

**HABERSHAM POINTE APARTMENTS**  
**ATLANTA, GEORGIA**

**Potomac Realty Advisors**  
**1010 North Glebe Road**  
**Suite 800**  
**Arlington, Virginia 22201**

**(703) 522-6200**



HABERSHAM POINTE APARTMENTS

ATLANTA, GEORGIA

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## **I. INTRODUCTION**

# Potomac Realty Advisors

1010 NORTH GLEBE ROAD  
SUITE 800  
ARLINGTON, VIRGINIA 22201

703-522-6200

March 2, 1989

Real Estate Investment Committee Members  
United States Fidelity and Guaranty Company  
100 Light Street  
Baltimore, Maryland 21203

Dear Sirs:

Enclosed for your review is an Investment Report on Habersham Pointe Apartments, a 181-unit luxury apartment complex in Atlanta, Georgia. The proposed transaction is composed of a \$7,200,000 fixed rate first mortgage and a \$4,800,000 equity joint venture for a total investment of \$12,000,000. Exhibit I-1 is the Application Letter which summarizes the proposed investment.

## **THE PROPERTY**

Habersham Pointe is an existing, 181-unit midrise luxury apartment complex on a 3.5 acre in-fill site in the Buckhead area of Atlanta, Georgia. The property is at the intersection of Habersham Road and Old Ivy Road, 100 yards from the intersection of Roswell Road and Piedmont Road. Habersham Pointe is within ten minutes of over 36 million square feet of office space and nearly 8 million square feet of retail space. Buckhead currently has over 8 million square feet of office space with projections indicating 60 million square feet by 2010. Currently the fourth largest office market in Atlanta, Buckhead is expected to become one of the dominant office and retail markets by 2010 due to its prestigious housing, proximity to Downtown, Midtown and the Galleria area, transportation, and current tenant base. Buckhead already has over 1/3 of the Fortune 500 Companies.

Habersham Pointe's two, four-story buildings are constructed of steel and wood framing with a stucco exterior. The midrise buildings are serviced by four passenger elevators leading to the sprinklered corridors. The property has a good unit mix with 44 one-bedroom/one-bath "loft" units of 787 square feet, 101 one-bedroom/one-bath "flat" units with 828 square feet, and 36 two-bedroom/two-bath "flat" units with 1,150 square feet. Unit amenities include refrigerators with ice makers, continuous cleaning ovens, ranges, washer/dryer connections, dishwashers, disposals, cable TV connections, gas fireplaces, walk-in closets, and private balconies/patios. Project amenities include a European design swimming pool, a whirlpool/spa, laundry facilities, exercise room, community/meeting rooms, central trash compactor and trash chutes on every floor, underground and covered parking for 230 cars, and a card-controlled security entrance.

Total costs are \$12,000,000 or \$66,298 per unit. This unit cost is very competitive for in-fill apartment projects in Buckhead. The land cost of \$2,000,000 or \$11,050 per unit is also a comparatively low basis for a quality apartment site in Atlanta.

## **THE MARKET**

The Atlanta apartment market has experienced a sustained period of growth in the 80's, averaging over 12,000 new units annually. Average absorption from 1980 was over 11,900 units per year, indicating a 1 1/2 year supply in the seven-county metropolitan area. However, the majority of new construction from 1980 (91.1% of the total) was in suburban Atlanta, which also accounts for the highest vacancies. Buckhead and the close-in areas of Atlanta averaged only 1,000 units per year of the total 12,000 units. Consequently, the close-in Atlanta markets are tighter than the suburban markets. Population and employment trends in Atlanta are still very strong and rising, although growth has slowed considerably. The Atlanta metropolitan area population was 2.2 million at year end 1987, an increase of 3.2% over 1980.

Rental rates in the competitive properties range from \$633 to \$1,339 per unit per month or \$.87 to \$.96 per square foot. Average unit sizes in these properties range from 662 square feet to 1,447 square feet. The subject property is competitively priced at \$707 per unit per month or \$.80 per square foot, with an average unit size of 882 square feet. Final certificates of occupancy were issued in January 1989. Habersham Pointe is currently in the lease-up stage and is 47.5% occupied with average monthly rental rates of \$727 per unit or \$.82 per square foot.

## **THE JOINT VENTURE PARTNER/BORROWER/DEVELOPER**

The developer, Sanbury Corporation, a regional apartment developer in Atlanta, Georgia proposes to enter into a debt/equity joint venture with USF&G. Sanbury, formerly Sanders and Associates, incorporated in 1984 to consolidate various development-related companies under a holding company. Sanbury Corporation's stock is 53% owned by William G. Sanders, Director and Chairman of the Board, and 47% owned by Asbury D. (Major) Snow, Jr., President and Chief Executive Officer. Bill Sanders and Major Snow, whose combined net worth is approximately \$32.5 million, have compiled an impressive track record, developing over 10,000 units in 111 projects since 1972. The majority of Sanbury's projects (52%) are elderly housing projects and the remainder is evenly split between low-income family housing and conventional garden and luxury apartments. Sanbury's emphasis in the late 80's and early 90's will be on the construction of quality garden and luxury units, giving USF&G and Sanbury an excellent opportunity for repeat business throughout the southeastern United States. Sanbury is currently operating in Georgia, North and South Carolina, Tennessee, Alabama, Arkansas, Kentucky, Louisiana, and New York. Sanbury's continuing ownership and management of more than 6,000 units since 1972 demonstrates its ability to lease and manage properties and evidences their philosophy of holding properties for the long term.

## **THE RISK AND RETURN**

The proposed investment is a debt/equity joint venture representing a total commitment of \$12,000,000, a \$7,200,000 fixed-rate first mortgage and a \$4,800,000 equity joint venture. The 10-year non-amortizing, non-recourse mortgage will bear interest at the rate of 9.5% with a 5-year prepayment prohibition and a 7-year call option. Sanbury will guarantee to fund any negative cash flow for 24 months from funding. The equity joint venture will have a 9.5% compounded cumulative preferred return feature and a 13.0% yield maintenance provision.

USF&G's funding would occur on the earlier of (a) when collected gross income reaches \$95,070 per month or (b) when Sanbury issues a letter of credit for the difference between \$95,070 per month and actual collected gross income per month. Currently, the property is

Real Estate Investment Committee Members  
USF&G  
March 2, 1989  
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47.5% leased at an average monthly rental rate of \$727 per unit. Consequently, the actual gross collected income as of March 1, 1989 is \$62,522. Therefore, if USF&G were to fund today, Sanbury would issue a letter of credit for \$390,576  $((\$95,070 - 62,522) \times (12))$ . Funding however, would most likely occur within approximately 90 days. At that time, the property would be generating \$106,142 per month (\$727 average rent times 146 leased units assuming continued absorption of 20 units per month). The annual return on total capital would be 7.2%.

The estimated debt coverage ratio under the most likely case at stabilized occupancy in 1990 is 1.68. At that time, the annual return on the mortgage is 9.5%, the annual return on equity capital is 9.6%, and the annual return on total capital is also 9.6%, under the most likely scenario. The most likely scenario assumes a 20.0% vacancy in 1989 and a 7.5% vacancy throughout the holding period. Also, the most likely case assumes 5.0% annual growth, an 8.5% capitalization rate on the 11th year's net operating income and 3.0% sales expenses. The internal rate of return under the most likely case on total capital is estimated to be 12.3% (9.5% on mortgage capital and 15.5% on equity capital).

In conclusion, we feel that risks in this investment are acceptable and that the expected returns are attractive. Therefore, Potomac Realty Advisors recommends that the Real Estate Investment Committee approve the issuance of a \$7,200,000 fixed rate first mortgage and a \$4,800,000 equity joint venture under the terms and conditions outlined in Exhibit I-1.

Sincerely,

A handwritten signature in dark ink, appearing to read "Edward B. Moseley", written in a cursive style.

Edward B. Moseley  
Vice President

Exhibit I-1  
LETTER OF APPLICATION

Potomac Realty Advisors

1010 NORTH GLEBE ROAD  
SUITE 300  
ARLINGTON, VIRGINIA 22201

703-522-6200

January 30, 1989

Messrs. Gary P. Joachim and L. Barton Hickman  
1315 Peachtree Street, Suite 440  
Atlanta, Georgia 30328

Re: Habersham Pointe Apartments  
Atlanta, Georgia

Dear Gary & Bart:

Potomac Realty Advisors is prepared to recommend to its client's Investment Committee that it issue a forward commitment for a fixed rate first mortgage loan ("Loan") subject to the terms and conditions described below.

**Property:** Habersham Pointe Apartments -- An existing 181-unit luxury apartment complex in 2 buildings of three-story design, with 44 one-bedroom/one-bath "loft" units of 787 square feet, 101 one-bedroom/one-bath "flat" units of 828 square feet, and 36 two-bedroom/two-bath units of 1,150 square feet. Unit amenities will include glass enclosed woodburning fireplaces, vaulted ceilings (only in loft units), built-in dry bar, European designed kitchens with built-in wine racks, frost-free refrigerators with ice makers, dishwashers, electric ranges with continuous clean ovens, spacious walk-in closets, built-in dressing tables, marble vanities, designer wallcoverings, mini blinds, cable tv connections, washer-dryer connections, and a centralized trash compactor. Project amenities will include a spacious community/social room, a European design swimming pool, whirlpool, exercise room, laundry facilities, four Westinghouse hydraulic elevators, and underground and covered parking (230 spaces) with card-controlled access for security.

**Location:** 3655 Habersham Road, N.W. Atlanta, Georgia.

**Site:** Approximately 3.5 acres, zoned RG4 -- which has set-back and height restrictions where the property borders other multi-family sites.

**Borrower:** A to-be-formed general partnership



**Lender:** USF&G Corporation

**Loan Amount:** \$7,200,000 (See Exhibit B)

**Interest Rate:** 9.5%

**Amortization:** Not Applicable, Interest Only.

**Term:** 10 Years

**Call Option:** USF&G shall have the option to call the loan anytime after the 7th loan year. USF&G shall give Sanbury 180 days written notice of USF&G's intent to call the loan. No prepayment fee or yield maintenance fee will be charged if the call option is exercised.

**Prepayment:** No prepayment before the fifth anniversary of initial funding, and a prepayment fee in Year 6 and Year 7 of the greater of (a) 1% of the outstanding loan balance, or (b) a yield maintenance fee, calculated in accordance with the procedure described in Exhibit E which is based on the reinvestment of the loan proceeds into U.S. Treasury Notes of a like maturity. There will be no prepayment fee after the 7th loan year.

**Recourse:** Sanbury shall guarantee to fund any Negative Cash Flow for 24 months. The term "Negative Cash Flow" shall mean the sum of (a) annual interest payments at the interest rate, and (b) approved annual operating expenses in excess of Annualized Effective Gross Collected Income. Annualized Effective Gross Collected Income will be calculated in conformity with Exhibit C to this letter. Otherwise, the Loan will be non-recourse to Sanbury and its partners.

**Commitment Fee:** \$240,000; \$120,000 paid in cash which is earned upon acceptance of the Commitment and \$120,000 in an unconditional, irrevocable Letter of Credit which will be refunded to Sanbury at closing.

**Funding:** \$7,200,000 to occur within 90 days of receipt of final certificate of occupancy provided, however, that Sanbury shall have furnished to USF&G, leases from tenants in occupancy and paying rent, which leases reflect in the aggregate a monthly rental of not less than \$95,070. In the alternative, if all other conditions of closing are satisfied and if at least 91 units of apartments have executed leases with tenants in occupancy and paying rent, funding will occur when Sanbury has furnished USF&G with an irrevocable Letter of Credit in an amount equal to twelve times the difference between \$95,070 and

the previous month's rental as evidenced by executed leases from tenants in occupancy and paying rent. The Letter of Credit will be reduced on a quarterly basis pro-rata to the total of executed leases by tenants in occupancy and paying rent during the last month of each quarter and will be released in total when the month's rental as described above reaches \$95,070. Sanbury shall have six (6) months following USF&G's debt/equity contribution to achieve the monthly rental of \$95,070.

**Additional Loan Provisions:**

The following loan provisions will be included in USF&G's loan documents, however, USF&G will waive these provisions for the Loan if Sanbury has already complied with them under the Partnership Agreement.

**A. Leases:**

USF&G shall have the right to review and approve the standard lease form and all leases for the Property which differ from the standard lease form.

**B. Secondary Financing:**

Secondary financing is not permitted.

**C. Budget Approval:**

During the term of the Loan, Sanbury shall submit to USF&G annual operating and capital budgets for the Property for USF&G's review and approval.

**D. Right of First Offer:**

If Sanbury intends to sell or transfer the Property, it shall first offer the Property to USF&G under the terms and conditions for which Sanbury is willing to sell the Property. Such offer shall provide for payment in full in cash at closing only in United States dollars. USF&G shall have the option to purchase the Property from Sanbury under such terms and conditions by giving Sanbury notice of USF&G's election within thirty (30) business days after receipt of Sanbury's offer. If USF&G does not elect to purchase the Property within the 30 business day period, then Sanbury may sell the Property to a third party. Sanbury shall not, however, sell the Property at a lower price or on terms materially more favorable than those offered to USF&G without first providing USF&G the opportunity to purchase the Property at such lower price or more favorable terms. USF&G shall have the option to purchase the Property at such lower price or more favorable terms by giving Sanbury notice of such election within five (5) business days following receipt of Sanbury's offer of such

lower price or more favorable terms. USF&G shall be deemed to have elected not to exercise such option to purchase at such lower price or more favorable terms if USF&G fails to respond within the 5-business day period. If USF&G elects not to purchase the Property, then Sanbury shall have the right to accept the offer of such third party and sell or transfer the Property in accordance with such offer.

**E. Callable On  
Sale:**

If the Property is sold or substantial partnership interests owned by either of the partners are sold, the Loan shall be callable and payable along with any applicable prepayment fees or yield maintenance fees.

**F. Accountant:**

The Partnership will engage an accounting firm satisfactory to USF&G who shall perform an annual audit of the Partnership.

**Contingencies:**

The Commitment shall include the following contingencies:

**A. Economic Due  
Diligence:**

The Commitment will be contingent upon Potomac Realty Advisors being satisfied with the results of its economic due diligence.

**B. Engineering:**

Sanbury will engage an engineer approved by USF&G to perform an inspection of the mechanical, electrical and structural components of the Property. USF&G reserves the right to review and approve the scope and substance of the inspection. USF&G must be satisfied with the results of the inspection. All costs associated with the engineering review will be paid by Sanbury.

**C. Environmental:**

USF&G shall have received a Phase I environmental study of the Property by Sailors Engineering (together with a letter from Sailors stating that there have been no material changes since Sailors' original Phase I study) which demonstrates to USF&G's reasonable satisfaction that there are no environmental hazards or hazardous or toxic materials existing upon or affecting the Property. The analysis will involve a physical inspection of the Property and a historic review of the previous uses of the land. Soil borings will be provided to USF&G. All costs associated with the environmental study will be paid by Sanbury.

**D. Equity Joint  
Venture**

The commitment is contingent upon the Sanbury Corporation's acceptance of USF&G's Partnership Agreement and other documents relating to the equity joint venture portion of this transaction, the terms of which are outlined in Exhibit A.

**E. Committee  
Approval:**

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

**F. Management:**

Sanbury affiliates shall be the property manager and shall be entitled to earn current market management fees.

**G. Market Value  
Appraisal:**

USF&G will receive and approve of a market value appraisal of the Property from an MAI-designated appraiser approved by USF&G stating that the market value of the Property assuming stabilized occupancy is at least \$13,300,000. The cost of the appraisal will be paid by Sanbury.

**H. 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 Sanbury.

**I. Pre-Leasing:**

As a condition of funding, 70% of all units must have signed leases with tenants in occupancy and paying rent. Alternatively, Sanbury may provide a Letter of Credit in a form acceptable to USF&G in the amount and manner described in the funding section of this letter.

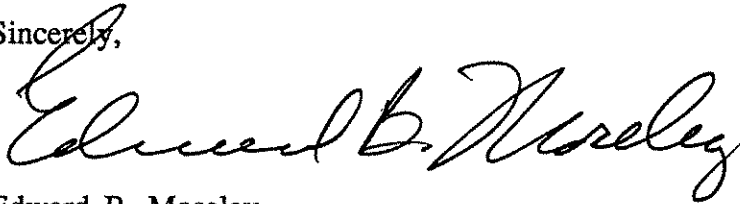
**J. Closing Costs:**

All costs associated with the closing of the Loan, including USF&G's reasonable Attorney's fees, will be paid by Sanbury.

Messrs. Gary P. Joachim and L. Barton Hickman  
January 30, 1989  
Page 6

If the terms outlined in this letter are acceptable, please sign below and return this letter by February 6, 1989. USF&G acknowledges receipt of the \$50,000 application fee. The application fee will be returned to Sanbury (less reasonable and documented out-of-pocket expenses incurred to date by USF&G and/or Potomac Realty Advisors) if USF&G does not issue a commitment according to the terms outlined in this letter. The application fee will be earned by USF&G upon issuance of a commitment according to the terms outlined in this letter and the \$120,000 cash commitment fee to be paid by Sanbury will be reduced by \$50,000.

Sincerely,

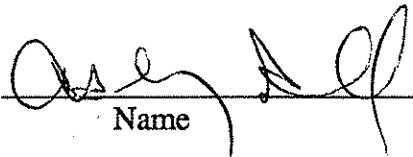


Edward B. Moseley  
Vice President

Accepted:

SANBURY CORPORATION

By:

  
Name

1/31/89  
Date

President  
Title

## **Exhibit A**

### **Habersham Pointe Apartments Atlanta, Georgia**

This Exhibit summarizes the terms on which Potomac Realty Advisors is prepared to recommend to its client's Investment Committee that it enter into a general partnership (the "Partnership") with the Sanbury Corporation ("Sanbury") which shall own and operate the Habersham Pointe Apartments (the "Property"), subject to the terms and conditions described in this Exhibit.

**Property:** Habersham Pointe Apartments

**Location:** 3655 Habersham Road, N.W. Atlanta, Georgia.

**Real Property:**

- \* Land Area: 3.5 Acres, zoned RG4 -- which has set-back and height restrictions where the property borders other multi-family sites.
- \* Building Description: 181-Unit luxury apartment complex in 2 buildings.

**Personal Property:** All personal property owned by the Partnership and used in connection with the Property.

**Fixed Rate Debt (USF&G):**

- \* Mortgagor -- A to-be-formed general partnership
- \* Mortgagee -- USF&G Corporation
- \* Term -- 10 years
- \* Prepayment Prohibition -- through year 5
- \* Loan Amount -- \$7,200,000
- \* Interest Rate -- 9.5%, interest only
- \* Annual Payment -- \$684,000

**Parties:** Sanbury and USF&G.

**Basic Responsibilities:**

**USF&G**

(1) Provide equity capital up to \$4,800,000.

**Sanbury**

(1) Responsibilities prior to formation of the Partnership:

- (a) Prepare and submit to USF&G an operational plan acceptable to USF&G for the management and leasing of the Property. The plan shall include an operational and capital budget for 1989 and 1990.
  - (b) Coordinate with USF&G regarding the formation of the new Partnership, and otherwise generally be responsible for organizing the Partnership.
  - (c) Satisfy the requirements and contingencies of the Permanent Loan.
- (2) Responsibilities after formation of the Partnership:
- (a) Property Management -- Sanbury Corporation shall serve as the Property Manager and shall receive a market rate management fee.
  - (b) Sanbury shall provide to USF&G monthly operating and leasing reports.
  - (c) Sanbury shall contribute 100% of all cash flow deficits and capital shortfalls from operations until the second anniversary of initial funding.

**USF&G's Initial Capital Contribution:**

1. Concurrently with the formation of the Partnership and closing of the Loan (the "Closing"), USF&G shall contribute the lesser of (a) 40% of actual development costs, or (b) \$4,800,000. Sanbury shall issue a Letter of Credit in the amount of \$250,000 in a form acceptable to USF&G. The \$250,000 Letter of Credit shall constitute an Incentive Development Fee. The Letter of Credit will be held by USF&G until the earlier of (a) 90% of all rental units have signed leases with renters in occupancy and paying rent, or (b) 24 months from the date of USF&G's Initial Capital Contribution. If 90% economic occupancy is not achieved within 24 months from the date of USF&G's Initial Capital Contribution, USF&G shall have the authority to cash the \$250,000 Letter of Credit and the proceeds will be used to reduce USF&G's Equity Commitment by \$250,000. The lesser of (a) 40% of actual development costs, or (b) \$4,800,000 shall be defined as USF&G's "Initial Capital Contribution".

**Subsequent Contributions:**

**USF&G**

Following the second anniversary of initial funding, USF&G shall contribute "Subsequent Capital Contributions" equal to its Percentage Interest times all cash flow deficits and capital shortfalls from operations (or a percentage which corresponds to its percentage interest in the Partnership if its interest in the Partnership has been increased or decreased pursuant to the dilution provisions contained herein).

