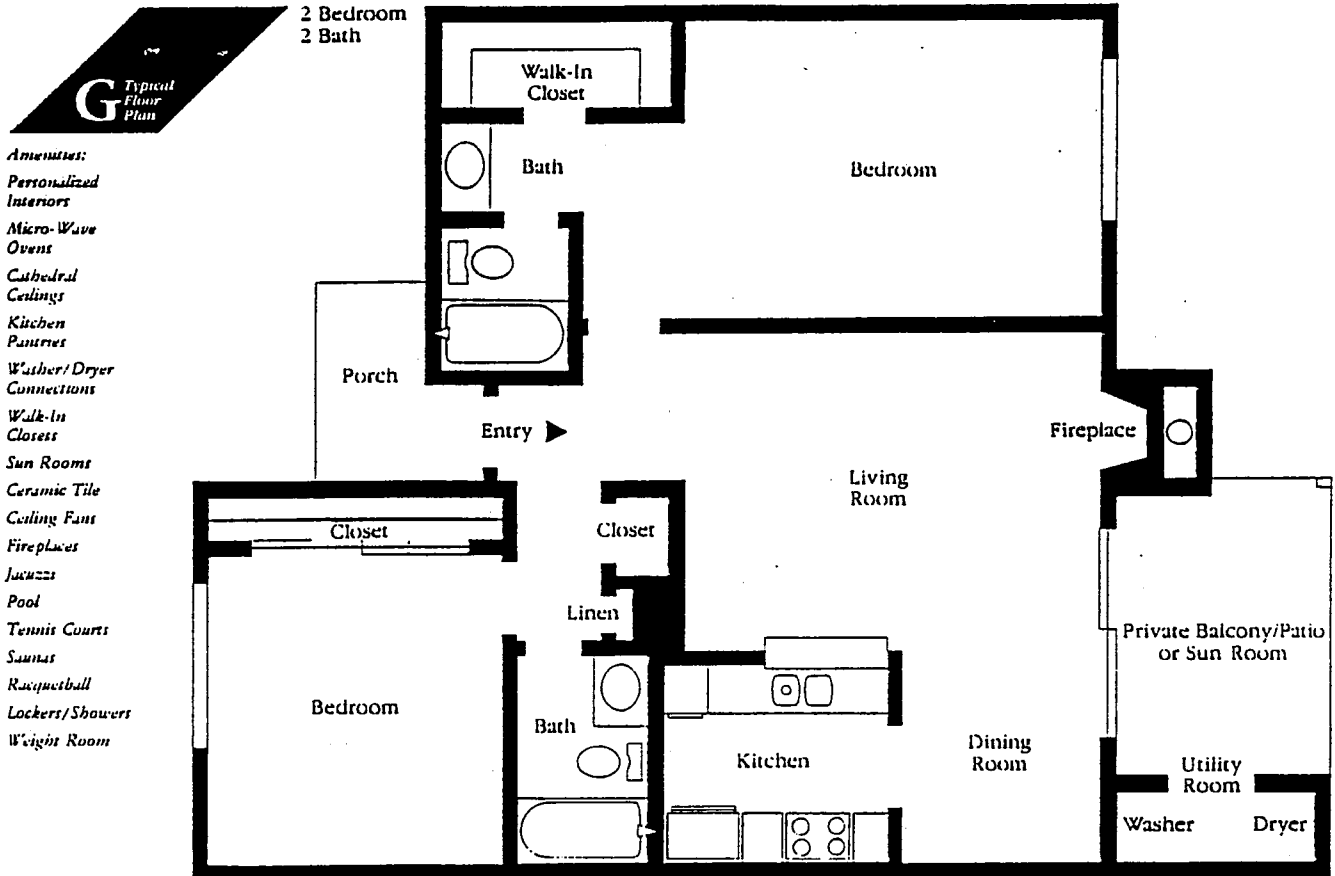


EXHIBIT 9 **COMPETITIVE PROPERTY SURVEY**

Map Code	Project Name and Address	Completion Date	Total # Units	1 Bedroom/1 Bath			2 Bedroom/1 Bath			2 Bedroom/2 Bath			Occupancy
				Size S.F.	Rent	\$/P.S.F.	Size S.F.	Rent	\$/P.S.F.	Size S.F.	Rent	\$/P.S.F.	
1	Paces Run Columbia, SC	1987	260	779	\$450-485	\$0.58-0.62	943	\$500-525	\$0.53-0.56	1127	\$555-610	\$0.49-0.54	84% (as of 8/22/88) (in lease up)
2	St. Andrews Commons Columbia, SC	1987	336	667	\$385-395	\$0.58-0.59	800	\$450-460	\$0.52-0.53	919	\$480-505	\$0.52-0.55	82% (as of 8/29/88) (in lease up)
3	Tamarind Columbia, SC	1985	240	697	\$395-415	\$0.56-0.59	931	\$475-495	\$0.51-0.53	Not Offered			93% (as of 8/8/88)
4	Charbonneau Columbia, SC	1986	166	697	\$429-449	\$0.62-0.64	914	\$489-509	\$0.54-0.56	957	\$519-539	\$0.54-0.56	98% (as of 8/22/88)
5	Bryton Pointe Columbia, SC	1986	237	900	\$435	\$0.48	1100	\$505	\$0.46	1200	\$525	\$0.44	91% (as of 8/22/88)
6	Colonial Village Columbia, SC	1973	296	763	\$330	\$0.43	1090	\$380	\$0.34	1248	\$395	\$0.31	80% (as of 8/8/88)
7	Harbor Landing Columbia, SC	1971	208	785	\$330	\$0.42	905	\$360	\$0.39	1158	\$380	\$0.32	94% (as of 7/12/88)
8	Whispering Pines Columbia, SC	1976	144	850	\$300	\$0.35	1050	\$345	\$0.32	Not Offered			97% (as of 8/8/88)
9	Rosewood Apartments Columbia, SC	1972	152	728	\$330	\$0.45	934	\$380	\$0.40	Not Offered			94% (as of 8/8/88)
	Subject	1986	276	475-850	\$365-483	\$0.57-0.77	Not Offered			902-1165	\$510-620	\$0.52-0.57	95% (as of 9/11/88)

Source: Potomac Realty Advisors

EXHIBIT 10 **COMPETITIVE PROPERTY** **AMENITY MATRIX**

Map Code	Project Name	Children	Pool	Exercise Room	Jacuzzi	Tennis Courts	Laundry	Washer Dryer	Clubhouse	Racquetball Court	Fireplace
1	Paces Run	X	X	X	X		X	A	X		X
2	St. Andrews Commons	X	X	X	X	X	X	A	X	X	X
3	Tamarind		X			X	X	A			X
4	Charbonneau		X		X	X	X	A	X		X
5	Bryton Pointe	X	X	X	X	X	X	X	X		X
6	Colonial Village	X	X			X	X	A			
7	Harbor Landing	X	X			X	X	A	X		
8	Whispering Pines	X	X			X	X	A			
9	Rosewood Apartments	X	X				X				
	Subject	X	X	X	X	X	X	A	X	X	X