**Sanbury**

Following the second anniversary of initial funding, Sanbury shall contribute "Subsequent Capital Contributions" equal to its Percentage Interest times all cash flow deficits and capital shortfalls from operations (or a percentage which corresponds to its percentage interest in the Partnership if its interest in the Partnership has been increased or decreased pursuant to the dilution provisions contained herein).

**Closing:**

The parties intend that the execution of the Partnership Agreement and USF&G's entry into the Partnership shall occur simultaneously, and such events shall not occur before the Property reaches 70% occupancy.

**Percentage  
Interest in the  
Partnership:**

**Percentage Interest:**

**USF&G:** 50%

**Sanbury:** 50%

**Distribution of  
Cash Flow:**

Distribution of cash flow shall be made at least quarterly and shall be in the following order of priority:

**USF&G**

**First Priority --** Payment of a 9.5% cumulative preferred return on its Initial Capital Contribution;



**Second Priority** -- Pro rata with Sanbury's **Second Priority**, payment of a 9.5% cumulative preferred return on its "Subsequent Capital Contributions", if any;

**Third Priority** -- USF&G's Percentage Interest times the remaining cash flow after payment of **First** and **Second Priority** cash flow distributions.

**Sanbury**

**Second Priority** -- Pro rata with USF&G's **Second Priority**, payment of a 9.5% cumulative preferred return on its "Subsequent Capital Contributions", if any;

**Third Priority** -- Sanbury's Percentage Interest times the remaining cash flow after payment of USF&G's **First Priority** capital distribution and both partners' **Second Priority** cash flow distributions.

All unpaid cumulative preferred returns will be compounded annually at the rate of 9.5%.

**Distribution  
of Capital  
Proceeds:**

Distribution of capital proceeds shall be in the following order of priority:

**USF&G**

**First Priority** -- Payment of any earned but unpaid cumulative preferred return on its Initial Capital Contribution;

**Second Priority** -- Payment of its Initial Capital Contribution;

**Third Priority** -- Pro rata with Sanbury's **Third Priority**, payment of any earned but unpaid cumulative preferred return on its "Subsequent Capital Contributions," if any;

**Fourth Priority** -- Pro rata with Sanbury's **Fourth Priority**, payment of its "Subsequent Capital Contributions," if any;

**Fifth Priority** -- Any remaining distributions of capital proceeds shall be paid to USF&G until such time as USF&G's overall annual yield (IRR) on its Initial Capital Contribution is equal to 13.0%. Exhibit D shows the mathematical calculation of this amount.

**Sixth Priority** -- USF&G's Percentage Interest times any remaining cash after payment of **First, Second, Third, Fourth and Fifth Priority** capital distributions.

**Sanbury**

**Third Priority** -- Pro rata with USF&G's **Third Priority**, payment of any earned but unpaid cumulative preferred return on its "Subsequent Capital Contributions," if any;

**Fourth Priority** -- Pro rata with USF&G's **Fourth Priority**, payment of its "Subsequent Capital Contributions," if any;

**Sixth Priority** -- Sanbury's Percentage Interest times any remaining cash after payment of USF&G's **First, Second and Fifth Priority** capital distributions and both partners', **Third and Fourth Priority** capital distributions.

**Required  
Partnership  
Provisions:**

The following are provisions that shall be incorporated into the Partnership Agreement.

**A. Dilution of  
Ownership:**

If either USF&G or Sanbury fails to make any required contribution, then (i) the Partnership, upon consent of all partners, may borrow such amount, or (ii) the contributing party may make the required contribution on behalf of the noncontributing party and the dilution formula outlined below shall apply.

**B. Dilution  
Formula:**

For every \$1,000 (or increment thereof) of required but unfunded contribution, the noncontributing partner's percentage interest in the Partnership shall be reduced by one-fourth percentage point (.25%) and the contributing partner's percentage interest shall increase correspondingly.

**C. Partnership  
Term and Sale  
of Partnership**

**Interests:** The term of the Partnership is 50 years. Either party may implement a mutually agreed upon buy/sell provision for Partnership interests. However, USF&G must approve the transfer or sale of any partnership interests.

**D. Leases:** USF&G shall have the right to review and approve the standard lease form and all leases for the Property which differ from the standard lease form.

**E. Secondary  
Financing:** Secondary financing is not permitted.

**F. Budget  
Approval:** USF&G shall have the right to review and approve all operating and capital budgets for the Property.

**G. Right of  
First Offer:** If the Partnership desires to sell the Property, USF&G shall have the Right of First Offer to purchase the Property.

**H. Accountant:** The Partnership will engage an accounting firm satisfactory to USF&G who shall perform an annual audit of the Partnership.

**I. 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.

**Contingencies:** The following are conditions precedent to USF&G's obligation to enter into the Partnership:

**A. Economic  
Due**

**Diligence:** The Commitment to enter into the Partnership Agreement will be contingent upon Potomac Realty Advisors being satisfied with the results of its economic due diligence.

- B. Engineering:** Sanbury will engage an engineer approved by USF&G to perform an inspection of the mechanical, electrical and structural components of the Property. USF&G reserves the right to review and approve the scope and substance of the inspection. USF&G must be satisfied with the results of the inspection. All costs associated with the engineering review will be paid by Sanbury.
- C. Environmental:** USF&G shall have received a Phase I environmental study of the Property by Sailors Engineering (together with a letter from Sailors stating that there have been no material changes since Sailors' original Phase I study) which demonstrates to USF&G's reasonable satisfaction that there are no environmental hazards or hazardous or toxic materials existing upon or affecting the Property. The analysis will involve a physical inspection of the Property and a historic review of the previous uses of the land. Soil borings will be provided to USF&G. All costs associated with the environmental study will be paid by Sanbury.
- D. Loan:** USF&G's commitment to enter into a partnership shall be contingent upon Sanbury's acceptance of USF&G's commitment to make the Loan.
- E. Committee Approval:** This Exhibit must be approved by USF&G's Investment Committee.
- F. Management:** Sanbury affiliates shall be the property manager and shall be entitled to earn current market management fees.
- G. Market Value Appraisal:** USF&G will receive and approve of a market value appraisal of the Property from an MAI-designated appraiser approved by USF&G stating that the market value of the Property assuming stabilized occupancy is at least \$13,300,000. The cost of the appraisal will be paid by Sanbury.
- H. 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 Sanbury.
- I. Pre-Leasing:** As a condition of funding, 70% of all units must have signed leases with tenants in occupancy and paying rent. Alternatively, Sanbury may provide a Letter of Credit in a form acceptable to USF&G in the amount and manner described in the funding section of the recommendation letter.

**J. Closing  
Costs:**

All costs associated with the closing on the Property, including USF&G's reasonable Attorney's fees, will be paid by Sanbury.

**Exhibit B**

**SOURCES AND USES OF FUNDS**

	<u>Total Cost</u>	<u>Cost Per Unit</u>	<u>Cost PSF</u>
<b>Sources of Funds:</b>			
First Mortgage (USF&G)	\$ 7,200,000	\$39,779	\$45.10
Equity Capital (USF&G)	<u>4,800,000</u>	<u>26,519</u>	<u>30.06</u>
<b>Total Sources of Funds</b>	<b>\$12,000,000</b>	<b>\$66,298</b>	<b>\$75.16</b>
<b>Uses of Funds:</b>			
Land	\$ 2,000,000	\$11,050	\$12.52
Architect & Engineering	242,000	1,337	1.51
Legal	77,000	425	.48
Taxes	35,000	193	.22
Title & Recording	9,800	54	.06
Appraisal	4,500	25	.03
Marketing	150,000	829	.94
Interest Reserve	1,055,000	5,829	6.61
Developer's Overhead	155,700	860	.98
Developer's Fee	523,000	2,890	3.28
Construction	6,800,000	37,569	42.59
Loan Fees	648,000	3,580	4.06
Contingency	<u>300,000</u>	<u>1,657</u>	<u>1.88</u>
<b>Total Uses of Funds</b>	<b>\$12,000,000</b>	<b>\$66,298</b>	<b>\$75.16</b>

## Exhibit C

### CALCULATION OF EFFECTIVE GROSS COLLECTED INCOME

When calculating effective gross collected income, the income will be based on effective rents (net of all concessions, gifts, etc.) and non-refundable fee income will be pro-rated over the term of the lease.

#### Individual Lease Calculation

<u>Line</u>	<u>Line</u>	<u>Example</u>
1	Contract Rent for Lease Period (\$500 X 6 Mos.)	\$3,000
2	Plus: Non-refundable Fees or Deposits	+ 75
3	Less: Free Rent or Other concessions from Contract Rent (2 weeks @ \$500/month)	- 250
4	Less: Actual Cost of Gifts, Premiums or Services	- 75
5	Less: Cash Bonuses	- 50
6	Equals: Actual Rent for Lease Term	\$2,700
7	Divided By: Lease Term in Months	6
8	Equals: Effective Monthly Rent	\$ 450

#### Project Income Calculation

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

**Exhibit D**  
**FIFTH PRIORITY**  
**DISTRIBUTION OF CAPITAL PROCEEDS CALCULATION**

The amount of the fifth priority in the distribution of capital proceeds to USF&G, to the extent funds are available at a specific time ("n" years) is calculated in the following manner:

\$4,800,000

less: Present Value of Incentive Development Fee Letter of Credit @ 13.0% (if cashed)

less: Present Value of Cash Flow Priority 1 @ 13.0%

less: Present Value of Cash Flow Priority 3 @ 13.0%

less: Present Value of Capital Proceeds Priority 1 @ 13.0%

less: Present Value of Capital Proceeds Priority 2 @ 13.0%

equals: Present Value of Capital Proceeds Priority 5 @ 13.0%

times: Compound Amount of \$1, 13.0%, n years

equals: Amount of Capital Proceeds Priority 5 Due



## Exhibit E

### MORTGAGE YIELD MAINTENANCE FEE CALCULATION

The Mortgage Yield Maintenance Fee at a specific time ("n" years) will be calculated as follows using a Treasury Note Rate which will be the yield on U.S. Treasury Notes that mature when the mortgage would have matured, i.e. Notes that mature in 10-n years:

times:  $\frac{\text{Mortgage Balance in year } n}{\text{Compound Amount of \$1, 9.5\%, 10-n years}}$

(A) Compound Amount at Interest Rate

times:  $\frac{\text{Mortgage Balance in year } n}{\text{Compound Amount of the Treasury Note Rate, 10-n years}}$

(B) Compound Amount at Treasury Note Rate

less: (A) Compound Amount at Interest Rate  
(B) Compound Amount at Treasury Note Rate

times: (C) Lost Interest from year n to year 10  
Present Value of \\$1, Treasury Note Rate, 10-n year

(D) Yield Maintenance Fee Due at year n

## **II. THE PROPERTY**

## **II. THE PROPERTY**

### **A. INTRODUCTION**

Habersham Pointe Apartments is an existing 181-unit midrise luxury apartment complex in Fulton County, Atlanta, Georgia. The Sanbury Corporation, a regional apartment developer headquartered in Atlanta, developed the apartment community on a 3.5 acre site in the Buckhead area of Atlanta. Sanbury purchased the site in 1987 for \$2,000,000 or \$11,050 per unit, a very competitive price for an "in-fill" apartment site.

Habersham Pointe consists of two, four-story apartment buildings with underground and covered parking for 230 cars. Construction is steel and wood frame with a stucco exterior finish. The property offers three attractive floor plans consisting of 44 one-bedroom/one-bath "loft" units containing 787 square feet, 101 one-bedroom/one-bath "flat" units containing 828 square feet, and 36 two-bedroom/two-bath "flat" units containing 1,150 square feet. Building A has 21 loft units, 52 one-bedroom flat units and 18 two-bedroom units, and Building B contains 90 units consisting of 23 loft units, 49 one-bedroom flat units, and 18 two-bedroom units.

Construction of the property began in late 1987, and final certificates of occupancy were issued in January of this year. The property is currently 52% (94 units) leased and approximately 44% occupied. Lease-up to 95% occupancy is expected to occur within the next six months, which assumes an absorption schedule of 13 units per month. USF&G's debt/equity funding will occur when the property generates \$95,070 in collected gross income per month (approximately 74% economic occupancy), however, funding may occur earlier if Sanbury issues a letter of credit for the difference between (a) \$95,070 per month and (b) actual collected gross income. For example, if actual collected gross income is \$500,000 (on an annualized basis), Sanbury would issue a letter of credit in the amount of \$640,840 ( $\$95,070 \times 12 = \$1,140,840$ ), ( $\$1,140,840 - 500,000 = \$640,840$ ).

### **B. LOCATION**

Habersham Pointe is on a 3.5-acre tract of land at the intersection of Habersham Road and Old Ivy Road in Buckhead, Atlanta, Georgia. Habersham Pointe's strategic location in Buckhead places it within ten minutes of over 36 million square feet of office space and over 8 million square feet of retail space. Buckhead alone currently contains over 8 million square feet of office space and nearly 4 million square feet of retail space. Buckhead is also well known for its world class hotels, fine restaurants, recreational facilities, transportation facilities, and some of the most exclusive single family housing in the Atlanta metropolitan area. Also, every major Atlanta bank is represented in the Buckhead area.

The subject property is easily accessible from practically anywhere in Atlanta. It lies in the middle of four of Atlanta's major thoroughfares servicing the Metropolitan area: Interstates 285, 85, 75 and Georgia Highway 400. The four major thoroughfares servicing the Buckhead area inside Interstate 285 are Roswell Road, Powers Ferry Road, Piedmont Road and Peachtree Street, all of which intersect in Buckhead, less than one mile from the subject Habersham Pointe is approximately 100 yards from the intersection of Piedmont Road, Roswell Road, and Powers Ferry Road (see Exhibit II-1). Roswell Road (U.S. Highway 19) is a major four-lane arterial servicing Atlanta and its northern suburbs. Roswell is predominantly a retail and single family corridor with the exception of its southern most end where it becomes Peachtree Street. Piedmont Road is also a major four-lane artery servicing Atlanta, and it is also predominantly a retail corridor with the exception of its northern most end where it services nearly 3 million square feet of office space. Roswell Road and Piedmont Road run parallel to each other, intersecting only once, approximately 100 yards west of the subject property (see Exhibit II-2). This intersection

has a traffic count of over 50,000 cars per day.

Habersham Pointe has excellent access and visibility from the fully signalized intersection of Piedmont Road and Habersham Road (see Exhibit II-3).

### C. ADJACENT LAND USES

Exhibits II-4A and II-4C are aerial photographs of the subject property and the surrounding area, and Exhibit II-4B is a key to Exhibit II-4A. Habersham Pointe's proximity to employment centers, retail facilities, and the high-end single family neighborhoods is very apparent in the aerial photographs of Buckhead.

Exhibit II-5 presents the adjacent land uses and a land use key of the surrounding properties. Immediately north of the subject are condominiums and single family developments. The Piedmont Office Center is east of the subject, containing 2 million square feet in 14 buildings. A highrise elderly housing project is south of the subject as well as Piedmont Road. Habersham Road borders the property to the west, and commercial, restaurant, and service facilities are across Habersham Road to the west. There are numerous for-sale condominium projects in the immediate area in addition to some of the most exclusive housing in Atlanta, ranging from \$180,000 to \$3.7 million.

There is a 1-1/2 acre site bordering the property to the northeast which may be a future Phase II for Habersham Pointe, as Sanbury Corporation is currently negotiating to acquire the site. Also for sale diagonally across the street from the subject is a .4 acre site zoned O-1 (Office Use). This site is being offered for sale at \$500,000 which equates to \$1,250,000 per acre or \$28.00 per square foot.

### D. THE SITE

The rectangular shaped site is situated among a large office park, a 196-unit high-rise elderly housing project and two neighborhood roads: Habersham Road and Old Ivy Road with frontage along each road. The security controlled entrance to the site is on Habersham Road. The entrance is the highest point of the property and it slopes down to the east, affording a good view of the property. The RG-4 zoning does not restrict the density of the development but it does restrict height where the property borders other residential communities. Consequently, the Sanbury Corporation determined the site was best suited for a midrise development rather than a highrise development and therefore limited the development to 181 units (approximately 54 units per acre). Parking is accessed in two areas: under building A to the left, and around and behind building B (see Site Plan - Exhibit II-6).

### E. THE IMPROVEMENTS

Habersham Pointe consists of 181 units, two four-story apartment buildings containing 159,656 square feet. The property offers two one-bedroom/one-bath floor plans of 787 square feet and 828 square feet and one two-bedroom/two-bath floor plan of 1,150 square feet (see Exhibits II-7A, II-7B, and II-7C). Exhibits II-8A and II-8B are renderings and elevations of the subject property, respectively.

The buildings are steel and wood frame construction with a stucco exterior finish. The roof is a fiberglass shingle on 1/2" exterior grade plywood. The midrise buildings are serviced by four Westinghouse elevators with a 100 FPM capacity going up and a 150 FPM going down. The buildings are fully sprinklered with remote annunciators, alarm stations, therm detectors and smoke detectors. All units have individual heating and air conditioning units.

Unit amenities include fireplaces, dishwashers, disposals, refrigerators with ice makers, continuous cleaning ovens, ranges, washer/dryer connections, cable TV connections, walk-in closets, and balconies. Project amenities include a European design swimming pool, whirlpool/spa, laundry facilities, exercise room, community/meeting rooms, central trash compactor, trash chutes, underground and covered parking, and card-controlled access.

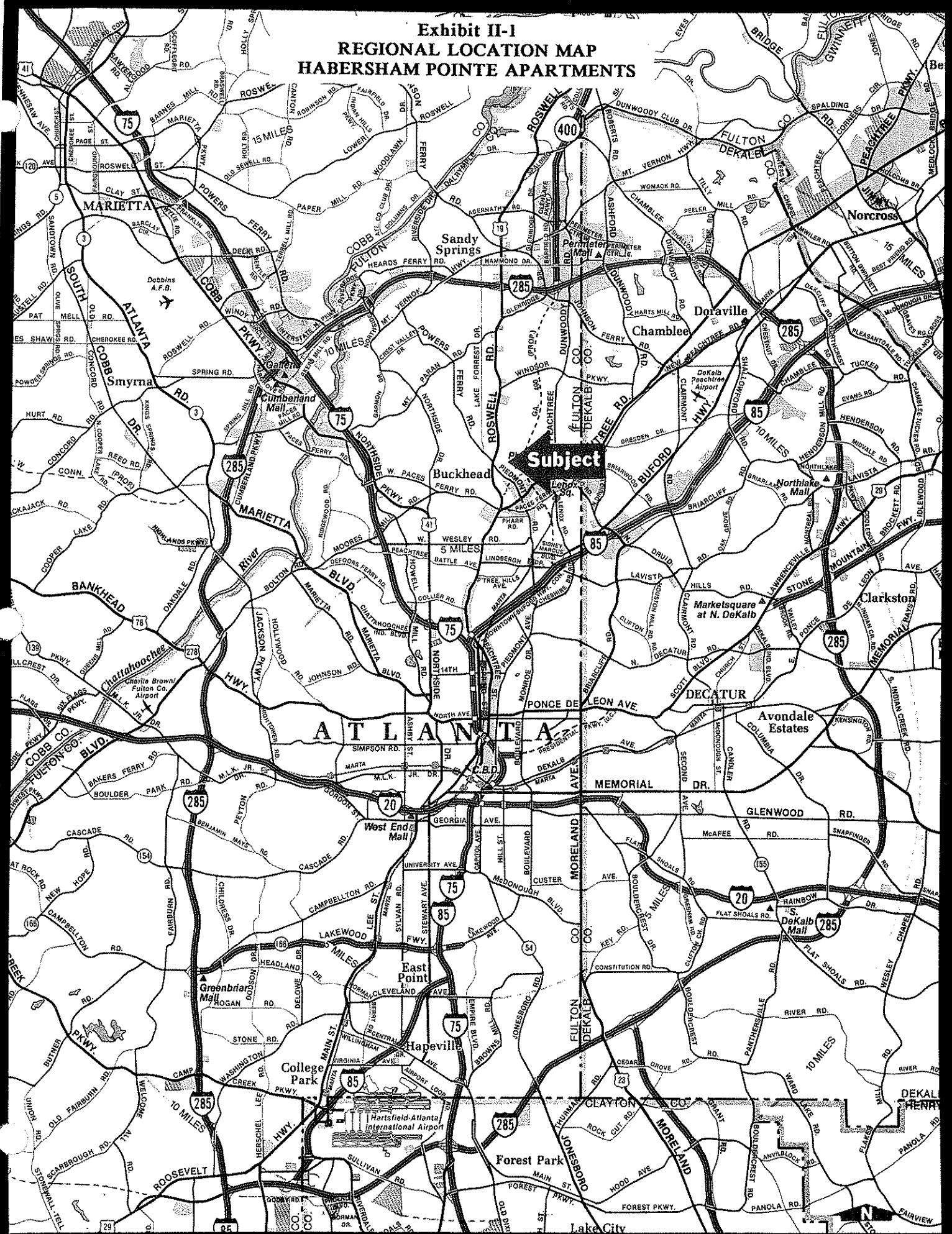
#### **F. SOURCES AND USES OF FUNDS**

The sources and uses of funds statement is presented in Exhibit II-9. USF&G would invest total capital of \$12,000,000 in the form of a \$7,200,000 fixed rate, non-amortizing first mortgage with a ten-year term, and an equity joint venture for \$4,800,000 with a compounding cumulative preferred return feature. The total cost of \$12,000,000 represents a unit cost of \$66,298 or \$75.16 per square foot. The land cost is \$2,000,000, representing \$11,050 per unit or \$12.53 per buildable square foot. Direct construction costs for Habersham Pointe are \$6,800,000 (\$37,569 per unit or \$42.59 per square foot), and soft costs (total costs less hard costs) are \$3,200,000 (\$17,680 per unit or \$20.04 per square foot.)

#### **G. CONCLUSION**

Habersham Pointe represents an excellent investment opportunity in an "in-fill" apartment project due to its superior location, accessibility, and visibility as well as its proximity to millions of square feet of office and retail facilities. Renters at Habersham Pointe will enjoy the convenience of in-town apartment living while having a safe, quiet neighborhood setting in the most prestigious area of Atlanta, Buckhead.

Exhibit II-1  
REGIONAL LOCATION MAP  
HABERSHAM POINTE APARTMENTS



**Exhibit II-2  
SITE VICINITY MAP  
HABERSHAM POINTE APARTMENTS**

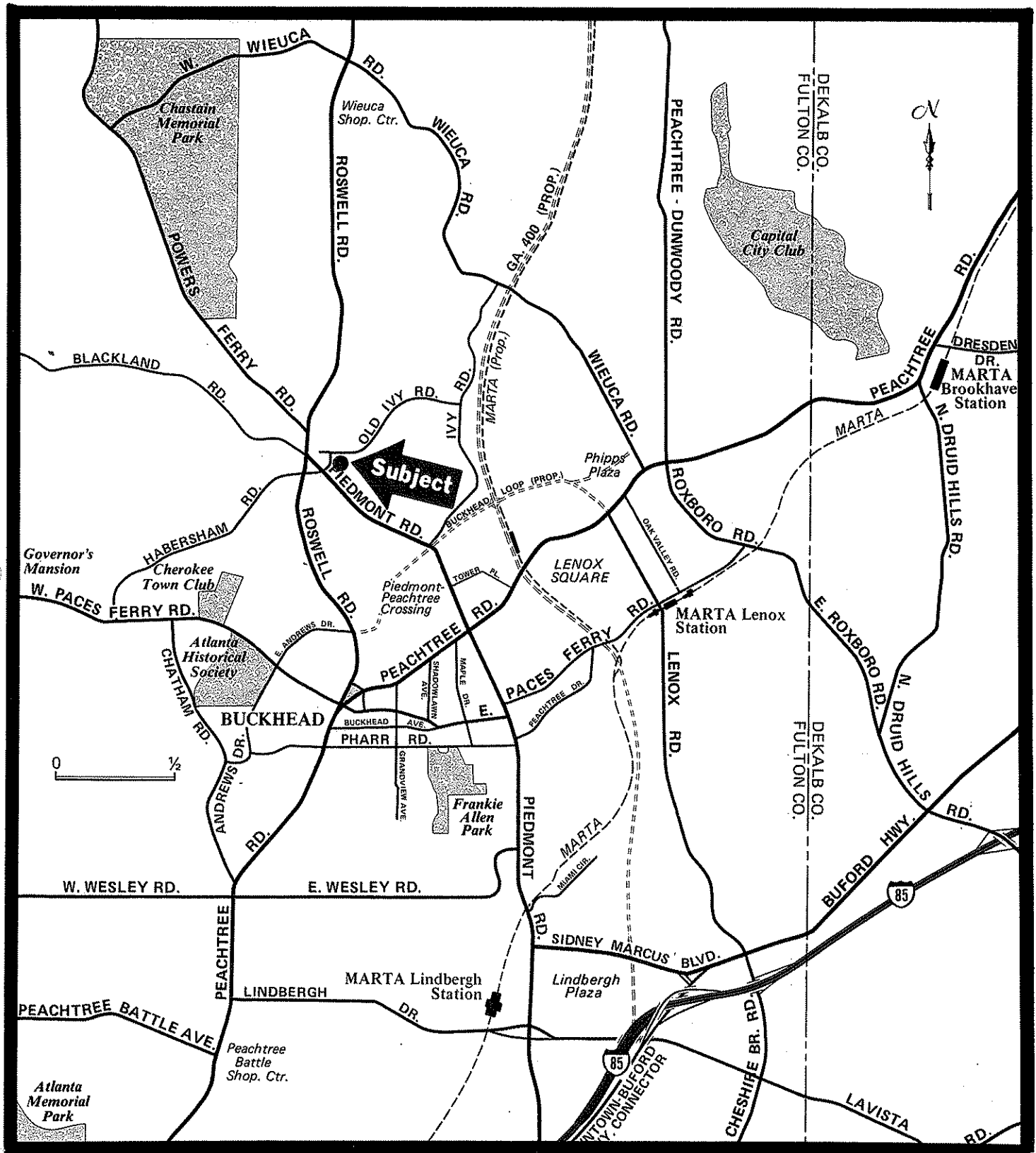


Exhibit II-3  
SITE ACCESS MAP  
HABERSHAM POINTE APARTMENTS

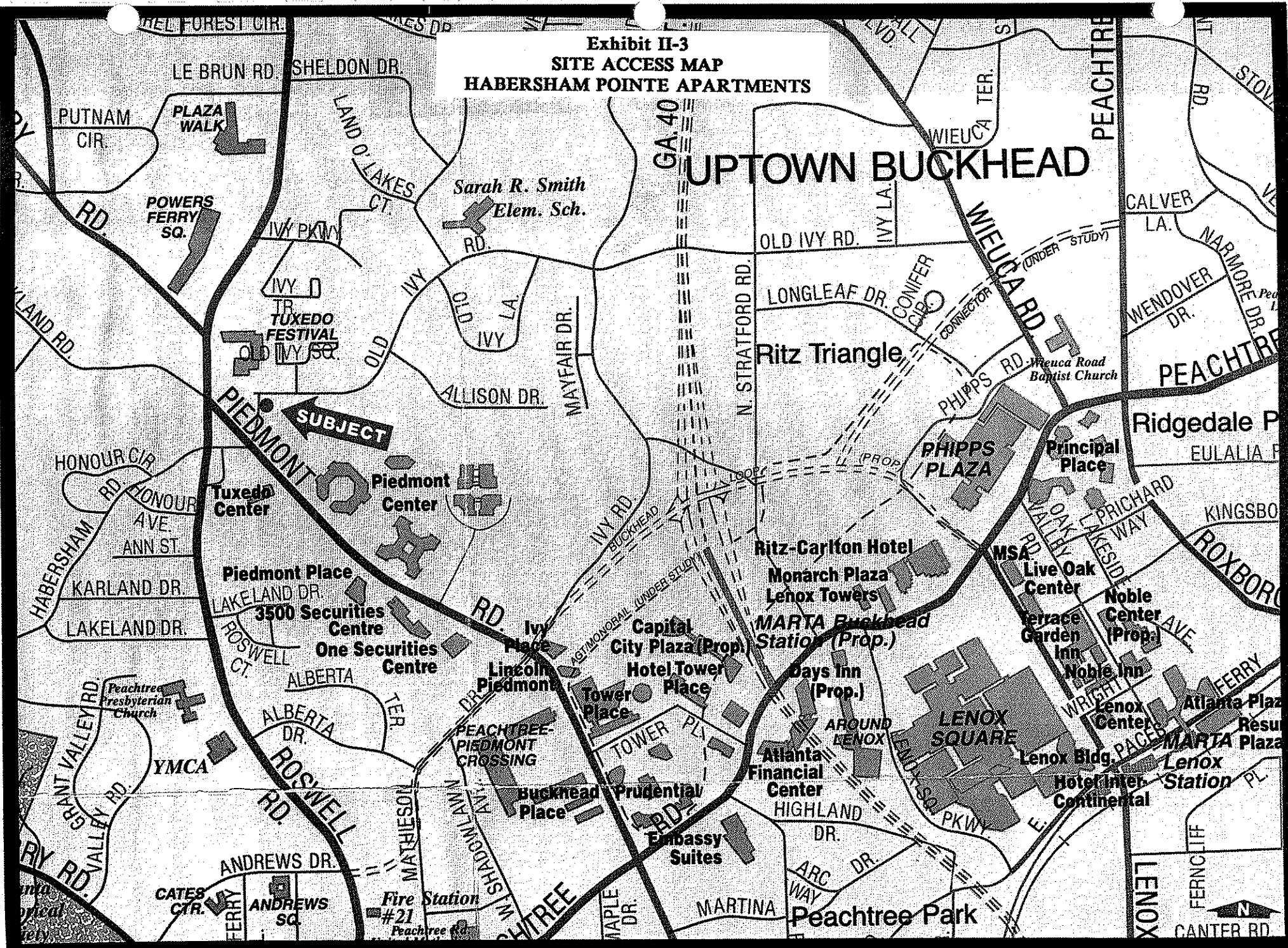




Exhibit II-4A  
AERIAL PHOTOGRAPH  
HABERSHAM POINTE APARTMENTS

Subject

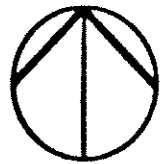


**Exhibit II-4B**  
**KEY TO EXHIBIT II-4A (AERIAL PHOTOGRAPH)**  
**HABERSHAM POINTE**

- 1) Piedmont Office Center - 2 million square feet in 14 buildings
- 2) Multi-tenant office space
- 3) Security Center (Homart) - 550,000 square feet office
- 4) Tower Place - 600,000 square feet office, plus hotel & retail
- 5) Retail space
- 6) Lenox Square Mall
- 7) Phipps Plaza Mall
- 8) Condominiums
- 9) Ivy Chase Apartment Complex - 216 unit garden apartment complex under construction
- 10) The Concorde - 275 unit, 31-story high rise apartment complex
- 11) Habersham Road
- 12) Piedmont Road
- 13) Roswell Road
- 14) Old Ivy Road
- 15) Peachtree Street
- 16) West Paces Ferry Road
- 17) East Paces Ferry Road
- 18) Wesley Road
- 19) Marta tracks
- 20) Marta Station - Lenox Square
- 21) Single family residential



Exhibit II-5  
ADJACENT LAND USES  
HABERSHAM POINTE APARTMENTS



NORTH

R-G3

R-3

C-1

R-G3

R-3

C-1

R-G3

R-3

C-1

O-1

Old Ivy Road

Subject

**ZONING PLAN**

1" = 200'

Neighborhood Map Key

1. Shopping Centers
2. Condominiums
3. Office
4. Commercial/Restaurant/Services
5. Hi-Rise for Elderly (Adjacent to Subject)
6. Single Family Residential
7. Tuxedo Center Medical Office
8. Garden Apartments
9. Habersham Road
10. Piedmont Office Center (2,000,000 S.F., 14 Buildings)
11. Ivy Chase Apartments

Roswell Road

Piedmont Road

# Exhibit II-6 SITE PLAN HABERSHAM POINTE APARTMENTS

OLD IVY ROAD

HABERSHAM ROAD

SERVICE/EXIT DRIVE

ENTRANCE DRIVE

BUILDING A

VISITOR PARKING

POOL HOUSE

SPA

POOL

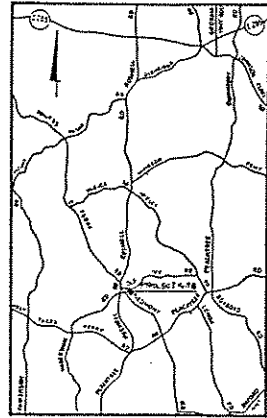
RESIDENT PARKING BELOW

BUILDING B

plan PROJECT SITE

## GENERAL NOTES:

1. CIVIL & LANDSCAPE DESIGN IS PROVIDED THROUGH A SEPARATE AGREEMENT BETWEEN EBERLY & ASSOCIATES & THE SANBURY CORPORATION & IS NOT PART OF THE ARCHITECT PREPARED WORK. CIVIL & LANDSCAPE DRAWINGS & SPECIFICATIONS ARE ISSUED BY EBERLY & ASSOCIATES.
2. SEE CIVIL DRAWINGS FOR GRADINGS, STAKING, UTILITY & LANDSCAPE PLANS.
3. SEE ELECTRICAL DRAWINGS FOR SITE LIGHTING.



LOCATION MAP

## UNIT MIX

FLOOR	UNIT	1 BR LOFT		1 BR FLAT			2 BR FLAT		TOTALS
		A1A	A1B	A2A	A2B	A2C	B1A	B1B	
BUILDING A	FIRST	0	0	11	4	6	4	2	27
	SECOND	0	0	11	4	6	4	2	27
	THIRD	11	11	0	4	6	4	2	38
	SUB-TOTAL	11	11	22	12	18	12	6	92
BUILDING B	FIRST	0	0	11	2	7	5	1	26
	SECOND	0	0	11	2	7	5	1	26
	THIRD	11	11	0	2	7	5	1	37
	SUB-TOTAL	11	11	22	6	21	15	3	69
TOTALS		22	22	44	18	39	27	9	161

JOHN NUMBER: 86101.0

DRAWN BY:

CHECKED BY:

NILES  
BOLTON  
ASSOCIATES

NILES BOLTON ASSOCIATES, INC.  
ONE MAINTENANCE DRIVE, N.E.  
ATLANTA, GA. 30316

REV. NO.  
DATE

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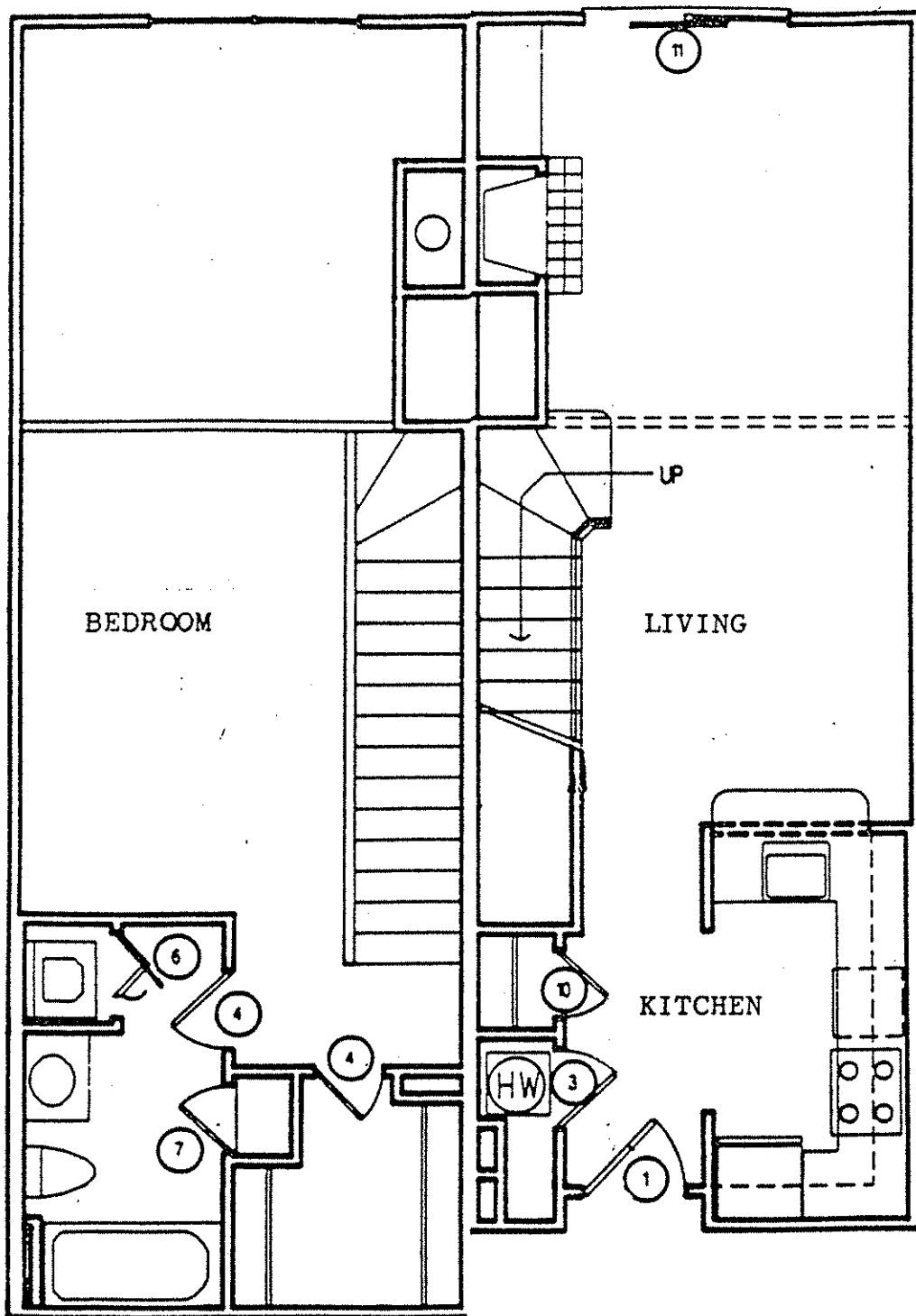
HABERSHAM POINTE  
APARTMENTS  
ATLANTA, GA.  
AN APARTMENT COMMUNITY  
DEVELOPED BY  
THE SANBURY CORPORATION