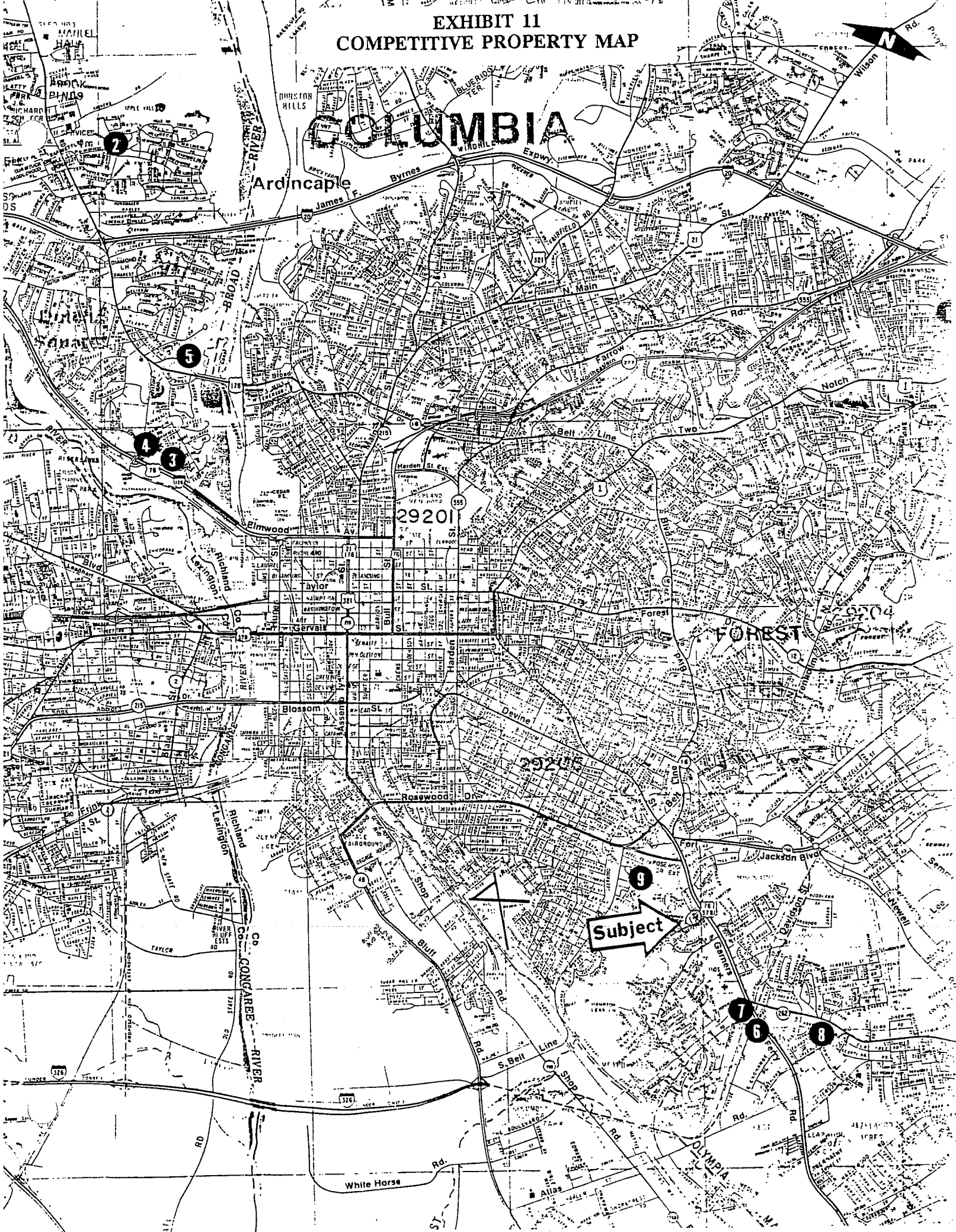
CODES AND NOTES

X Property offers this amenity or rental policy.

A Connections available in some units.

All of the above properties have patios and/or balconies.

Source: Potomac Realty Advisors



**EXHIBIT 12-A
DEVELOPER TRACK RECORD**

<u>Date</u>	<u>Project</u>	<u>Status</u>
1984	Lakeside at Campeche Galveston, Texas 320 Unit Apartment Complex	Sold to NHP; 96% leased
1986-7	Lakewood Townhomes South Walton County, Florida 10 Units, 40 Acre Land Tract	Sold Out
1986	Hampton Courts Columbia, South Carolina 276 Unit Apartment Complex	95% leased
1987	Atrium Stoneridge Columbia, South Carolina 110,000 Square Foot Office	40% leased (in lease up)
Present	Riverside Center Columbia, South Carolina 110,000 Square Foot Convention Center, 364 Room Hotel	Currently Finalizing Funding, 4th Qtr. 1988
Present	Atrium Four Seasons Greensburo, North Carolina 117,000 Square Foot Office	Planning

EXHIBIT 12-B
DEVELOPER ORGANIZATION CHART

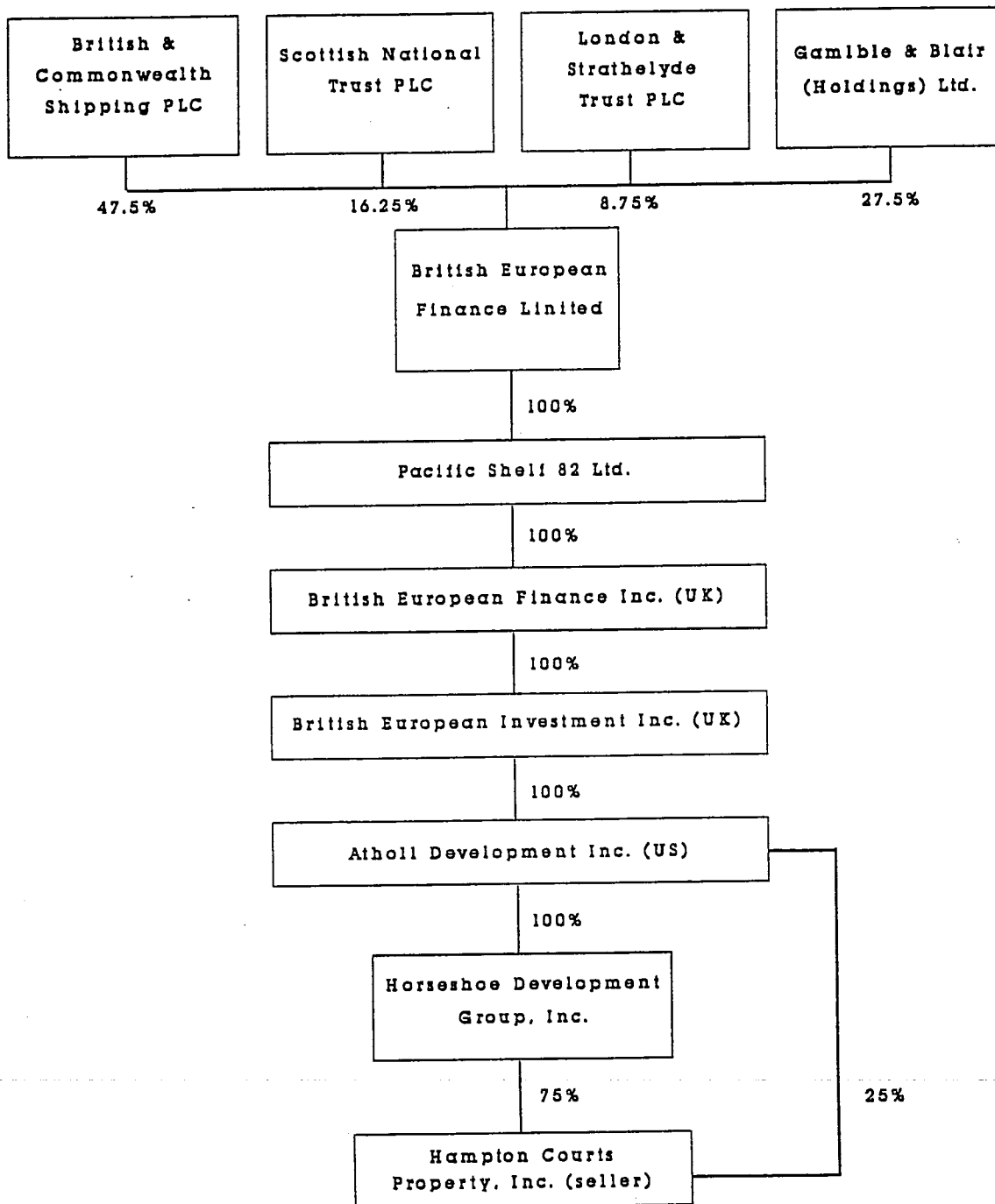