SITE PLAN &  
PROJECT DATA

A-1.1

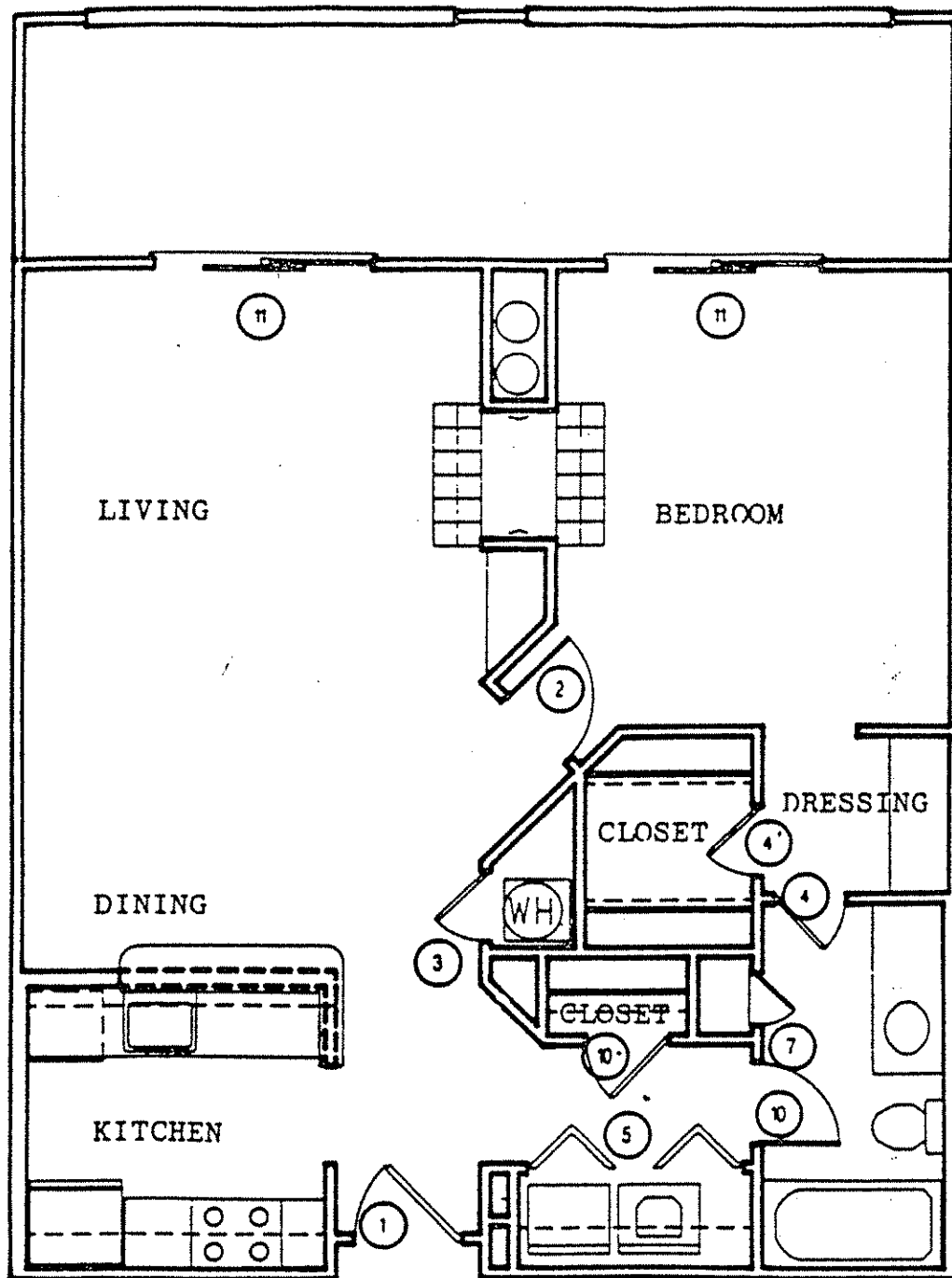
DATE: JUNE 18, 1987

Exhibit II-7A  
UNIT FLOOR PLAN  
HABERSHAM POINTE APARTMENTS



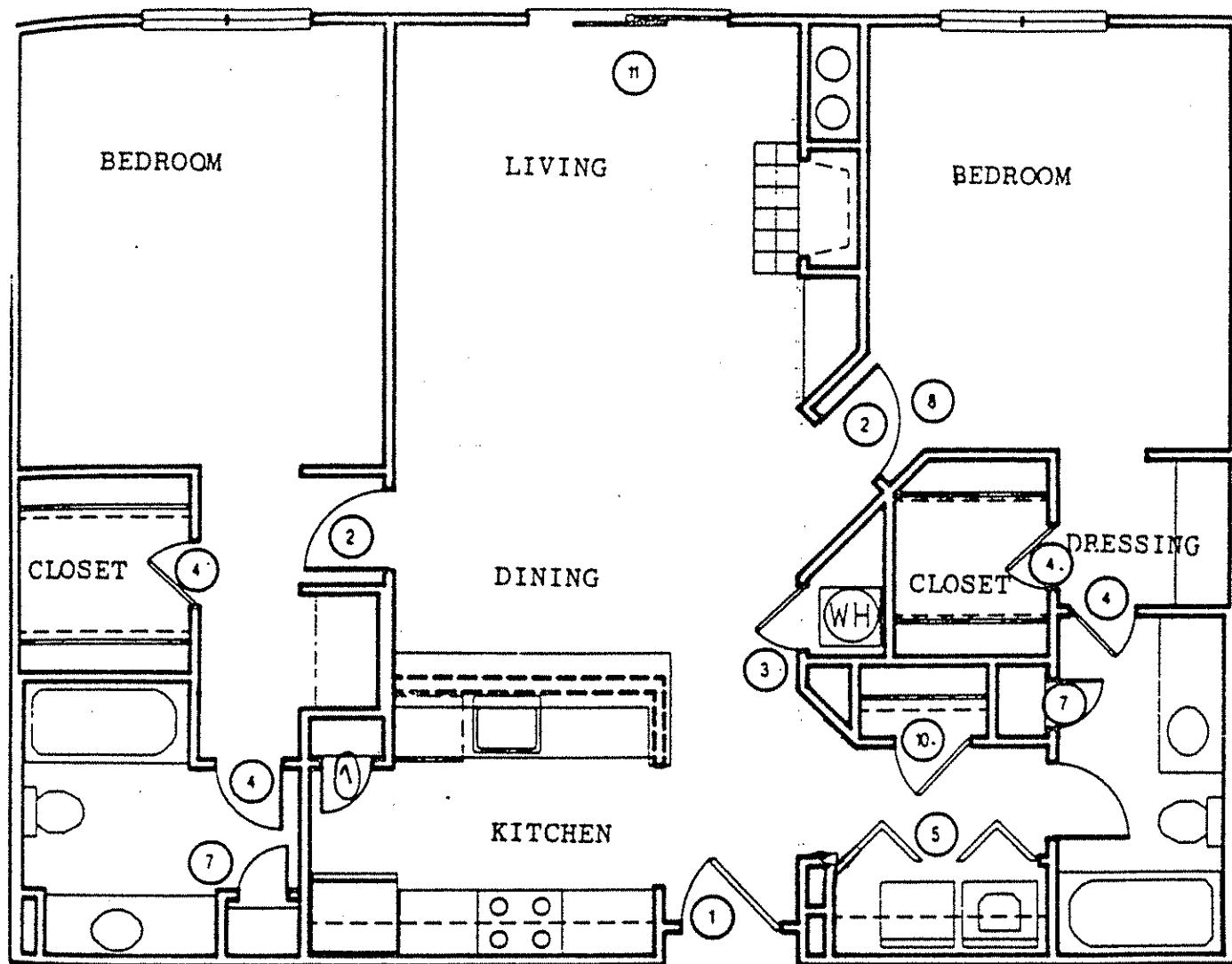
ONE BEDROOM/ONE BATH LOFT    787 Square Feet

Exhibit II-7B  
UNIT FLOOR PLAN  
HABERSHAM POINTE APARTMENTS



ONE BEDROOM/ONE BATH    828 Square Feet

Exhibit II-7C  
UNIT FLOOR PLAN  
HABERSHAM POINTE APARTMENTS



TWO BEDROOM/TWO BATH 1150 Square feet

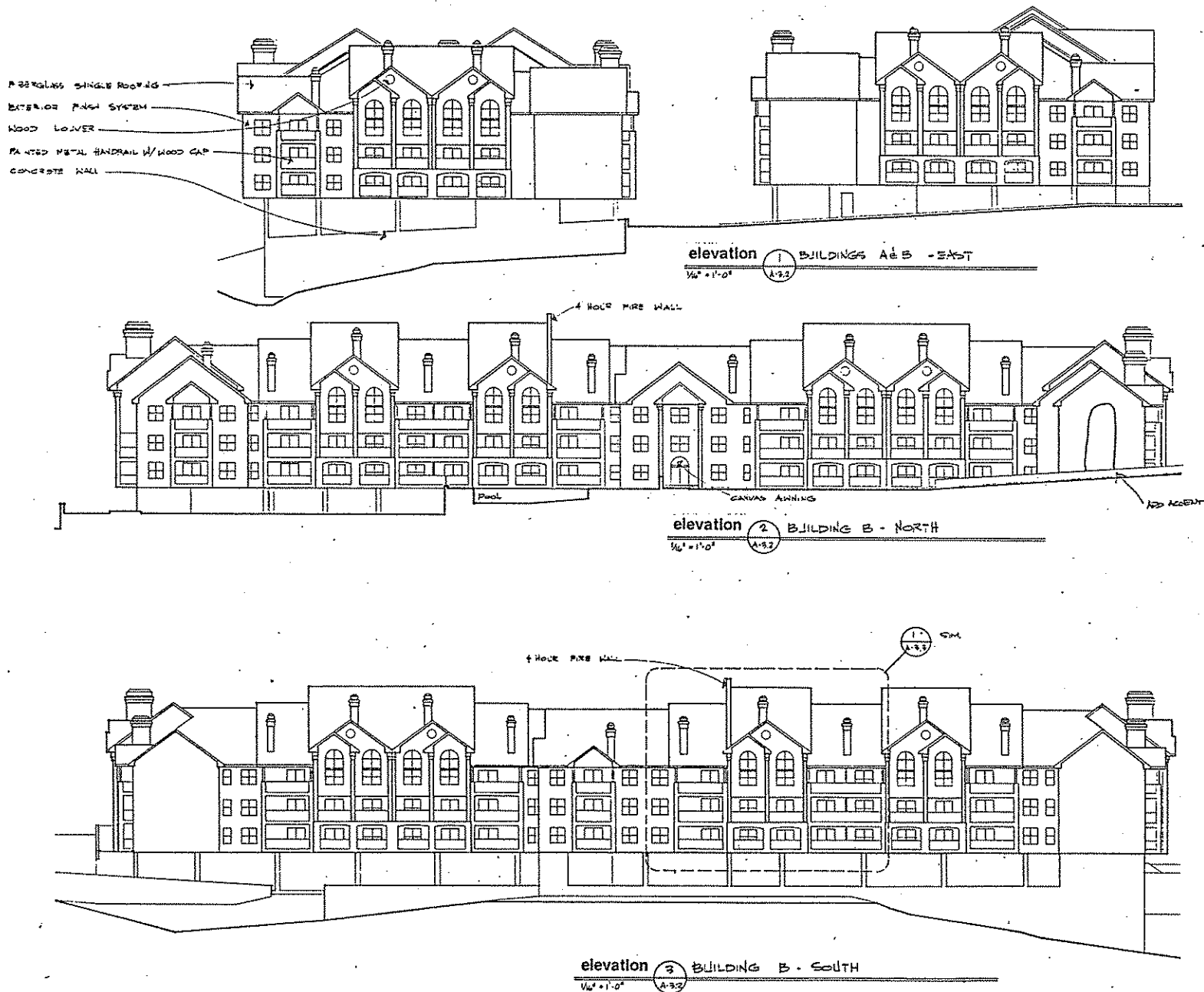


Exhibit II-8A  
RENDERING  
HABERSHAM POINTE APARTMENTS



HABERSHAM POINTE APARTMENTS  
ATLANTA, GEORGIA

Exhibit II-8B  
ELEVATIONS  
HABERSHAM POINTE APARTMENTS



PROJECT NO. 86101.0  
DRAWN BY:  
CHECKED BY:

NILES  
BOLTON  
ASSOCIATES

NILES BOLTON ASSOCIATES, INC.  
100 NATHANSON DRIVE  
ATLANTA, GEORGIA 30308

REVISION:  
NO. DATE:

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HABERSHAM POINTE  
APARTMENTS  
ATLANTA, GA.  
AN APARTMENT COMMUNITY  
DEVELOPED BY  
THE SANBURY CORPORATION

BUILDING ELEVATION

A-3.2

10/10/87 JUNE 16, 1987

Exhibit II-9  
**SOURCES AND USES OF FUNDS**  
**HABERSHAM POINTE APARTMENTS**

	<u>Total Cost</u>	<u>Cost Per Unit</u>	<u>Cost PSF</u>
<b>Sources of Funds:</b>			
First Mortgage (USF&G)	\$ 7,200,000	\$39,779	\$45.10
Equity Capital (USF&G)	<u>4,800,000</u>	<u>26,519</u>	<u>30.06</u>
<b>Total Sources of Funds</b>	<b>\$12,000,000</b>	<b>\$66,298</b>	<b>\$75.16</b>
<b>Uses of Funds:</b>			
Land	\$ 2,000,000	\$11,050	\$12.52
Architect & Engineering	242,000	1,337	1.51
Legal	77,000	425	.48
Taxes	35,000	193	.22
Title & Recording	9,800	54	.06
Appraisal	4,500	25	.03
Marketing	150,000	829	.94
Interest Reserve	1,055,000	5,829	6.61
Developer's Overhead	155,700	860	.98
Developer's Fee	523,000	2,890	3.28
Construction	6,800,000	37,569	42.59
Loan Fees	648,000	3,580	4.06
Contingency	<u>300,000</u>	<u>1,657</u>	<u>1.88</u>
<b>Total Uses of Funds</b>	<b>\$12,000,000</b>	<b>\$66,298</b>	<b>\$75.16</b>

### **III. THE MARKET OVERVIEW**

### **III. THE MARKET OVERVIEW**

#### **A. INTRODUCTION**

As the nation's fifth largest and fourth fastest growing city, Atlanta has a diverse and vibrant economy. Atlanta's trade and service sectors represent 51% of the total employment base, and the manufacturing and government sectors represent 28% of the total (see Exhibit III-1). The Atlanta metropolitan area population at year end 1987 was 2.2 million or .9% of the total U.S. population (see Exhibit III-2).

#### **B. THE ATLANTA METROPOLITAN AREA APARTMENT MARKET**

The Atlanta apartment market has experienced tremendous growth in the 1980's, averaging over 12,000 new units per year since 1980 (see Exhibit III-3). Atlanta's apartment growth has been focused primarily in the suburbs, due in part to the availability of affordable land and zoning. New apartment construction reached an all-time high in 1984 adding over 18,000 units. One-third of this development was in Gwinnett County. Absorption has continued to keep pace with new construction from 1980 to present, and vacancy rates reflect this trend. In 1980 the overall vacancy rate was 10.0%, declining approximately 1.0% per year until 1985 when new construction and vacancy rates started to rise once again. Average annual absorption between 1980 and 1986 was nearly 12,000 units for the Atlanta metropolitan area. As of the third quarter 1988, the overall vacancy rate in Atlanta was 11.0%. This high vacancy rate is a direct result of the tremendous growth in suburban Atlanta, which accounted for 91.1% of the total new construction from 1980 to 1986. Conversely, the city of Atlanta (including Buckhead) represented only 8.9% of the total growth with a total vacancy of 8.0% (see Exhibit III-4).

#### **C. THE FULTON COUNTY (ATLANTA) APARTMENT MARKET**

The Fulton County apartment market is broken down into two separate sections, Fulton County and Atlanta, since Atlanta is in Fulton County. The suburban Fulton County market characteristics are similar in size and vacancy rates to the other Atlanta suburban markets. Fulton County (excluding Atlanta proper) added a total of 13,875 new apartment units from 1980 to 1986, averaging nearly 2,000 units per year. The 1988 year end vacancy rates for Fulton County were 11.0%, equal to the overall Atlanta average.

The city of Atlanta added only 7,510 new units from 1980 to 1986, averaging just over 1,000 units per year, and had a 1988 year end vacancy rate of 8.0%, the best overall vacancy rate in the metropolitan area. The overall vacancy rate for the Buckhead area at the year end was 6.0%.

Average rental rates are broken down into four major categories: (1) low density garden apartments, (2) high density garden apartments, (3) midrise apartments, and (4) highrise apartments. Low density garden apartments averaging 750 square feet are leasing at an average monthly rental rate of \$600 or \$.80 per square foot. High density garden apartments are leasing at an average of \$608 per unit or \$.88 per square foot for 689 square feet. Midrise apartments (the subject properties category) are leasing at an average monthly rental rate of \$715 or \$.86 per square foot for 823 square feet, and highrise monthly rental rates are averaging \$806 or \$.95 per square foot for 848 square feet.

#### **D. COMPETITIVE PROPERTY SURVEY**

Exhibits III-5A and III-5B present the competitive property survey and the corresponding map. Potomac has identified 11 properties as being both comparable and competitive to the subject property. Habersham Pointe is currently 47.5% leased and is in its first several months of lease-up. Certificates of occupancy for the property were issued in January 1989.

Habersham Pointe's average unit size is 882 square feet, and the average effective monthly rental rate \$727 or \$.82 per square foot which includes a one-month concession on a 12-month lease.

Rental rates in competitive properties range from \$633 to \$1,339 per unit per month or \$.87 to \$.96 square foot, and average units sizes range from 662 square feet to 1,447 square feet. While there is no one superior location in Buckhead because everything is in close proximity, there are certain locational, site and amenity advantages. All of the competitive properties are in close proximity to employment centers and retail facilities. However, one property, Brookwood Valley, has a superior location to the subject. Brookwood Valley is situated just off the heavily travelled Peachtree Street near Collier Road in Buckhead. While this property has an amenity package comparable to the subject, the units are significantly smaller. Consequently, the average rental rate per square foot (\$.94) is significantly greater than Habersham Pointe (\$.82).

All of the competitive properties which are not in lease-up have occupancy rates in excess of 94%. Therefore, the most competitive properties will be those which are currently in lease-up. The four properties in lease-up (excluding the subject) are Caliber at Lenox, Ivy Chase, Defoors Crossing, and Briarhill. Calibre at Lenox and Briarhill have better visibility than the subject from Interstate 85, but both have inferior access. Calibre at Lenox is currently 70% leased at an average monthly rent of \$845 or \$.89 per square foot with an average unit size of 948 square feet. Briarhill is 95% occupied with an average monthly rent of \$662 or \$.94 per square foot with an average unit size of 707 square feet. Ivy Chase and Defoors Crossing are inferior to the subject both in terms of visibility and accessibility. Final certificates of occupancy have not yet been issued to Ivy Chase which is reflected in its current occupancy of 10%. Average monthly rental rates at Ivy Chase are quoted at \$637 or \$.72 per square foot, and average unit sizes are 690 square feet. Ivy Chase has just recently been offered for sale by Property Company of America for \$15,200,000 which equals \$102.00 per square foot or \$70,370 per unit. The subject property's total cost of \$12,000,000 represents \$75.16 per square foot or \$66,298 per unit. Defoors Crossing is currently 88% leased at an average monthly rent of \$493 or \$.87 per square foot.

Post Chastain is currently under construction off Roswell Road, approximately two miles from the subject, however, final certificates of occupancy are not expected until mid 1990. Post Chastain will offer 558 one and two-bedroom units with an average unit size of 863 square feet. While the subject property should be leased-up before Post's units are available, this high end development will be competitive with the subject. Quoted rental rates average \$815 per month or \$.94 per square foot.

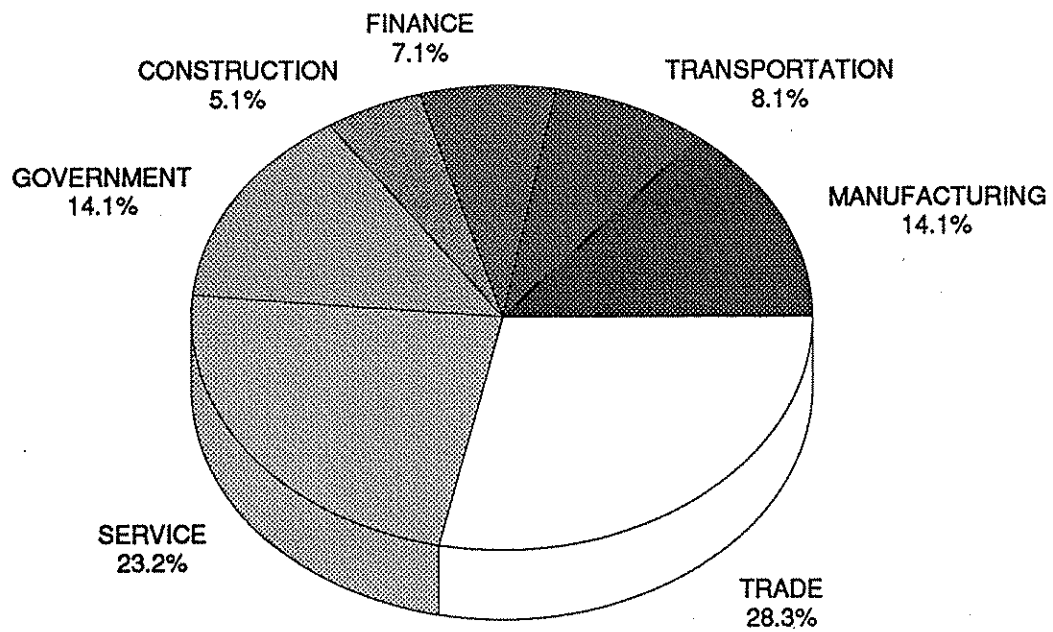
Habersham Pointe is conservatively underwritten with average rental rates of \$707 or \$.80 per square foot with average unit sizes of 882 square feet. Actual rental rates during lease-up are averaging \$727 per unit or \$.82 per square foot. The rental rates at Habersham Pointe represent the lowest rates in the market for comparable properties. The amenities at Habersham Pointe are very comparable to the amenity packages at many of the comparable properties while the access and visibility of the subject are superior to many.

#### **E. CONCLUSION**

The Atlanta apartment market has experienced tremendous growth in the past seven years, averaging over 12,000 new apartment units annually. However, the majority of this growth has occurred in suburban Atlanta which accounts for the relatively high vacancy rates in the suburbs. In-town housing is becoming more and more desirable in Atlanta due to proximity to the employment centers, recreational and shopping facilities, and the convenience and security offered by many in-town developments. Occupancy and absorption rates continue to remain the strongest for in-town projects while rental rates are still affordable, and in fact, are not much higher than suburban (near the perimeter) rental

rates. Habersham Pointe's competitive advantages are its superior accessibility, visibility, unique loft units, average unit size, and current rental rates.

EXHIBIT III-1  
EMPLOYMENT BY INDUSTRY  
ATLANTA METROPOLITAN AREA





**Exhibit III-2**  
**POPULATION BY COUNTY - ATLANTA METROPOLITAN AREA**

**Total Population by County**

County	1970	1980	AVERAGE ANNUAL	1987	Average Annual	1990
			PERCENTAGE CHANGE		Percentage Change	
			1970-1980		1980-1987	
Clayton	98,126	150,357	5.3%	170,900	2.0%	182,000
Cobb	196,793	297,718	5.15	413,600	5.6%	476,000
DeKalb	415,387	483,024	1.6%	530,300	1.4%	550,000
Douglas	28,659	54,573	9.0%	69,900	4.0%	79,300
Fulton	605,210	589,904	(0.3%)	650,500	1.5%	683,000
Gwinnett	72,349	166,808	13.1%	298,200	11.3%	346,000
Rockdale	18,152	36,747	10.2%	49,600	5.0%	56,100
Total	1,434,676	1,779,131	2.4%	2,183,000	3.2%	2,372,400

**Office Based Population by County**

County	1970	1980	AVERAGE ANNUAL	1987	AVERAGE ANNUAL	1990
			PERCENTAGE CHANGE		PERCENTAGE CHANGE	
			1970-1980		1980-1987	
Clayton	14,882	28,219	8.7%	53,344	12.7%	62,300
Cobb	20,921	43,657	10.9%	78,826	11.5%	108,000
DeKalb	54,188	115,155	11.3%	163,467	6.0%	200,000
Douglas	1,568	4,539	18.9%	7,063	7.9%	8,800
Fulton	205,371	265,109	2.9%	316,543	2.8%	354,000
Gwinnett	4,166	16,822	30.4%	34,607	15.1%	46,800
Rockdale	1,542	3,402	12.1%	5,533	8.9%	7,300
Total	302,638	476,903	5.8%	659,383	5.5%	787,200

Source: Atlanta Regional Commission  
Potomac Realty Advisors

**Exhibit III-3**  
**ATLANTA METROPOLITAN AREA APARTMENT CONSTRUCTION**  
**1980-1986**

County	1980	1981	1982	1983	1984	1985	1986	Total
Fulton (Atlanta)	1,089	618	1,532	817	873	601	1,980	7,510
Fulton	390	1,484	1,069	2,504	2,520	3,541	2,367	13,875
Dekalb	1,100	622	1,107	4,371	3,951	4,302	3,647	19,100
Cobb	1,005	1,156	824	4,243	3,912	3,003	3,922	18,065
Gwinnett	1,167	1,434	1,523	3,226	6,401	4,112	4,070	21,933
Clayton	N/A	N/A	28	6	631	1,424	1,832	3,921
Totals	4,751	5,314	6,083	15,167	18,288	16,983	17,818	84,404

**HISTORIC ABSORPTION**

Year	New Construction (Units)	Total Inventory	Total Occupied	Total Vacant	Percent Vacant	Annual Absorption
1979	N/A	179,997	N/A	N/A	N/A	N/A
1980	4,751	184,748	166,273	18,475	10.0%	4,389
1981	5,314	190,062	172,956	17,106	9.0%	4,974
1982	6,083	196,145	180,183	15,962	8.0%	5,496
1983	15,167	211,312	196,520	14,792	7.0%	15,196
1984	18,288	229,600	215,824	13,776	6.0%	18,678
1985	16,983	246,583	231,295	15,228	6.2%	17,109
1986	17,818	264,401	243,249	21,152	8.0%	17,577
Total:	84,404					83,419
± 7 Years						± 7 Years
Avg./Yr.	12,058					11,917

AOMA stopped calculating absorption figures in 1986.

Sources: Apartment Owners & Managers Association (AOMA)  
Homebuilders Association of Metro. Atlanta  
Landauer & Associates, Inc.  
Potomac Realty Advisors

**Exhibit III-4A**  
**ATLANTA METROPOLITAN AREA APARTMENT OCCUPANCY REPORT**  
**THIRD QUARTER 1988**

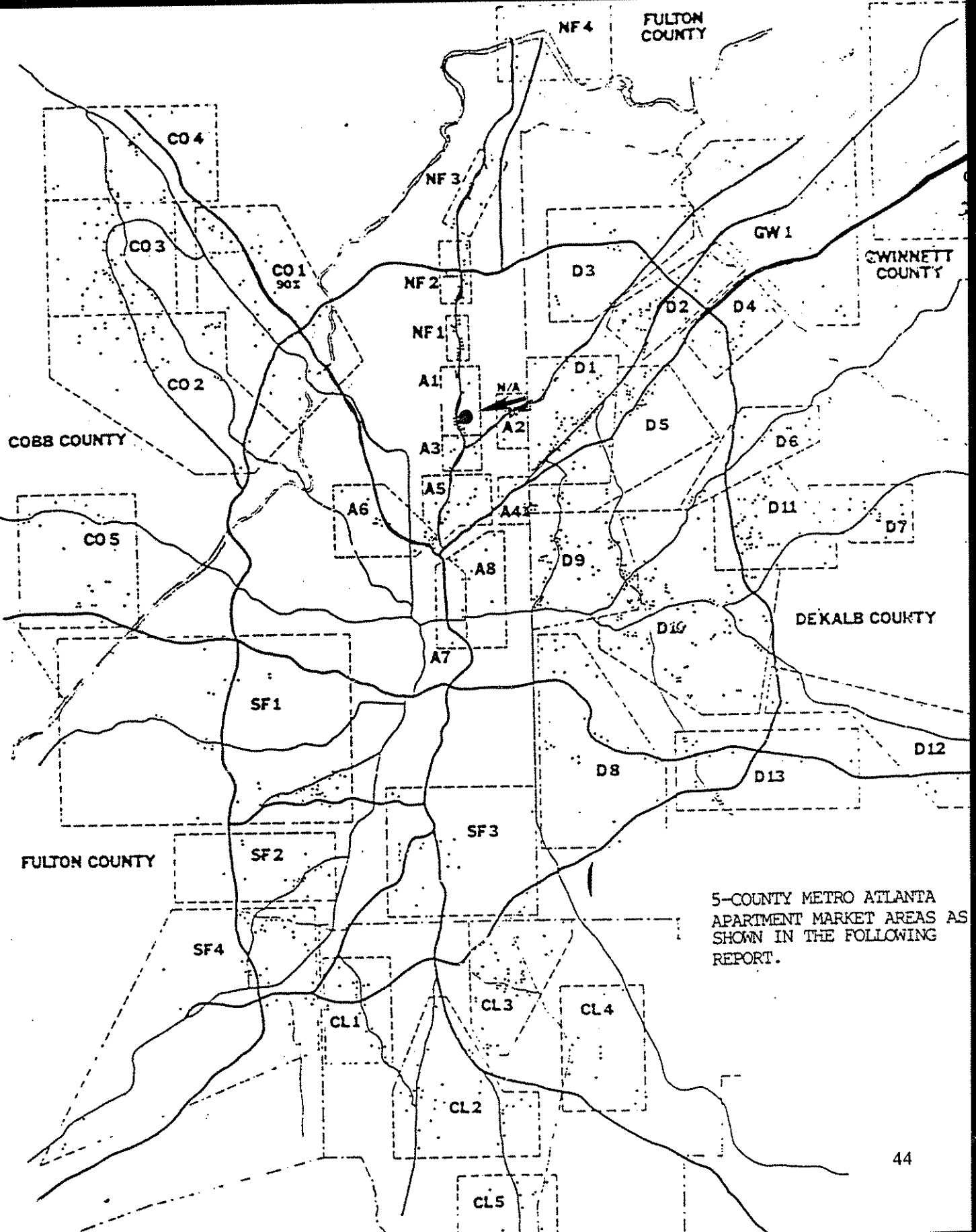
Area	Percent Occupied	Area	Percent Occupied
-----	-----	-----	-----
Atlanta Area 1	94.0%	North Fulton Area 1	92.5%
Atlanta Area 2	94.0%	North Fulton Area 2	87.0%
Atlanta Area 3	92.8%	North Fulton Area 3	91.5%
Atlanta Area 4	93.4%	North Fulton Area 4	88.0%
Atlanta Area 5	94.0%		
Atlanta Area 6	9.5%	NORTH FULTON OVERALL:	89.0%
Atlanta Area 7	87.0%		
Atlanta Area 8	85.0%	South Fulton Area 1	90.0%
		South Fulton Area 2	N/A
ATLANTA OVERALL:	92.0%	South Fulton Area 3	95.0%
		South Fulton Area 4	86.0%
Cobb Area 1	90.0%		
Cobb Area 2	89.5%	SOUTH FULTON OVERALL:	89.5%
Cobb Area 3	90.0%		
Cobb Area 4	93.0%	Dekalb Area 1	91.0%
Cobb Area 5	87.0%	Dekalb Area 2	86.0%
		Dekalb Area 3	91.0%
COBB OVERALL:	89.5%	Dekalb Area 4	82.0%
		Dekalb Area 5	89.0%
Clayton Area 1	90.0%	Dekalb Area 6	91.5%
Clayton Area 2	82.0%	Dekalb Area 7	90.5%
Clayton Area 3	85.0%	Dekalb Area 8	87.0%
Clayton Area 4	90.0%	Dekalb Area 9	96.0%
Clayton Area 5	82.0%	Dekalb Area 10	87.0%
		Dekalb Area 11	90.0%
CLAYTON OVERALL:	87.5%	Dekalb Area 12	N/A
		Dekalb Area 13	89.0%
Douglas Area 1	88.0%		
		DEKALB OVERALL:	88.5%
DOUGLAS OVERALL:	88.0%		
		Rockdale Area 1	89.5%
Gwinnett Area 1	88.5%		
Gwinnett Area 2	90.1%	ROCKDALE OVERALL:	89.5%
GWINNETT OVERALL:	89.0%		

Overall Metro Atlanta Occupancy Percentage: 89%

\* Note: The overall occupancy percentage is not an average of the averages shown above. It basically is the average when Databank added all complexes' total number of units and divided that total into the total number occupied (done to determine market areas first, then counties, then metro total(s)).

Sources: Landauer & Associates  
Spain & Associates

Exhibit III-4B  
MAP  
ATLANTA METROPOLITAN AREA APARTMENT OCCUPANCY REPORT  
THIRD QUARTER 1988



5-COUNTY METRO ATLANTA  
APARTMENT MARKET AREAS AS  
SHOWN IN THE FOLLOWING  
REPORT.

**Exhibit III-5A  
COMPETITIVE PROPERTY SURVEY  
HABERSHAM POINTE APARTMENTS**

Map No.	Project Name and Location	Unit Type	Unit Mix	Rental Area S.F.	Total S.F.	Monthly Rental	Monthly Rental/S.F.	Occupancy	Age	Comments
1.	Calibre at Lenox Atlanta, Georgia	1BR/1BA	85	800	68,000	\$755	\$0.94	70%	Lease-Up	Amenities: Cable TV, pool, exercise room, gas fireplaces, covered parking, security access.
		1BR/1BA	4	900	3,600	\$813	\$0.90			
		1BR/1BA	4	1000	4,000	\$782	\$0.78			
		2BR/2BA	83	1100	91,300	\$950	\$0.86			
Total Units/Avg. Rent Per S.F.			176	948	166,900	\$845	\$0.90			
2.	Post Chastain Roswell Road Atlanta, Georgia	1BR/1BA	48	487	23,376	\$580	\$1.19	N/A	Under Construction	Amenities: Cable TV, Clubhouse, 2 pools, security access, tennis courts, covered parking, fireplaces.
		1BR/1BA	102	637	64,974	\$660	\$1.04			
		1BR/1BA	114	746	85,044	\$745	\$1.00			
		1BR/1BA	40	815	32,600	\$745	\$0.91			
		1BR/1BA	72	965	69,480	\$850	\$0.88			
		2BR/2BA	70	1109	77,630	\$942	\$0.85			
		2BR/2BA	88	1,117	98,296	\$1,044	\$0.93			
		2BR/2BA	24	1,262	30,288	\$1,082	\$0.86			
Total Units/Avg. Rent Per S.F.			558	863	481,688	\$815	\$0.94			
3.	Brixworth 1900 N. Druid Hills Road Atlanta, Georgia	1BR/1BA	10	505	5,050	\$580	\$1.15	99%	1-1/4 Yrs.	Amenities: Cable TV, Jacuzzi Clubhouse, Pool, exercise room, W/D connections, balcony/patio, fireplaces.
		1BR/1BA	82	700	57,400	\$620	\$0.89			
		2BR/2BA	28	900	25,200	\$775	\$0.86			
Total Units/Avg. Rent Per S.F.			120	730	87,650	\$655	\$0.89			
4.	Chastain Park 111 W. Wienca Road Atlanta, Georgia	1BR/1BA	24	500	12,000	\$550	\$1.10	95%	1-1/2 Yrs.	Amenities: jacuzzi, clubhouse, pool, exercise room, W/D connections, cable TV, fireplaces, ceiling fans, balcony/patio.
		1BR/1BA	72	700	50,400	\$630	\$0.90			
		2BR/2BA	12	900	10,800	\$775	\$0.86			
		2BR/2BA	2	1,000	2,000	\$900	\$0.90			
Total Units/Avg. Rent Per S.F.			110	684	75,200	\$507	\$0.93			

**Exhibit III-5A  
COMPETITIVE PROPERTY SURVEY  
HABERSHAM POINTE APARTMENTS**

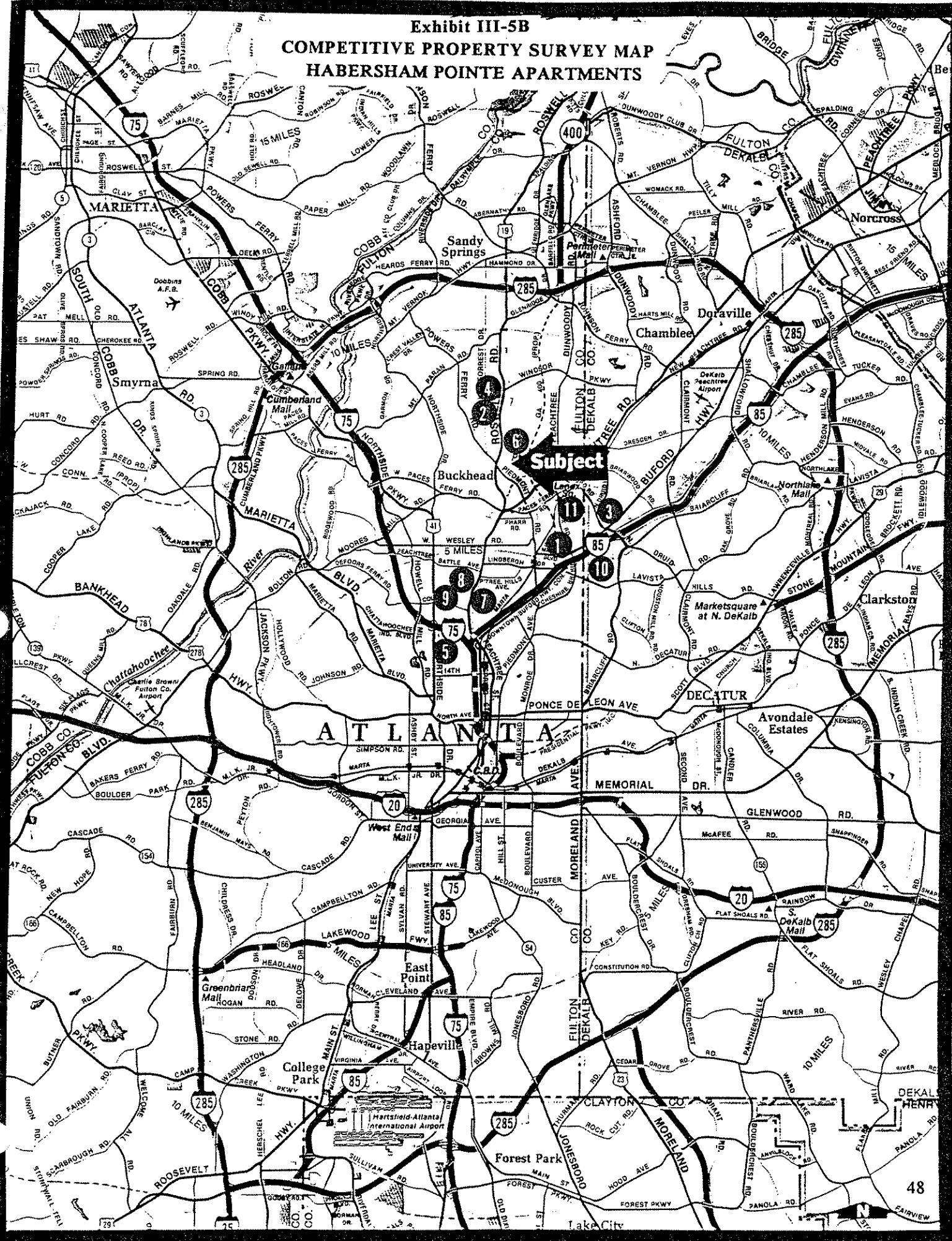
Map No.	Project Name and Location	Unit Type	Unit Mix	Rental Area S.F.	Total S.F.	Monthly Rental	Monthly Rental/S.F.	Occupancy	Age	Comments
5.	Northside Circle 499 Northside Circle Atlanta, Georgia	Efficiency 1BR/1BA 1BR/1BA 1BR/1BA 1BR/1BA 2BR/2BA 2BR/2BA	19 40 84 25 8 19 24	405 660 680 680 760 950 990	7,695 26,400 57,120 17,000 6,080 18,050 23,760	450 \$530 550 \$575 \$600 \$740 \$775	\$1.11 \$0.80 \$0.81 \$0.85 \$0.79 \$0.78 \$0.78	96%	1-1/4 Yrs.	Amenities: pool, security system in units, fireplaces, balcony/patio.
Total Units/Avg. Rent Per S.F.			219	713	156,105	\$584	\$0.82			
6.	Ivy Chase Roswell Road @ Old Ivy Road Atlanta, Georgia	1BR/1BA 1BR/1BA 2BR/2BA 2BR/2BA	54 120 40 2	500 700 900 1,000	27,000 84,000 36,000 2,000	\$590 \$610 \$770 \$850	\$1.18 \$0.87 \$0.86 \$0.85	10%	Lease-Up	Amenities: Cable TV, clubhouse, pool, fireplaces, balcony/patio.
Total Units/Avg. Rent Per S.F.			216	690	149,000	\$637	\$0.92			
7.	Brookwood Valley 2035 Peachtree Road Atlanta, Georgia	1BR/1BA 1BR/1BA 2BR/2BA	60 144 36	502 682 897	30,120 98,208 32,292	\$590 \$610 \$780	\$1.18 \$0.89 \$0.87	94%	1-1/2 Yrs.	Amenities: Jacuzzi, clubhouse, pool, exercise room, W/D connection, balcony/patio.
Total Units/Avg. Rent Per S.F.			240	669	160,620	\$645	\$0.94			
8.	Fernwood 1760 Northside Drive Atlanta, Georgia	1BR/1BA 1BR/1BA 2BR/2BA	36 60 24	506 736 900	18,216 44,160 21,600	\$570 \$650 \$780	\$1.13 \$0.88 \$0.87	94%	2-1/2 Yrs.	Amenities: Cable TV, clubhouse, pool, patio/balcony, W/D connection, fireplaces.
Total Units/Avg. Rent Per S.F.			120	700	83,976	\$652	\$0.93			

**Exhibit III-5A  
COMPETITIVE PROPERTY SURVEY  
HABERSHAM POINTE APARTMENTS**

Map No.	Project Name and Location	Unit Type	Unit Mix	Rental Area S.F.	Total S.F.	Monthly Rental	Monthly Rental/S.F.	Occupancy	Age	Comments
9.	Defoors Crossing 2400 Defoors Ferry Road Atlanta, Georgia	1BR/1BA 1BR/1BA 2BR/2BA	24 24 12	525 703 937	12,600 16,872 11,244	\$525 \$595 \$725	\$1.00 \$0.85 \$0.77	88%	Lease-Up	Cable TV, clubhouse, pool, patio/balcony, ceiling fans, security system.
Total Units/Avg. Rent Per S.F.			60	679	40,716	\$593	\$0.87			
10.	Briarhill 1470 Sheridan Road Atlanta, Georgia	1BR/1BA 1BR/1BA 2BR/2BA 2BR/2BA	52 108 60 72	520 635 840 840	27,040 68,580 50,400 60,480	\$538 \$598 \$768 \$768	\$1.03 \$0.94 \$0.91 \$0.91	95%	Lease-Up	Amenities: Swimming pool, clubhouse, W/D connections, cable TV, exercise room, jacuzzi, fireplaces, balcony/patio.
Total Units/Avg. Rent Per S.F.			292	707	206,500	\$662	\$0.94			
11.	St. James 3201 Lenox Road Atlanta, Georgia	1BR/1BA 2BR/2BA 2BR/2BA 2BR/2BA 3BR/2BA 3BR/2.5BA	10 20 20 20 20 10	831 1,249 1,335 1,504 1,780 2,200	8,310 24,980 26,700 30,080 35,600 22,000	\$800 \$1,060 \$1,150 \$1,373 \$1,673 \$2,098	\$0.96 \$0.85 \$0.86 \$0.91 \$0.94 \$0.95	99%	1986	Amenities: Clubhouse, pool, jacuzzi, doorman, security access, concierge services, exercise room, covered parking, valet service. Top of the line.
Total Units/Avg. Rent Per S.F.			100	1,477	147,670	\$593	\$0.91			
	Subject (Habersham Pointe) 3655 Habersham Road Atlanta, Georgia	1BR/1BA/Loft 1BR/1BA/Loft 2BR/2BA	44 101 36	787 828 1,150	34,628 83,628 41,400	\$688 \$665 \$848	\$0.87 \$0.80 \$0.74	52%	Lease-Up	Amenities: Community room, exercise/weight room, pool/deck, heated whirlpool/spa/sauna, W/D connection, ceiling fans, balcony/patio, fireplaces, covered parking, security access.
Total Units/Avg. Rent Per S.F.			181	882	159,656	\$707	\$0.80			

Sources: L. Barton Hickman & Associates  
Potomac Realty Advisors

Exhibit III-5B  
COMPETITIVE PROPERTY SURVEY MAP  
HABERSHAM POINTE APARTMENTS





#### **IV. THE JOINT VENTURE PARTNER/BORROWER/DEVELOPER**

#### **IV. THE JOINT VENTURE PARTNER/BORROWER/DEVELOPER**

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

The Joint Venture Partner/Borrower/Developer is the Sanbury Corporation, a regional apartment developer located in Atlanta, Georgia. Sanbury Corporation is the development arm and corporate holding company for several specialized housing related entities formerly known as Sanders and Associates. Sanbury Corporation was incorporated in 1984 to consolidate these various companies under a holding company, whose stock is owned by William G. Sanders, Director and Chairman of the Board of Sanbury Corporation, and Asbury D. (Major) Snow, Jr., President and Chief Executive Officer of Sanbury Corporation. These firms provide the appropriate services of development activities for projects that are owned by partnerships with Sanbury Corporation with Bill Sanders and Major Snow as General Partners.