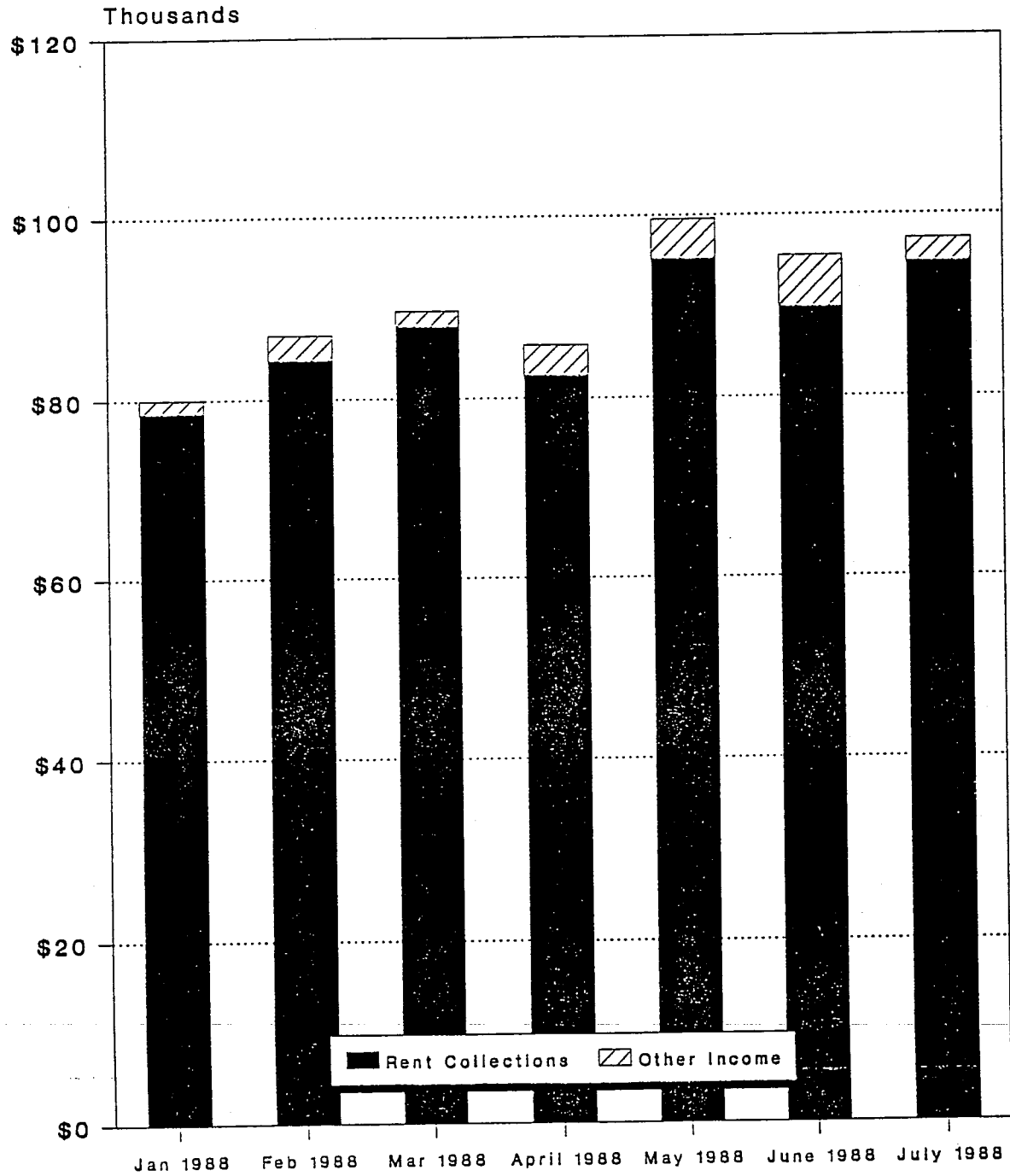