##### **B. THE JOINT VENTURE PARTNER/BORROWER**

The proposed transaction will involve the Sanbury Corporation both as an equity joint venture partner in a to-be-formed general partnership between Sanbury and the USF&G Corporation, and as a Borrower. Sanbury has been developing multifamily housing projects since 1972 and has an impressive development and management track record.

##### **C. THE SANBURY CORPORATION**

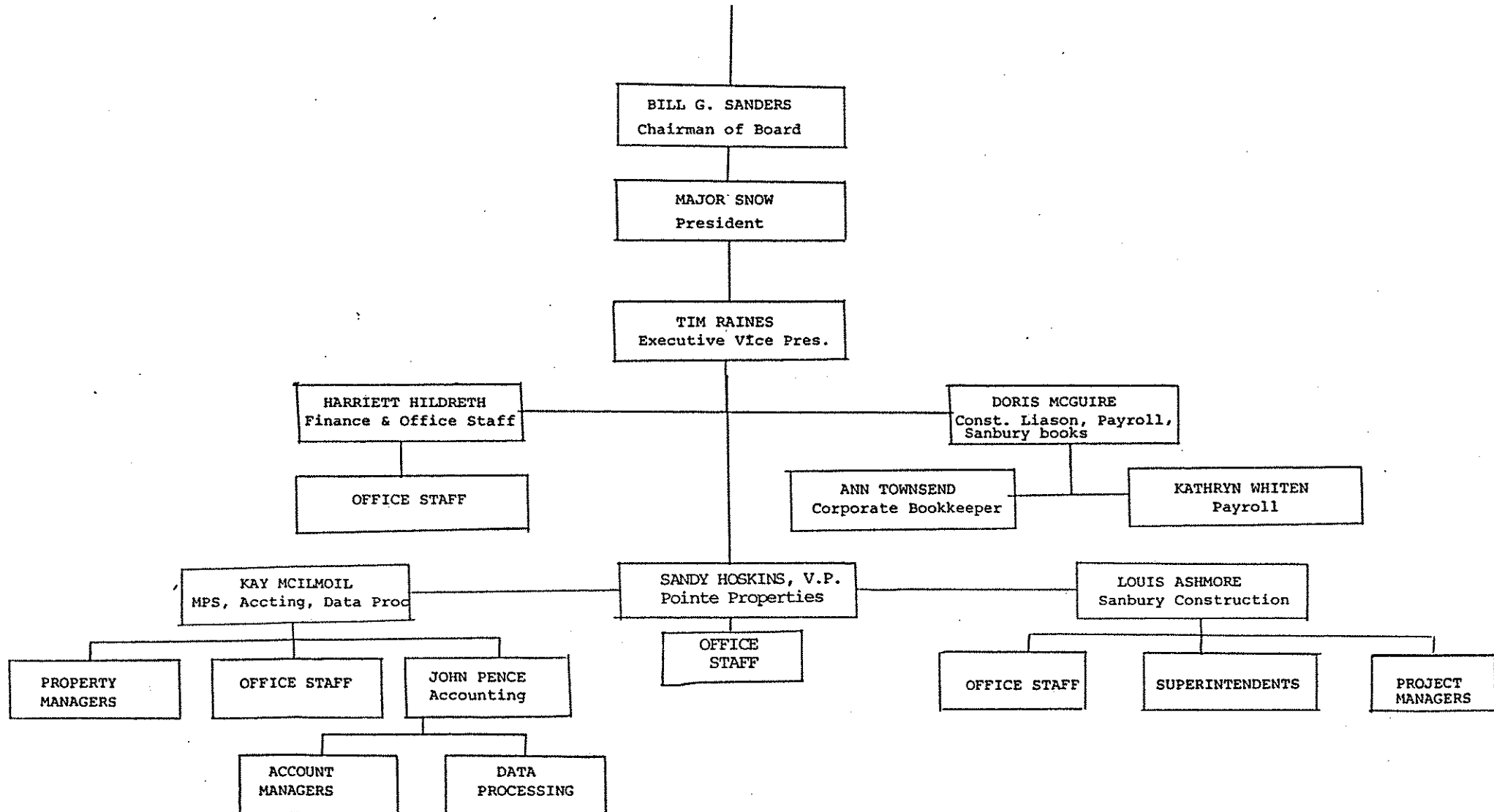
Sanbury Corporation is the holding company for B.G. Sanders and Associates, Inc., an architectural and design firm; ADC Construction Company, Inc., a general construction contractor; Southeastern Door and Specialties, Inc., a building materials firm; and Pointe Properties, Inc., d/b/a Metric Property Services, Inc., a property management firm. Sanbury's organizational chart is presented in Exhibit IV-1. Bill Sanders and Major Snow respectively own 53% and 47% of Sanbury Corporation. Biographical sketches of Sanders and Snow, whose combined net worth is approximately \$32.5 million are presented in Exhibit IV-2. Sanbury Corporation has developed over 110 apartment projects since 1970 totalling over 10,000 units. Currently, Sanbury owns and manages over 6,000 apartment units throughout the southeastern United States, predominantly in Georgia, South Carolina, and Tennessee with other developments in Alabama, Arkansas, Kentucky, Louisiana, New York, and North Carolina (see Exhibit IV-3 - Developer's Track Record). Exhibit IV-4 identifies and plots Sanbury's current apartment projects in the Atlanta metropolitan area, and also identifies the product type and gives the corresponding number on the Developer's Track Record.

#### **D. CONCLUSION**

Sanbury Corporation is a regional apartment developer located in Atlanta, Georgia. Sanbury has an impressive track record in the southeastern United States of developing, leasing, and managing multifamily housing projects. Sanbury has developed over 110 projects totalling over 10,000 units and of the more than 6,000 units it currently owns and manages, occupancy rates range from a low of 89% to 100%. This track record is a strong indication of Sanbury's ability to lease and manage the subject property in an efficient and effective manner throughout the investment holding period.

Exhibit IV-1  
ORGANIZATION CHART  
SANBURY CORPORATION

February, 1989



**Exhibit IV-2**  
**BIOGRAPHICAL SKETCHES**

**Bill G. Sanders**, age 49, is the majority shareholder, Director, and Chairman of the Board of the Sanbury Corporation.

Mr. Sanders received a Master of Science Degree in City Planning from the Georgia Institute of Technology in 1965. While at Georgia Tech., Mr. Sanders received the American Institute of Planners Award as the Outstanding City Planning Graduate Student. After graduate school, he became the Chief Planner for the Tennessee State Planning Commission, where he was responsible for planning activities in a 16-county region. Mr. Sanders served as a member of the National Association of Housing and Redevelopment Officials (NAHRO) Task Force on Section 8 housing.

Mr. Sanders formed Sanders & Associates in 1967, now known as Sanbury Corporation, primarily as a consulting city planning firm. It was expanded to encompass housing development in 1970, and since that time it has grown into one of the largest low and moderate housing developers in the nation. In 1984, Sanbury Corporation began also developing large market-rate apartment properties and has completed over 1,700 units with about 600 units now under construction.

**Asbury D. Snow, Jr.**, age 45, is President and Chief Executive Officer of Sanbury Corporation and of its affiliated companies. Mr. Snow is responsible for supervising origination, development and management of the various real estate projects undertaken by the firm.

Mr. Snow earned a Bachelor of Arts degree from the University of Georgia in 1967 and has completed graduate studies at Georgia Institute of Technology in the School of City Planning. From 1967 to 1969, Mr. Snow was employed as a community planner by the Coosa Valley Area Planning and Development Commission. In this capacity, he was responsible for providing local planning assistance to several cities and counties in northwest Georgia and was involved in the preparation of numerous comprehensive planning studies for the entire Coosa Valley area.

In November 1969, Mr. Snow became affiliated with the Sanbury Organization. His responsibilities include the supervision of all development and management functions for projects undertaken by the corporation and its affiliates. He had 18 years of experience in the development of rental housing utilizing various assisted programs and conventional financing. Mr. Snow currently is a general partner in 70 partnerships which own and operate rental housing communities.

**Exhibit IV-3**  
**DEVELOPER'S TRACK RECORD**  
**LIST OF PROJECTS DEVELOPED AND/OR OWNED FROM 1972 TO PRESENT**

1. Fayetteville Leased Housing, Fayetteville, North Carolina - 110 Elderly and Family Units, Section 23 garden and townhouse housing development (1972) - No longer owned by Sanbury.
2. Florence Leased Housing, Florence, South Carolina - 50 Family Units, Section 23 townhouse and garden apartment housing development (1972) - No longer owned by Sanbury.
3. LaFayette Leased Housing, LaFayette, Georgia - 69 Elderly and Family Units, Section 23 garden and townhouse apartment housing development (1972) - No longer owned by Sanbury.
4. Menlo Leased Housing, Menlo, Georgia - 46 Elderly and Family Units, Section 23 garden apartments (1972) - No longer owned by Sanbury.
5. Englewood Leased Housing, Englewood, Tennessee - 22 Family Units, Section 23 garden apartment housing development (1972) - No longer owned by Sanbury.
6. Sparta Low Rent Housing, Sparta, Tennessee - 80 Elderly and Family Units, Turnkey garden apartment housing development (1972) - No longer owned by Sanbury.
7. Athens Leased Housing, Athens, Alabama - 100 Elderly and Family Units, Section 23 garden apartment housing development (1972) - No longer owned by Sanbury.
8. Moultrie Leased Housing, Moultrie, Georgia - 100 Elderly and Family Units, Section 23 garden apartment housing development (1972) - No longer owned by Sanbury.
9. Soperton Leased Housing, Soperton, Georgia - 15 Family Units, Section 23 garden apartment housing development (1972) - No longer owned by Sanbury.
10. Tullahoma Leased Housing, Tullahoma, Tennessee - 40 Elderly and Family Units, Section 23 garden apartment housing development (1973) - No longer owned by Sanbury.
11. Blackshear Leased Housing, Blackshear, Georgia - 15 Family Units, Section 23 garden apartment housing development (1973) - No longer owned by Sanbury.
12. Quitman Leased Housing, Quitman, Georgia - 80 Elderly and Family Units, Section 23 garden apartment housing development (1974) - No longer owned by Sanbury.

13. Cleveland Leased Housing, Cleveland, Tennessee - 50 Elderly and Family Units, Section 23 garden apartment housing development (1974) - No longer owned by Sanbury.
14. Newport Leased Housing, Newport, Tennessee - 46 Elderly and Family Units, Section 23 garden apartment housing development (1974) - No longer owned by Sanbury.
- 15.\* Peachtree Street Elderly High-Rise, Atlanta, Georgia - 196 Elderly Units, Turnkey high-rise housing development (1975) - No longer owned by Sanbury.
- 16.\* Cheshire Bridge Road Elderly High-Rise, Atlanta, Georgia - 162 Elderly Units, Turnkey high-rise housing development (1975) - No longer owned by Sanbury.
17. Ashburn Turnkey Housing, Ashburn, Georgia - 55 Elderly Units, Turnkey garden apartment housing development (1975) - No longer owned by Sanbury.
18. Newport Turnkey, Newport, Tennessee - 50 Elderly and Family Units, Turnkey garden apartment housing development (1975) - No longer owned by Sanbury.
19. Cornelia Leased Housing, Cornelia, Georgia - 50 Elderly and Family Units, Section 23 garden apartment housing development (1975) - No longer owned by Sanbury.
20. Shamrock Village, Dublin, Georgia - 70 Elderly and Family Units, Section 23 garden apartment housing development (1976) - 95% Occupancy.
21. Magnolia Village, Americus, Georgia - 80 Elderly and Family Units, Section 23 garden apartment housing development (1976) - 96% Occupancy.
22. Maryville Leased Housing, Maryville, Tennessee - 50 Elderly and Family Units, Section 23 garden apartment housing development (1976) - No longer owned by Sanbury.
23. Alexandria Gardens, Alexandria, Louisiana - 98 Family Units, Section 8 garden apartment housing development (1976) - No longer owned by Sanbury.
24. Bolivar Turnkey Housing, Bolivar, Tennessee - 68 Elderly and Family Units, Section 23 garden apartment housing development (1977) - No longer owned by Sanbury.
25. Leesville Gardens, Leesville, South Carolina - 60 Elderly and Family Units, Section 8 garden apartment housing development (1977) - No longer owned by Sanbury.

26. Farrell Leased Housing, Farrell, Pennsylvania - 75 Elderly Units, Section 8 housing development (1977) - No longer owned by Sanbury.
27. Kenmore Elderly Leased Housing, Kenmore, New York - 100 Elderly Units, Section 23 high-rise housing development (1978) - No longer owned by Sanbury.
28. Pulaski Turnkey, Pulaski, Tennessee - 50 Elderly and Family Units, Turnkey garden apartment housing development (1978) - No longer owned by Sanbury.
29. Urban Park Towers, Lockport, New York - 150 Elderly Units, Section 8 high-rise housing development (1978) - 100% Occupancy.
30. Statesboro Summit, Statesboro, Georgia - 98 Elderly Units, Section 8 high-rise housing development (1978) - 95% Occupancy.
31. Eastman Gardens, Eastman, Georgia - 65 Elderly and Family Units, Section 8 garden apartment housing development (1978) - 100% Occupancy.
32. Calhoun Gardens, Calhoun, Georgia - 65 Elderly and Family Units, Section 8 garden apartment housing development (1978) - 99% Occupancy.
33. Cartersville Gardens, Cartersville, Georgia - 100 Elderly and Family Units, Section 8 garden apartment housing development (1978) - 99% Occupancy.
34. Athens Gardens, Athens, Georgia - 100 Family Units, Section 8 garden apartment and townhouse apartment housing development (1978) - 100% Occupancy.
35. Clarke Gardens, Athens, Georgia - 100 Family Units, Section 8 garden and townhouse apartment housing development (1978) - 94% Occupancy.
36. Manning Gardens, Manning, South Carolina - 50 Elderly and Family Units, Section 8 garden apartment housing development (1978) - 100% Occupancy.
37. Greenwood Gardens, Greenwood, South Carolina - 100 Family Units, Section 8 garden apartment housing development (1978) - 91% Occupancy.
38. Loudon Gardens, Loudon, Tennessee - 50 Elderly Units, Section 8 garden apartment housing development (1978) - 100% Occupancy.
39. Columbia Meadows, Columbia, Tennessee - 95 Elderly and Family Units, Section 8 high-rise apartment housing development (1978) - 100% Occupancy.



40. Cleveland Summit, Cleveland, Tennessee - 78 Elderly Units, Section 8 high-rise (re-hab) apartment housing development (1978) - 98% Occupancy.
41. Riverview Apartments, Elmira, New York - 129 Family Units, Section 8 garden and townhouse apartment housing development (1978) - 98% Occupancy.
42. Athens Gardens, Athens, Tennessee - 50 Family Units, Section 8 garden apartment housing development (1978) - No longer owned by Sanbury.
43. White Water Towers, Niagara Falls, New York - 250 Elderly Units, Section 23 high-rise housing development (1979) - No longer owned by Sanbury.
44. Anderson Village, Anderson, South Carolina - 98 Family Units, Section 8 garden and townhouse apartment housing development (1979) - 99% Occupancy.
45. Lewisburg Summit, Lewisburg, Tennessee - 130 Elderly Units, Section 8 high-rise apartment housing development (1979) - 100% Occupancy.
46. LaFollette Gardens, LaFollette, Tennessee - 50 Elderly Units, Section 8 garden apartment housing development (1979) - 100% Occupancy.
- 47.\* Lenox Summit, Atlanta, Georgia - 212 Elderly Units, Section 8 high-rise apartment housing development (1979) - 99% Occupancy.
48. Jordon Plaza, Shreveport, Louisiana - 170 Elderly Units, Section 8 high-rise apartment housing development (1979) - No longer owned by Sanbury.
49. Savannah Summit, Savannah, Georgia - 138 Elderly Units, Section 8 high-rise apartment housing development (1979) - 100% Occupancy.
50. Greenville Section 8 Housing, Greenville, South Carolina - 100 Family Units, Section 8 garden and townhouse apartment housing development (1979) - 100% Occupancy.
51. Tullahoma Village, Tullahoma, Tennessee - 89 Family Units, Section 8, garden and townhouse apartment housing development (1979) - 97% Occupancy.
52. Catoosa Gardens, Catoosa County, Georgia - 100 Elderly and Family Units, Section 8 garden apartment housing development (1979) - 100% Occupancy.
53. Huntsville Summit, Huntsville, Alabama - 100 Elderly Units, Section

53. Huntsville Summit, Huntsville, Alabama - 100 Elderly Units, Section 8 high-rise apartment housing development (1979) - 100% Occupancy.
54. Fitzgerald Summit, Fitzgerald, Georgia - 84 Elderly Units, Section 8 high-rise apartment housing development (1979) - 96% Occupancy.
55. Tullahoma Turnkey, Tullahoma, Tennessee - 58 Elderly Units, Turnkey high-rise apartment housing development (1979) - No longer owned by Sanbury.
56. Summerville Gardens, Summerville, Georgia - 77 Family Units, Section 8 garden apartment housing development (1980) - 100% Occupancy.
57. Pickens Gardens, Pickens, South Carolina - 76 Elderly and Family Units, Section 8 garden and townhouse apartment housing development (1980) - 91% Occupancy.
58. Pendleton Gardens, Pendleton, South Carolina - 50 Elderly and Family Units, Section 8 garden and townhouse housing development (1980) - 92% Occupancy.
59. Thomaston Gardens, Thomaston, Georgia - 100 Family Units, Section 8 garden and townhouse apartment housing development (1980) - 99% Occupancy.
60. Mauldin Gardens, Mauldin, South Carolina - 64 Elderly and Family Units, Section 8 garden and townhouse apartment development (1980) 98% Occupancy.
61. Forsyth Gardens, Forsyth, Georgia - 78 Elderly and Family Units, Section 8 garden and townhouse apartment housing development (1980) - 100 % Occupancy.
62. Waynesboro Gardens, Waynesboro, Georgia - 70 Elderly and Family Units, Section 8 garden and townhouse apartment housing development (1980) - 98% Occupancy.
63. Macon Gardens, Macon, Georgia - 131 Family Units, Section 8 garden and townhouse apartment housing development (1980) - 99% Occupancy.
64. Raleigh Gardens, Raleigh, North Carolina - 125 Family Units, Section 8 garden apartment housing development (1980) - 100% Occupancy.
65. Chatham Gardens, Savannah, Georgia - 104 Family Units, Section 8 garden and townhouse apartment housing development (1980) - 97% Occupancy.
66. Tonawanda Towers, Tonawanda, New York - 100 Elderly Units, Section 8 high-rise apartment housing development (1981) - 100% Occupancy.