EXHIBIT 13
PROFORMA INCOME AND EXPENSES
FIRST YEAR

Gross Income			
Rental Income			
One-Bedroom Units			
172 @ \$419/mo.	\$864,816		
Two-Bedroom Units			
108 @ \$559/mo.	<u>697,680</u>	\$1,562,496	
Other Income			
@ \$7.89/unit/month		<u>26,147</u>	
Total			\$1,588,643
less: <u>Vacancy Allowance @ 5%</u>			<u>79,439</u>
Effective Gross Income			1,509,211
less: Operating Expense			
Payroll	112,620		
Leasing Expenses	75,060		
Administrative	93,840		
Utilities	70,560		
Repairs and Maintenance	89,070		
Taxes	130,800		
Insurance	21,600		
Replacement Reserve	18,000		
Other	<u>960</u>		
			<u>613,080</u>
Net Operating Income			896,131
less: Debt Payment (\$6,000,000 @ 9%)			540,000
plus: Net Operating Income Guarantee			
<u>(.09 x \$11,600,000) - \$896,131</u>			<u>147,869</u>
Cash Flow to USF&G			\$504,000
Return on Total Capital			7.6%
(\$896,131/\$11,725,000)			
Return on Equity			8.8%
(\$504,000/\$5,725,000)			
Debt Coverage Ratio			1.66
(\$896,131/\$540,000)			

EXHIBIT 14 HISTORIC RENT COLLECTIONS



Source: Potomac Realty Advisors

EXHIBIT 15
APPRAISAL SUMMARY

Appraiser:

R. D. Geronimo, MAI

Date of Appraisal:

August 22, 1988

Estimated Value - Cost Approach:

Gross Apartment Building Area	228,458
x <u>Estimated Replacement Cost New/S.F.</u>	x <u>\$43.50</u>
Total Cost New of Structural Improvements	\$ 9,937,923
- <u>Depreciation (New Construction)</u>	<u>None</u>
Replacement Cost Value of Structural Improvements	\$ 9,937,923
+ Estimated Value Basis On-Site Improvements	+ 750,000
+ <u>Market Derived Land Value @ \$5,500/Unit</u>	+ <u>1,520,000</u>
Indicated Value by Cost Method	\$ 12,207,923
Round to	\$ 12,200,000

Estimated Value - Direct Sales Comparison Approach:

Number of Leasable Units	276
x <u>Market Derived Price per Unit</u>	x <u>43,000</u>
Indicated Direct Sales Value	\$ 11,868,000
Round to	\$ 11,870,000

Effective Gross Annual Income	\$ 1,475,000
x <u>Market Derived Gross Rent Multiplier</u>	x <u>8.00</u>
Indicated GRM Value	\$ 11,800,000

Estimated Value - Income Approach:

Net Operating Income	\$ 901,701
÷ <u>Developed Overall Capitalization Rate</u>	÷ <u>.0820</u>
Indicated Capitalized Value	\$ 11,000,000
Present Value of Net Operating Income @ 11.5%	\$ 5,454,458
+ <u>Present Value of Net Sales Price (yr. 11) @ 11.5%</u>	+ <u>6,304,567</u>
Total Indicated Present Value	\$ 11,759,024
Round to	\$ 11,750,000

Final Correlation of Value:

\$ 11,750,000

EXHIBIT 16 **ASSUMPTIONS TABLE**

Purchase Price:	\$11,600,000
Estimated Closing Costs:	\$125,000
Mortgage Amount:	\$6,000,000
Interest Rate: Exhibit 17	Year 1: 9.0%
	Yrs 2-10: 9.5%
Interest Rate: Exhibit 18	Year 1: 9.0%
	Yrs 2-6: 9.5%
	Yrs 7-10: 10%
Amortization Period: Exhibit 17	N/A: Yr 1
	30 Yrs: Yrs 2-10
Amortization Period: Exhibit 18	N/A: Yr 1
	30 Yrs: Yrs 2-6
	25 Yrs: Yrs 7-10
Refinancing Costs: Exhibit 18	1.0% of Loan
Payments Per Year:	12
Equity Investment:	\$5,725,000
Average Rental Rate - 1st Year:	\$0.59/SF/Mo
Other Income:	\$7.89/Unit/Mo
Operating Expenses - 1st Year:	\$2,221/Unit/Yr
Capitalization Rate in Year of Sale:	9.0%
Sales Expense (% of Sales Price):	3.0%
Growth Rate - Income:	Yr 1: 5.0%
	Yr 2: 2.5%
	Yrs 3-10: 5.0%
Growth Rate - Expenses:	5.0%
Vacancy Rate:	5.0%

USF&G will purchase the property subject to the existing mortgage.

* Exhibit 17 assumes an extension of the existing mortgage in exchange for a partial paydown of the mortgage from the current balance of \$8,700,000 to \$6,000,000.

* Exhibit 18 assumes a refinancing of the existing mortgage at the end of year 6 (the maturity date of the existing mortgage) at a 10% interest rate.

Estimated Yield on Equity	13.20%
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EXHIBIT 17-B
SENSITIVITY ANALYSIS
\$6 MILLION MORTGAGE EXTENDED TO 10 YEARS

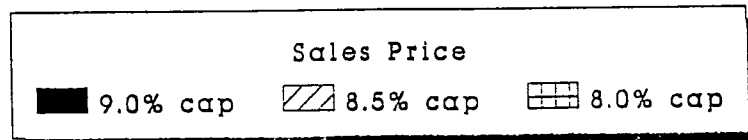
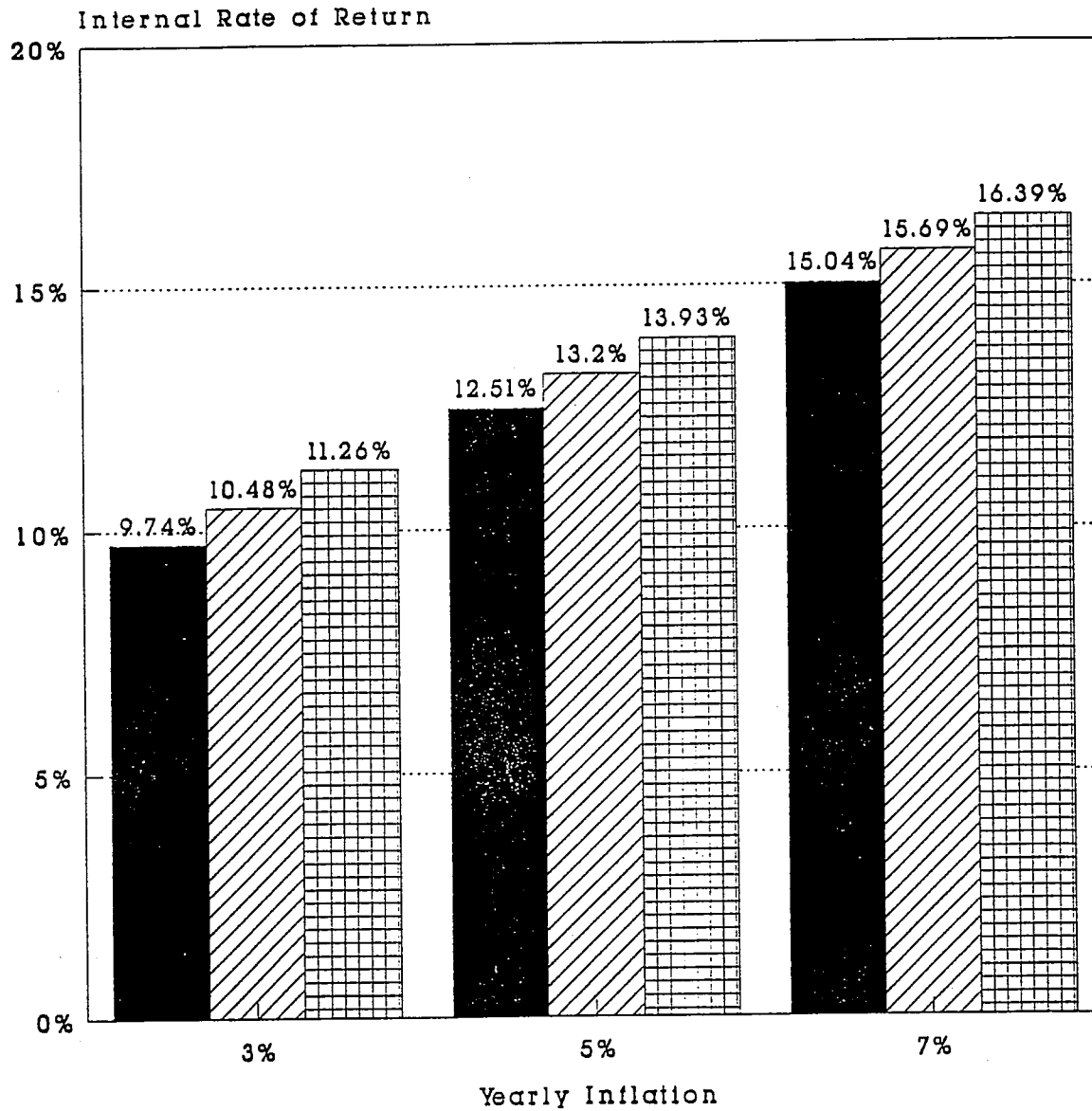