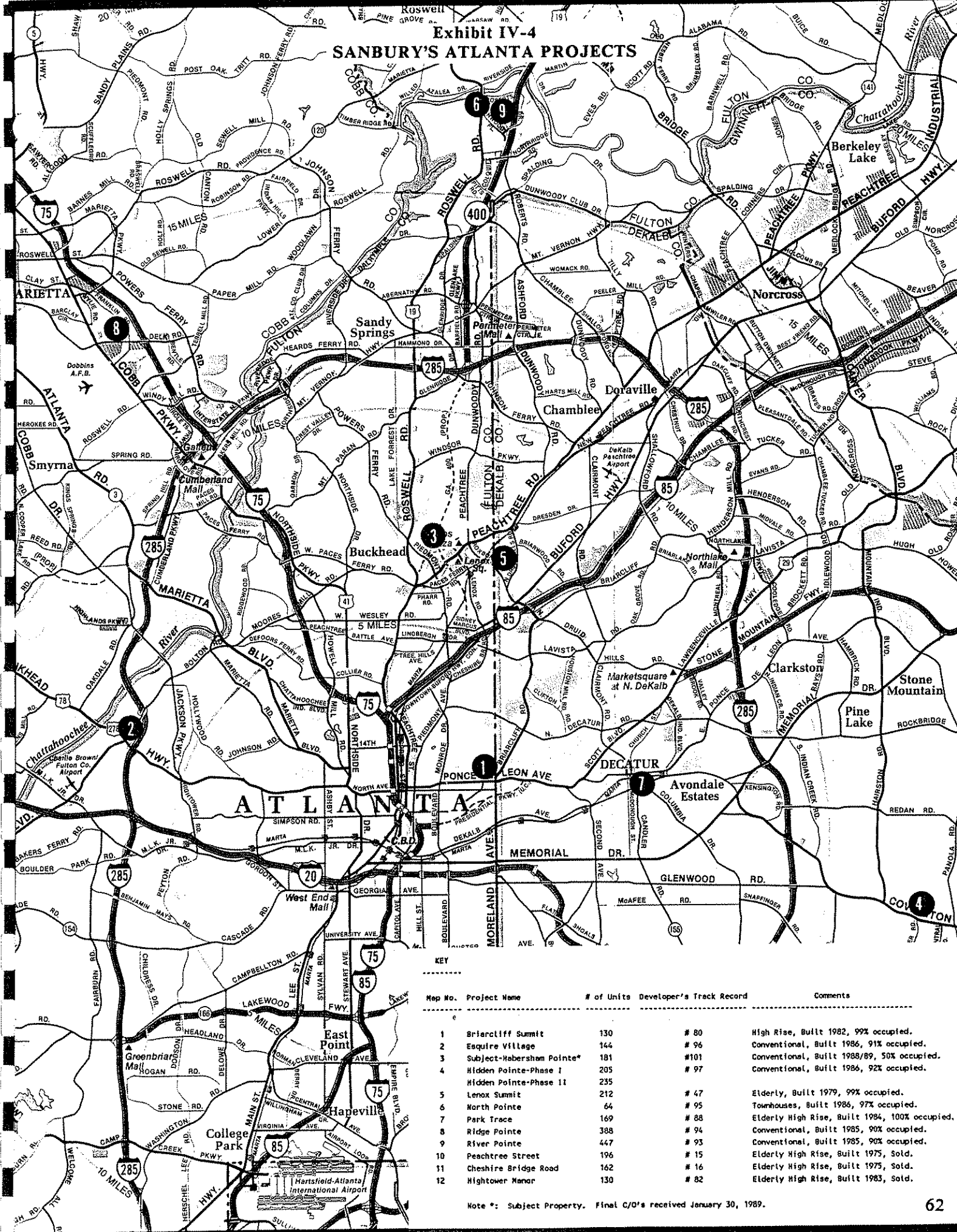
67. Sandlewood, Charlotte, North Carolina - 150 Family Units, partial Section 8 garden apartment housing development (1980) - 100% Occupancy.
68. Richmond Summit, Augusta, Georgia - 78 Elderly and Family Units, Section 8 high-rise apartment housing substantial rehabilitation (1981) - 97% Occupancy.
69. LaFollette Turnkey, LaFollette, Tennessee - 72 Family Units, Turnkey townhouse housing development (1981) - No longer owned by Sanbury.
70. Kingsport Turnkey, Kingsport, Tennessee - 76 Elderly and Family Units, Turnkey garden and townhouse apartment housing development (1981) - No longer owned by Sanbury.
71. Tullahoma Turnkey, Tullahoma, Tennessee - 66 Elderly and Family Units, Turnkey garden apartment housing development (1981) - No longer owned by Sanbury.
72. Fayetteville Gardens, Fayetteville, North Carolina - 100 Family Units, Section 8 garden and townhouse apartment housing development (1981) - 100% Occupancy.
73. Asbury Park, Little Rock, Arkansas - 106 garden and townhouse apartments, Section 8 housing development (1982) - 100% Occupancy.
74. Forest Creek, Knoxville, Tennessee - 71 garden and townhouse apartments, Section 8 housing development (1982) - 100% Occupancy.
75. Dunlap Gardens, Dunlap, Tennessee - 50 garden and townhouse apartments, Section 8 housing development (1982) - 97% Occupancy.
76. Brooksfield, Westmoreland, Tennessee - 47 Elderly Units, Section 8 garden apartment housing development (1982) - 100% Occupancy.
77. Sneedville Gardens, Sneedville, Tennessee - 50 garden and townhouse apartments, Section 8 housing development (1982) - 100% Occupancy.
78. Cumberland Place, Cowan, Tennessee - 74 garden and townhouse apartments, Section 8 housing development (1982) - 99% Occupancy.
79. Athens Mews, Athens, Tennessee - 50 garden and townhouse apartments, (1982) - 100% Occupancy.
- 80.\* Briarcliff Summit, Atlanta, Georgia - 130 Units, high-rise housing development (1982) - 99% Occupancy.
81. Newport Turnkey, Newport, Tennessee - 56 garden and townhouse apartments (1983) - No longer owned by Sanbury.

- 82.\* Hightower Manor, Atlanta, Georgia - 130 Elderly Units, Turnkey high-rise housing development (1983) - No longer owned by Sanbury.
83. Niagara Towers, Niagara Falls, New York - 200 Elderly Units, Section 8 high-rise housing development (1983) - 100% Occupancy.
84. Bridge Creek, Clarke County, Georgia - 71 Units, Section 8 garden and townhouse apartment housing development (1983) - 100% Occupancy.
85. Bon Air, Augusta, Georgia - 202 Elderly Units, Section 8 high-rise housing development (1984) - 98% Occupancy.
86. Morgantown Turnkey, Morgantown, Kentucky - 100 townhouse apartments, Turnkey housing development (1984) - No longer owned by Sanbury.
87. Park Lake, Fayetteville, Arkansas - 91 garden and townhouse apartments, partial Section 8 housing development (1984) - 97% Occupancy.
- 88.\* Park Trace, Decatur, Georgia - 169 Elderly Units, Section 8 high-rise housing development (1984) - 100% Occupancy.
89. SNAP I, Savannah, Georgia - 100 garden and townhouse apartments, Section 8 housing development (1984) - No longer owned by Sanbury.
90. SNAP II, Savannah, Georgia - 89 garden and townhouse apartments, Section 8 housing development (1984) - No longer owned by Sanbury.
91. SNAP III, Savannah, Georgia - 44 garden and townhouse apartments, Section 8 housing development (1984) - No longer owned by Sanbury.
92. Cedar Ridge, Johnson City, Tennessee - 112 garden apartments (1985) 97% Occupancy.
- 93.\* River Pointe, Atlanta, Georgia - 447 garden apartments (1985) - 90% Occupancy.
- 94.\* Ridge Pointe, Atlanta, Georgia - 388 garden apartments (1985) - 90% Occupancy.
- 95.\* North Pointe, Atlanta Georgia - 64 townhouse apartments (1986) - 97% Occupancy.
- 96.\* Esquire Village, Atlanta, Georgia - 144 garden apartments (1986) - 91% Occupancy.
- 97.\* Hidden Pointe, Atlanta, Georgia - 235 garden apartments (1986) - 92% Occupancy.

98. Hampton Pointe, Charleston, South Carolina - 304 garden apartments (1987) - 89% Occupancy.
99. Bryton Pointe, Columbia, South Carolina - 237 garden apartments (1987) - 95% Occupancy.
100. Cedar Pointe, Nashville, Tennessee - 210 garden apartments (1988)- 100% Occupancy.
- 101.\* Habersham Pointe, Atlanta, Georgia - 181 mid-rise apartments (1988), (under construction).
102. Grayton Pointe, Macon, Georgia - 184 garden apartments (tax credit), (1988) (under construction).
- 103.\* Hidden Pointe, Phase II, Atlanta Georgia - 205 garden apartments (1988), (under construction).
104. Algood Manor, Algood, Tennessee - 59 Family Units, Section 8 garden apartment housing development (1983) - 100% Occupancy.
105. Asheboro Summit, Asheboro, North Carolina - 100 Elderly Units, Section 8 high-rise apartment housing development (1979) - 96% Occupancy.
106. Merrimac Village, Fitzgerald, Georgia - 50 Family Units, Section 8 garden apartment housing development (1982) - 100% Occupancy.
107. North Augusta, North Augusta, South Carolina - 101 Family Units, Section 8 garden apartment housing development (1979) - 100% Occupancy.
108. Riverside Gardens, Riverside, Georgia - 75 Family Units, Section 8 garden apartment housing development (1982) - 98% Occupancy.
109. Salem Gardens, Salem, North Carolina - 151 Family Units, Section 8 garden apartment housing development (1979) - 95% Occupancy.
110. Seneca Gardens, Seneca, South Carolina - 77 Family Units, Section 8 garden apartment housing development (1979) - 99% Occupancy.
111. Winston Summit, Winston, North Carolina - 100 Elderly Units, Section 8 high-rise apartment housing development (1979) - 99% Occupancy.

\* Note: Denotes Atlanta Projects

# Exhibit IV-4 SANBURY'S ATLANTA PROJECTS



## KEY

Map No.	Project Name	# of Units	Developer's Track Record	Comments
1	Briarcliff Summit	130	# 80	High Rise, Built 1982, 99% occupied.
2	Esquire Village	144	# 96	Conventional, Built 1986, 91% occupied.
3	Subject-Habersham Pointe*	181	#101	Conventional, Built 1988/89, 50% occupied.
4	Hidden Pointe-Phase I	205	# 97	Conventional, Built 1986, 92% occupied.
	Hidden Pointe-Phase II	235		
5	Lenox Summit	212	# 47	Elderly, Built 1979, 99% occupied.
6	North Pointe	64	# 95	Townhouses, Built 1986, 97% occupied.
7	Park Trace	169	# 88	Elderly High Rise, Built 1984, 100% occupied.
8	Ridge Pointe	388	# 94	Conventional, Built 1985, 90% occupied.
9	River Pointe	447	# 93	Conventional, Built 1985, 90% occupied.
10	Peachtree Street	196	# 15	Elderly High Rise, Built 1975, Sold.
11	Cheshire Bridge Road	162	# 16	Elderly High Rise, Built 1975, Sold.
12	Hightower Manor	130	# 82	Elderly High Rise, Built 1983, Sold.

Note \*: Subject Property. Final C/O's received January 30, 1989.

<u>Number of Properties by Product Type</u>	<u>% of Total</u>
58 Elderly Apartment Projects	52.3%
27 Family (Section 8) Apartment Projects	24.3%
<u>26</u> Garden (conventional) Apartment Projects	<u>23.4%</u>
111 Proejcts	100.0%

Number of Properties Still Owned and Managed 72

Occupancy Ranges from 89% to 100%

## **V. THE RISK AND RETURN**



## **V. THE RISK AND RETURN**

### **A. INTRODUCTION**

The proposed investment is structured as two separate financing instruments, a fixed-rate first mortgage and an equity joint venture between the Sanbury Corporation ("Sanbury") and an affiliate of the USF&G Corporation ("USF&G"). The \$7,200,000 non-amortizing mortgage will bear interest at the rate of 9.5% with a 10-year term, a seven-year call option, and a five-year prepayment prohibition. Sanbury will guarantee to fund any negative cash flow for a period of 24 months from funding. USF&G's initial equity contribution will be the lessor of (a) actual construction costs less \$7,200,000 or (b) \$4,800,000 which will earn an annual compounded cumulative preferred return of 9.5%. USF&G and Sanbury will each have a 50% interest in the property after payment of USF&G's cumulative preferred return. The net sales proceeds from the sale of the property will be split in accordance with each partner's percentage interest after payment of USF&G's mortgage balance, outstanding equity balance, any earned but unpaid cumulative preferred return, and its 13.0% yield maintenance payment on equity capital. USF&G's debt/equity commitment of \$12,000,000 will be funded on the earlier of (a) when the property achieves \$95,070 in collected gross income per month (approximately 74% occupancy) or (b) Sanbury issues a letter of credit for the difference between \$95,070 per month and actual collected gross income per month. (See Exhibit I-1, the Application Letter).

### **B. VALUATION**

#### **1. Pro Forma Income and Expenses**

The pro forma income and expenses for Habersham Pointe are presented in Exhibits V-1A, V-1B, and V-1C, which represent the conservative case (10% vacancy), the most likely case (7.5% vacancy), and the optimistic case (5.0% vacancy). The annual cash flow projections are based on the assumptions described in the corresponding assumptions tables presented in Exhibits V-3A, V-3B, and V-3C. The economic projections in each scenario assume a 20% vacancy allowance in year one and a 10.0%, 7.5%, and 5.0% vacancy allowance in year two and thereafter for the conservative, most likely, and optimistic case, respectively. Lease-up to 95% occupancy is estimated to occur within the next 6 months. The debt coverage ratio at stabilized occupancy (1990) is estimated to be 1.61, 1.68, and 1.74 respectively under the conservative, most likely, and optimistic scenarios.

#### **2. Preliminary Value Estimate**

Potomac Realty Advisors has preliminarily estimated the market value of Habersham Pointe to range from \$13,200,000 to \$15,000,000 using the most likely pro forma assumptions (see Exhibits V-2A, V-2B, and V-2C). The Application Letter (Exhibit I-1) contains an appraisal contingency which requires a market value appraisal by an MAI-designated, Lender approved appraiser indicating a market value at stabilized occupancy of at least \$13,300,000. The indicated loan to value ratio (assuming a market value of \$13,300,000) is 54% and the total cost to value ratio is 90% (\$12,000,000/\$13,300,000).

### **C. RETURN**

The returns for this investment are calculated over a ten-year holding period. The mortgage provides for a five-year lock-in period, a yield maintenance payment if the

mortgage is prepaid in years six or seven, and a due-on-sale provision. Any partnership decision to sell or refinance the property will require the consent of both partners, and USF&G will have the right of first offer to purchase the subject property. In this manner, USF&G can control the duration of both the mortgage and the equity investment.

### **1. Annual Returns**

The estimated annual cash returns to USF&G are presented in Exhibits V-4A, V-4B, and V-4C. USF&G's cash returns are presented in two ways: annual cash returns on equity capital (\$4,800,000), and annual cash returns on total capital (\$12,000,000). USF&G's annual cash returns on equity capital are calculated by dividing the sum of: (a) cumulative preferred return paid during the year and (b) cash flow distributed from operations by (c) USF&G's outstanding equity capital. Annual cash returns on total capital are calculated by dividing the sum of USF&G's: (a) cumulative preferred return, (b) cash flow from operations, and (c) mortgage interest payments by (d) USF&G's total outstanding capital (\$12,000,000). The annual cash returns on the mortgage remain constant at 9.5%. In the most likely case at stabilized occupancy in 1990, the annual cash return on equity capital is 9.6%, and the annual cash return on total capital is 9.6%. Habersham Pointe is currently 47.5% leased (86 units) at an average effective monthly rental rate of \$727 per unit or \$.82 per square foot. Average net absorption for Habersham Pointe is 20 units per month. Assuming USF&G funds \$12,000,000 in 90 days, and assuming average absorption of 20 units per month, the property will be 81% leased at funding (86 units + 20 per month for 3 months) with a net operating income of \$862,544. Therefore, USF&G's annual cash return on total capital in 1989 would be 7.2%. This is calculated by subtracting 90% of total operating expenses from collected gross income and dividing that sum by total capital (\$12,000,000).

### **2. Cash Proceeds at Sale**

Upon sale of the property, net sales proceeds are first used to repay USF&G's outstanding mortgage balance, second to repay its outstanding equity balance, third to pay any earned but unpaid cumulative preferred return, and fourth to pay USF&G a yield maintenance fee equal to an internal rate of return on equity capital of 13.0%. Any remaining cash after the above disbursements will be split 50-50 between the partners. Under the most-likely scenario, USF&G's unpaid cumulative preferred return is estimated to be \$397,604. Due to the yield maintenance provision and the cumulative preferred return, USF&G is estimated to receive approximately 85% of the net cash proceeds from sale after payment of an estimated 3% sales costs. Exhibits V-5A, V-5B, and V-5C summarize USF&G's total cash flow throughout the ten-year holding period.

### **3. Yield Analysis**

The estimated nominal yield or internal rate of return on total capital is 12.3% in the most-likely scenario (5% growth in income and expenses, a 7.5% vacancy assumption, and an 8.5% capitalization rate on the 11th year net operating income). This yield represents a 7.3% real or inflation-adjusted internal rate of return. The internal rate of return on total capital is that discount rate which equates the present value of all USF&G's income received during the holding period to the total USF&G invested capital. USF&G's total annual cash flow includes debt service, cumulative preferred return, and cash flow from operations; and USF&G sales proceeds include the payment of the outstanding mortgage balance, outstanding equity balance, unpaid cumulative preferred return, a 13.0% yield maintenance

payment on equity capital, and cash flow from sale (see Exhibits V-5A through V-5C). The sensitivity of USF&G's internal rate of return on total capital to changes in inflation and terminal capitalization rates is presented in Exhibits V-6A, V-6B, and V-6C. The nominal yield on total capital under the most likely scenario varies from a low of 10.6% under low inflation and high capitalization to a high of 13.2% under high inflation and low capitalization. The most likely nominal yield of 12.3% is comprised of a 9.5% yield on the fixed-rate mortgage and a 15.5% yield on equity capital.

#### **D. RISK**

In the proposed debt-equity joint venture investment, USF&G is exposed to all of the risks associated with a real estate investment plus the additional risks of being both the lender and a general partner in the borrowing entity. The risks in this investment have been reduced to acceptable levels by careful and conservative underwriting as well as by specific provisions in the deal structure. Generally, the risks can be divided into four categories: market, operational, financial, and partnership.

##### **1. Market Risk**

The market risk arises if Habersham Pointe fails to achieve pro forma rent and occupancy levels. This risk is somewhat mitigated by the investment structure in two significant ways. First, the mortgage will not be funded until the property achieves 74% occupancy with leases in conformity with Exhibit C of the Application Letter (Exhibit I-1). Second, the minimum yield provision assures USF&G of a 13.0% IRR on equity capital before any sales proceeds are distributed to Sanbury. This provision protects USF&G against fluctuations in rental income and occupancy levels. Furthermore, Habersham Pointe's pro forma rent of \$.80 per square foot is very conservative in the competitive market area.

There is a risk to USF&G if rents actually decrease from today's level. However, average rental rates in competitive properties range from \$.87 to \$.96 per square foot. Therefore, rental rates would need to drop by 8.8% to 20% in the competitive properties before they would equal the proforma rental rate of \$.80 per square foot at Habersham Pointe. Furthermore, the Buckhead market has performed well in past years and the continued upward growth of population and employment, combined with rising land costs and the exceptional location of Habersham, should reduce the risk of declining rents for the subject property.

##### **2. Operational Risks**

The operational risk for this investment is considered minimal. Management and leasing will be provided by Sanbury, a successful developer with an impressive track record developing and leasing class A apartment projects since 1970. Sanbury's continued ownership of over 6,000 of 10,000 total units with occupancies ranging from 89% to 100% is a strong indication of Sanbury's ability to develop, lease and manage apartments.

##### **3. Financial Risk**

The financial risk for this investment is believed to be acceptable because USF&G's mortgage capital is well secured, with a projected debt coverage ratio of 1.68 upon stabilization in 1990 under the most likely scenario. The mortgage is further secured in that Sanbury has guaranteed to fund any negative cash flow for the first 24 months. The

equity investment also has good security with a 9.5% compounded cumulative preferred return feature and a 13.0% yield maintenance provision. Sanbury's 50% interest in annual net cash flow is fully subordinate to USF&G's cumulative preferred return, and Sanbury's 50% interest in net sales proceeds is fully subordinate to USF&G's 13.0% yield maintenance provision. This investment is additionally secured by an appraisal contingency which requires appraisal by an MAI-designated appraiser approved by the Lender which states that the market value of the property at stabilized occupancy is at least \$13,300,000.

#### **4. Partnership Risk**

While Sanbury is the managing partner in this investment, USF&G will have approval rights over all major partnership decisions. If partnership disputes should occur, the buy-sell provision can be implemented to quickly remove Sanbury from the investment. Also, if Sanbury does not contribute its pro-rata share of contributions, its ownership position would be quickly diluted. If USF&G should own more than 75% of the partnership, Sanbury would have no partnership control.

#### **E. CONCLUSION AND RECOMMENDATIONS**

Habersham Pointe is an existing 47.5% leased, 181-unit, luxury apartment community located in the Buckhead area of Atlanta, Georgia. The project consists of two buildings of four-story design on 3.5 acres. Atlanta's economy is still strong although it is not expanding at the rate it has in recent years. There continues to be a strong demand for well located, quality in-town apartment projects as evidenced by both the occupancies of the competitive properties and the exceptionally low capitalization rates among comparable building sales (7.64% average). The Atlanta apartment market is currently 89% occupied and the Buckhead market is currently 94% occupied with rental rates ranging from \$.87 to \$.96 per square foot in the competitive properties. The subject's pro forma rental rate is \$.80 per square foot. The property will be managed and leased by Sanbury, a regional apartment developer with a good reputation in the Atlanta market. The returns for this investment are considered adequate given the risks involved. Therefore, Potomac Realty advisors recommends that the Real Estate Investment Committee for the United States Fidelity and Guaranty Company approve the issuance of a commitment for a \$12,000,000 debt-equity joint venture under the terms and conditions outlined in Exhibit I-1.