EXHIBIT 18-A
PROJECTED CASH FLOW AND YIELD ANALYSIS
REFINANCE \$6 MILLION MORTGAGE IN 1995

Unit Type	Initial Rental Rate	# of Units	Square Feet	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
1/1	\$365	32	475	140,160	143,664	150,847	158,390	166,309	174,624	183,356	192,524	202,150	212,257	222,870
1/1	\$390	8	572	37,440	38,376	40,295	42,310	44,425	46,646	48,979	51,428	53,999	56,699	59,534
1/1	\$390	12	560	56,160	57,564	60,442	63,464	66,638	69,969	73,468	77,141	80,998	85,048	89,301
1/1	\$415	24	682	119,520	122,508	128,633	135,065	141,818	148,909	156,355	164,172	172,381	181,000	190,050
1/1	\$420	16	637	80,640	82,656	86,789	91,128	95,685	100,469	105,492	110,767	116,305	122,121	128,227
1/1	\$440	16	749	84,480	86,592	90,922	95,468	100,241	105,253	110,516	116,042	121,844	127,936	134,333
1/1	\$425	16	672	81,600	83,640	87,822	92,213	96,824	101,665	106,748	112,086	117,690	123,574	129,753
1/1	\$450	16	792	86,400	88,560	92,988	97,637	102,519	107,645	113,027	118,679	124,613	130,843	137,386
1/1	\$462	28	730	155,232	159,113	167,068	175,422	184,193	193,403	203,073	213,226	223,888	235,082	246,836
1/1	\$483	4	850	23,184	23,764	24,952	26,199	27,509	28,885	30,329	31,845	33,438	35,110	36,865
2/2	\$510	14	902	85,680	87,822	92,213	96,824	101,665	106,748	112,086	117,690	123,574	129,753	136,241
2/2	\$540	26	1,015	168,480	172,692	181,327	190,393	199,913	209,908	220,404	231,424	242,995	255,145	267,902
2/2	\$535	16	981	102,720	105,288	110,552	116,080	121,884	127,978	134,377	141,096	148,151	155,558	163,336
2/2	\$570	16	1,102	109,440	112,176	117,785	123,674	129,858	136,351	143,168	150,327	157,843	165,735	174,022
2/2	\$585	16	1,075	112,320	115,128	120,884	126,929	133,275	139,939	146,936	154,283	161,997	170,096	178,601
2/2	\$620	16	1,165	119,040	122,016	128,117	134,523	141,249	148,311	155,727	163,513	171,689	180,273	189,287
Rental Income				1,562,496	1,601,558	1,681,636	1,765,718	1,854,004	1,946,704	2,044,039	2,146,241	2,253,554	2,366,231	2,484,543
+ Other Income				26,147	27,455	28,827	30,269	31,782	33,371	35,040	36,792	38,632	40,563	42,591
- Gross Income				1,588,643	1,629,013	1,710,464	1,795,987	1,885,786	1,980,076	2,079,079	2,183,033	2,292,185	2,406,794	2,527,134
- Vacancy Allowance				79,432	81,451	85,523	89,799	94,289	99,004	103,954	109,152	114,609	120,340	126,357
- Effective Gross Income				1,509,211	1,547,562	1,624,941	1,706,188	1,791,497	1,881,072	1,975,125	2,073,882	2,177,576	2,286,455	2,400,777
- Operating Expenses				613,079	643,733	675,919	709,715	745,201	782,461	821,584	862,663	905,797	951,086	998,641
- Net Operating Income				896,132	903,830	949,021	996,472	1,046,296	1,098,611	1,153,541	1,211,218	1,271,779	1,335,368	1,402,137
- Mortgage Payment				540,000	605,415	605,415	605,415	605,415	605,415	629,671	629,671	629,671	629,671	
- Refinance costs										74,641				
+ Cash Flow Guarantee (9%)				147,868	140,170	94,979								
- Cash Flow From Operations				504,000	438,585	438,585	391,057	440,881	493,196	449,230	581,548	642,109	705,698	
Cash on Equity Return				8.80%	7.66%	7.66%	6.83%	7.70%	8.61%	7.85%	10.16%	11.22%	12.33%	
Debt Coverage Ratio				1.66	1.49	1.57	1.65	1.73	1.81	1.83	1.92	2.02	2.12	
Cash Proceeds on Sale in Year 10														
Projected Sales Price @ 8.5% cap													\$16,495,724	
- Selling Expenses @ 3%													(494,872)	
- Unpaid Mortgage Balance													(5,518,895)	
- Cash Proceeds From Sale													10,481,958	
Equity Yield Analysis:														
Equity Contrib.				(5,725,000)										
Cash Flow From Operations				504,000	438,585	438,585	391,057	440,881	493,196	449,230	581,548	642,109	705,698	
Cash Proceeds From Sale													10,481,958	
Equity Cash Flow				(5,725,000)	504,000	438,585	438,585	391,057	440,881	493,196	449,230	581,548	642,109	11,187,655

EXHIBIT 18-B
SENSITIVITY ANALYSIS
REFINANCE \$6 MILLION MORTGAGE IN 1995