Exhibit V - 1A  
PROFORMA INCOME AND EXPENSES  
HABERSHAM POINTE  
Conservative  
(Assumes 10% vacancy throughout holding period)

	Unit Types	# of Units	Gross Square Feet	Mo.Rent PSF	Mo.Rent Per Unit	Annual Income 1989	Annual Income 1990	Annual Income 1991
	-----	-----	-----	-----	-----	-----	-----	-----
Gross Income :								
	1/1 Loft	44	787	\$0.87	688	363,000	415,800	436,590
	1/1 Flat	101	828	\$0.80	665	805,475	922,635	968,767
	2/2 Flat	36	1,150	\$0.74	848	366,300	419,580	440,559
		-----	-----	-----	-----	-----	-----	-----
Gross Potential Income		181	159,656	\$0.80	707	1,534,775	1,758,015	1,845,916
- Vacancy Allowance @ 20.0% in year 1 and 10.0% per year thereafter						(306,955)	(175,802)	(184,592)
						-----	-----	-----
= Effective Gross Income						1,227,820	1,582,214	1,661,324
- Operating Expenses @ \$2524.00 per unit per year						(456,844)	(479,686)	(503,671)
						-----	-----	-----
= Net Operating Income						770,976	1,102,527	1,157,654
- Debt Service @ 9.5% on \$7,200,000						(684,000)	(684,000)	(684,000)
+ Sanbury's Negative Cash Flow Guarantee						0	0	0
						-----	-----	-----
= Cash Flow before Cumulative Preferred Return						86,976	418,527	473,654
- USF&G Cumulative Preferred Return @ 9.5%						(86,976)	(418,527)	(473,654)
						-----	-----	-----
= Cash Flow to Split (USF&G 50.0% / Sanbury 50.0%)						0	0	0
Debt Coverage Ratio						1.13	1.61	1.69
Annual Return on Total Capital (Debt Service + USF&G Cash Flow / \$12,000,000)						6.4%	9.2%	9.6%
Annual Return on Equity Capital (USF&G Cash Flow / \$4,800,000)						1.8%	8.7%	9.9%

Exhibit V - 1B  
PROFORMA INCOME AND EXPENSES  
HABERSHAM POINTE  
Most Likely  
(Assumes 7.5% vacancy throughout holding period)

	Unit Types	# of Units	Gross Square Feet	Mo. Rent PSF	Mo. Rent Per Unit	Annual Income 1989	Annual Income 1990	Annual Income 1991
Gross Income :								
	1/1 Loft	44	787	\$0.87	688	363,000	415,800	436,590
	1/1 Flat	101	828	\$0.80	665	805,475	922,635	968,767
	2/2 Flat	36	1,150	\$0.74	848	366,300	419,580	440,559
Gross Potential Income		181	159,656	\$0.80	707	1,534,775	1,758,015	1,845,916
- Vacancy Allowance @ 20.0% in year 1 and 7.5% per year thereafter						(306,955)	(131,851)	(138,444)
= Effective Gross Income						1,227,820	1,626,164	1,707,472
- Operating Expenses @ \$2524.00 per unit per year						(456,844)	(479,686)	(503,671)
= Net Operating Income						770,976	1,146,478	1,203,802
- Debt Service @ 9.5% on \$7,200,000						(684,000)	(684,000)	(684,000)
+ Sanbury's Negative Cash Flow Guarantee						0	0	0
= Cash Flow before Cumulative Preferred Return						86,976	462,478	519,802
- USF&G Cumulative Preferred Return @ 9.5%						(86,976)	(462,478)	(493,772)
= Cash Flow to Split (USF&G 50.0% / Sanbury 50.0%)						0	0	26,029
Debt Coverage Ratio						1.13	1.68	1.76
Annual Return on Total Capital (Debt Service + USF&G Cash Flow / \$12,000,000)						6.4%	9.6%	9.9%
Annual Return on Equity Capital (USF&G Cash Flow / \$4,800,000)						1.8%	9.6%	10.6%

Exhibit V - 1C  
PROFORMA INCOME AND EXPENSES  
HABERSHAM POINTE  
Optimistic  
(Assumes 5% vacancy throughout holding period)

	Unit Types	# of Units	Gross Square Feet	Mo.Rent PSF	Mo.Rent Per Unit	Annual Income 1989	Annual Income 1990	Annual Income 1991
Gross Income :								
	1/1 Loft	44	787	\$0.87	688	363,000	415,800	436,590
	1/1 Flat	101	828	\$0.80	665	805,475	922,635	968,767
	2/2 Flat	36	1,150	\$0.74	848	366,300	419,580	440,559
Gross Potential Income		181	159,656	\$0.80	707	1,534,775	1,758,015	1,845,916
- Vacancy Allowance @ 20.0% in year 1 and 5.0% per year thereafter						(306,955)	(87,901)	(92,296)
= Effective Gross Income						1,227,820	1,670,114	1,753,620
- Operating Expenses @ \$2524.00 per unit per year						(456,844)	(479,686)	(503,671)
= Net Operating Income						770,976	1,190,428	1,249,949
- Debt Service @ 9.5% on \$7,200,000						(684,000)	(684,000)	(684,000)
+ Sanbury's Negative Cash Flow Guarantee						0	0	0
= Cash Flow before Cumulative Preferred Return						86,976	506,428	565,949
- USF&G Cumulative Preferred Return @ 9.5%						(86,976)	(491,057)	(491,057)
= Cash Flow to Split (USF&G 50.0% / Sanbury 50.0%)						0	15,371	74,892
Debt Coverage Ratio						1.13	1.74	1.83
Annual Return on Total Capital (Debt Service + USF&G Cash Flow / \$12,000,000)						6.4%	9.9%	10.1%
Annual Return on Equity Capital (USF&G Cash Flow / \$4,800,000)						1.8%	10.4%	11.0%

**Exhibit V-2A**  
**PRELIMINARY VALUATION ANALYSIS**  
**HABERSHAM POINTE APARTMENTS**

**Cost Approach**

Cost Approach (Exhibit II-9) 159,656 SF @ \$62.63 PSF	\$10,000,000
+ Land Value @ \$12,700 per unit (Exhibit V-2B)	+ 2,298,700
+ <u>Developer Profit @ 10%</u>	<u>+ 1,229,810</u>
= Estimated Value	\$13,528,570
Rounded to	\$13,500,000

**Direct Sales Comparison Approach**

Effective Gross Income Multiplier Method (EGIM)	
Effective Gross Income (Exhibit V-4B)	\$1,626,164
x <u>Effective Gross Income Multiplier (EGIM) (Exhibit V-2C)</u>	<u>x 8.10</u>
= Estimated Value	\$13,171,928
Rounded to	\$13,200,000

**Direct Capitalization Method**

Net Operating Income (Exhibit V-4B)	\$1,146,478
: <u>Overall Capitalization Rate (OCR)(Exhibit V-2C)</u>	<u>: .0764</u>
= Estimated Value	\$15,006,257
Rounded to:	\$15,000,000

**Capitalization Income Approach**

Present Value of Net Operating Income @ 13% (Exhibit V-4B)	\$ 7,278,922
+ <u>Present Value of Net Sales Proceeds @ 13% (Exhibit V-4B)</u>	<u>+ 5,979,125</u>
= Estimated Value	\$13,258,048
Rounded to:	\$13,300,000

The market value of the subject property at stabilized occupancy is preliminarily estimated to be:

\$13,300,000 \*

Indicated Total Cost to Value Ratio:	90.2%
Indicated Loan to Value Ratio:	54.1%

Note\*: The commitment will contain an appraisal contingency which requires valuation by a Lender approved MAI-designated appraiser indicating a market value at stabilized occupancy of at least \$13,300,000.



Exhibit V-2B  
COMPARABLE LAND SALES  
HABERSHAM POINTE APARTMENTS

Sale #	Location	Date of Sale	Sales Price	No. of Units	Price/Unit
1.	Chantilly Drive Atlanta, GA	8/88	\$2,139,000	186	\$11,500
2.	Glenridge Road Atlanta, GA	Under Contract	\$4,350,000	300	\$14,500
3.	Roswell Road Atlanta, GA	9/87	\$2,937,600	216	\$13,600
4.	Northside Drive Atlanta, GA	12/88	\$3,197,000	278	\$11,500
5.	Northside Drive Atlanta, GA	Mid/88	\$1,599,987	129	\$12,403
6.	Peachtree Street Atlanta, GA	Fall/86	\$3,696,000	240	\$15,400
7.	Akers Mill Drive Atlanta, GA	12/86	\$5,541,400	538	\$10,300
8.	North Druid Road Atlanta, GA	Fall/85	\$6,250,000	500	\$12,500
					-----
					Mean            \$12,713
					Rounded to    \$12,700

Sources: Landauer & Associates  
Data Bank, Inc.  
Potomac Realty Advisors

Exhibit V-2C  
COMPARABLE BUILDING SALES  
BRISTOL BAY AT PERICO ISLAND

	Comparable #1	Comparable #2	Comparable #3	Comparable #4	Comparable #5	Comparable #6	Comparable #7	Mean
Project:	St. James	Wood Hills	Brookwood Valley	Fernwood	Chastain Park	Wood Mill	Post Place	
Location:	3301 Lenox Road Atlanta, GA	2696 N. Druid Hills Atlanta, GA	2035 Peachtree St. Atlanta, GA	1760 Northside Dr. Atlanta, GA	111 W. Wiehca Rd. Atlanta, GA	100 Ackers Mill Dr. Atlanta, GA	3028 Clairmont Rd. Atlanta, GA	
Date of Sale:	11/88	12/88	10/87	6/87	12/87	12/88	11/87	
Sales Price:	\$13,600,000	\$36,500,000	\$15,300,000	\$6,562,560	\$5,799,970	\$34,432,000	\$7,150,054	
Number of Units:	100	500	240	120	110	538	122	
Average Unit Size: (S.F.)	1,477	1,101	669	700	684	N/A	N/A	
Average Rents: (S.F./Mo.)	\$.91	\$.66	\$.96	\$.93	\$.93	N/A	N/A	
Price Per Unit:	\$136,000	\$73,000	\$63,750	\$54,688	\$52,727	\$64,000	\$58,607	
Effective Gross Income Multiplier:	8.91	8.71	8.67	7.36	7.31	8.56	7.41	8.10
Effective Gross Income per Unit:	\$1,272	\$698	\$645	\$652	\$633	\$654	\$694	
Net Income Multiplier:	15.87	13.79	12.84	11.95	12.24	12.50	13.18	
Overall Cap Rate:	6.30%	7.25%	7.79%	8.37%	8.17%	8.0%	7.59%	7.64%
Sources:	Landauer & Associates, Inc. L. Barton Hickman & Associates Potomac Realty Advisors							

Exhibit V - 3A  
ASSUMPTIONS TABLE  
HABERSHAM POINTE  
Conservative

(Assumes 10% vacancy throughout holding period)

Debt :

Mortgage Amount -----	\$7,200,000
Interest Rate -----	9.5%
Pay Rate -----	9.5%
Amortization -----	N/A
Number of Payments per year -----	12
Growth Rate - Income -----	5.0%
Growth Rate - Expenses -----	5.0%
Vacancy Allowance -----	20.0% in year 1 , 10.0% in year 2 and thereafter

Equity :

Equity Capital -----	\$4,800,000
Cumulative Preferred Return -----	9.5%
Yield Maintenance on Equity -----	13.0%
USF&G's Percentage Interest - Cash Flow -----	50.0%
USF&G's Percentage Interest - Sale Proceeds -----	50.0%

	Annual Expenses	Ann. Exp per unit	Ann. Exp. per Sq.Ft.
Operating Expenses :			
Management Fee --	\$82,639	\$456.57	\$0.52
Administrative --	11,659	64.41	0.07
Utilities --	71,997	397.77	0.45
Salaries & P/R Taxes -	64,549	356.62	0.40
Repairs / Maint. --	69,438	383.64	0.43
RE Taxes --	117,926	651.52	0.74
Insurance --	16,292	90.01	0.10
Miscellaneous --	22,344	123.45	0.14
Total Operating Expenses	\$456,844	\$2,524	\$2.86
Capitalization Rate on 11th year Net Operating Income ---			8.5%
Sales Expenses -----			3.0%

Cumulative Preferred Return Calculation :	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Beginning Equity Bal.	0	4,800,000	5,169,024	5,241,554	5,265,848	5,265,848	5,265,848	5,265,848	5,265,848	5,265,848
+ Equity Contributions	4,800,000	0	0	0	0	0	0	0	0	0
+ Unpaid Cum. Pref.	NA	369,024	72,530	24,294	0	0	0	0	0	0
= Ending USF&G Bal.	4,800,000	5,169,024	5,241,554	5,265,848	5,265,848	5,265,848	5,265,848	5,265,848	5,265,848	5,265,848
+ Cum. Pref. Due										
This Pd. 9.50%	456,000	491,057	497,948	500,256	500,256	500,256	500,256	500,256	500,256	500,256
- Cum. Pref. Paid This Pd.	(86,976)	(418,527)	(473,654)	(500,256)	(500,256)	(500,256)	(500,256)	(500,256)	(500,256)	(500,256)
= Unpaid Cum. Pref. This Period	369,024	72,530	24,294	0	0	0	0	0	0	0

Exhibit V - 3B  
ASSUMPTIONS TABLE  
BRISTOL BAY AT PERICO ISLAND  
Most Likely

Debt : (Assumes 7.5% vacancy throughout holding period)

Mortgage Amount -----	\$7,200,000
Interest Rate -----	9.5%
Pay Rate -----	9.5%
Amortization -----	N/A
Number of Payments per year -----	12
Growth Rate - Income -----	5.0%
Growth Rate - Expenses -----	5.0%
Vacancy Allowance -----	20.0% in year 1 , 7.5% in year 2 and thereafter

Equity :

Equity Capital -----	\$4,800,000
Cumulative Preferred Return -----	9.5%
Yield Maintenance on Equity -----	13.0%
USF&G's Percentage Interest - Cash Flow -----	50.0%
USF&G's Percentage Interest - Sale Proceeds -----	50.0%

	Annual Expenses	Ann. Exp per unit	Ann. Exp. per Sq.Ft.
Operating Expenses :			
Management Fee --	\$82,639	\$456.57	\$0.52
Administrative --	11,659	64.41	0.07
Utilities --	71,997	397.77	0.45
Salaries & P/R Taxes -	64,549	356.62	0.40
Repairs / Maint. --	69,438	383.64	0.43
RE Taxes --	117,926	651.52	0.74
Insurance --	16,292	90.01	0.10
Miscellaneous --	22,344	123.45	0.14
Total Operating Expenses	\$456,844	\$2,524	\$2.86

Capitalization Rate on 11th year Net Operating Income --- 8.5%  
Sales Expenses ----- 3.0%

Cumulative Preferred Return Calculation :	1989	1990	1991	1992	1993	1994	1994	1995	1996	1997	1998
Beginning Equity Bal.	0	4,800,000	5,169,024	5,197,604	5,197,604	5,197,604	5,197,604	5,197,604	5,197,604	5,197,604	5,197,604
+ Equity Contributions	4,800,000	0	0	0	0	0	0	0	0	0	0
+ Unpaid Cum. Pref.	NA	369,024	28,580	0	0	0	0	0	0	0	0
= Ending USF&G Bal.	4,800,000	5,169,024	5,197,604	5,197,604	5,197,604	5,197,604	5,197,604	5,197,604	5,197,604	5,197,604	5,197,604
+ Cum. Pref. Due											
This Pd. 9.50%		456,000	491,057	493,772	493,772	493,772	493,772	493,772	493,772	493,772	493,772
- Cum. Pref. Paid This Pd.		(86,976)	(462,478)	(493,772)	(493,772)	(493,772)	(493,772)	(493,772)	(493,772)	(493,772)	(493,772)
= Unpaid Cum. Pref. This Period		369,024	28,580	0	0	0	0	0	0	0	0

## Exhibit V - 3C

## ASSUMPTIONS TABLE

## HABERSHAM POINTE

## Optimistic

(Assumes 5% vacancy throughout holding period)

## Debt :

Mortgage Amount -----	\$7,200,000
Interest Rate -----	9.5%
Pay Rate -----	9.5%
Amortization -----	N/A
Number of Payments per year -----	12
Growth Rate - Income -----	5.0%
Growth Rate - Expenses -----	5.0%
Vacancy Allowance -----	20.0% in year 1 , 5.0% in year 2 and thereafter

## Equity :

Equity Capital -----	\$4,800,000
Cumulative Preferred Return -----	9.5%
Yield Maintenance on Equity -----	13.0%
USF&G's Percentage Interest - Cash Flow -----	50.0%
USF&G's Percentage Interest - Sale Proceeds -----	50.0%

	Annual Expenses	Ann. Exp per unit	Ann. Exp. per Sq.Ft.
Operating Expenses :			
Management Fee --	\$82,639	\$456.57	\$0.52
Administrative --	11,659	64.41	0.07
Operating Expense --	71,997	397.77	0.45
Grounds Expense --	64,549	356.62	0.40
Repairs / Maint. --	69,438	383.64	0.43
RE Taxes --	117,926	651.52	0.74
Insurance --	16,292	90.01	0.10
Reserves --	22,344	123.45	0.14

Total Operating Expenses	\$456,844	\$2,524	\$2.86
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Capitalization Rate on 11th year Net Operating Income ---	8.5%
Sales Expenses -----	3.0%

Cumulative Preferred Return Calculation :	1989	1990	1991	1992	1993	1994	1994	1995	1996	1997	1998
Beginning Equity Bal.	0	4,800,000	5,169,024	5,169,024	5,169,024	5,169,024	5,169,024	5,169,024	5,169,024	5,169,024	5,169,024
+ Equity Contributions	4,800,000	0	0	0	0	0	0	0	0	0	0
+ Unpaid Cum. Pref.	NA	369,024	0	0	0	0	0	0	0	0	0
= Ending USF&G Bal.	4,800,000	5,169,024	5,169,024	5,169,024	5,169,024	5,169,024	5,169,024	5,169,024	5,169,024	5,169,024	5,169,024
+ Cum. Pref. Due											
This Pd. 9.50%		456,000	491,057	491,057	491,057	491,057	491,057	491,057	491,057	491,057	491,057
- Cum. Pref. Paid This Pd.		(86,976)	(491,057)	(491,057)	(491,057)	(491,057)	(491,057)	(491,057)	(491,057)	(491,057)	(491,057)
= Unpaid Cum. Pref. This Period		369,024	0	0	0	0	0	0	0	0	0

Exhibit V - 4A  
CASH FLOW SUMMARY  
HABERSHAM POINTE  
Conservative

Gross Income : (Assumes 10% vacancy throughout holding period)

Unit Type	# Units	SF per Unit / Rent per SF	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
1/1 Loft	44	787 / .87	363,000	415,800	436,590	458,420	481,340	505,407	530,678	557,212	585,072	614,326	645,042
1/1 Flat	101	828 / .80	805,475	922,635	968,767	1,017,205	1,068,065	1,121,469	1,177,542	1,236,419	1,298,240	1,363,152	1,431,310
2/2 Flat	36	1150 / .74	366,300	419,580	440,559	462,587	485,716	510,002	535,502	562,277	590,391	619,911	650,906
Rental Inc.	181	882 / .80	1,534,775	1,758,015	1,845,916	1,938,212	2,035,122	2,136,878	2,243,722	2,355,908	2,473,704	2,597,389	2,727,258
+ Premiums (Included in Rental Inc)			0	0	0	0	0	0	0	0	0	0	0
+ Other Income (Included)			0	0	0	0	0	0	0	0	0	0	0
= Gross Potential Income			1,534,775	1,758,015	1,845,916	1,938,212	2,035,122	2,136,878	2,243,722	2,355,908	2,473,704	2,597,389	2,727,258
- Vacancy Allowance			(306,955)	(175,802)	(184,592)	(193,821)	(203,512)	(213,688)	(224,372)	(235,591)	(247,370)	(259,739)	(272,726)
= Effective Gross Income			1,227,820	1,582,214	1,661,324	1,744,390	1,831,610	1,923,190	2,019,350	2,120,317	2,226,333	2,337,650	2,454,532
- Operating Expenses			(456,844)	(479,686)	(503,671)	(528,854)	(555,297)	(583,062)	(612,215)	(642,825)	(674,967)	(708,715)	(744,151)
= Net Operating Income			770,976	1,102,527	1,157,654	1,215,536	1,276,313	1,340,129	1,407,135	1,477,492	1,551,367	1,628,935	1,710,382
- Debt Service			(684,000)	(684,000)	(684,000)	(684,000)	(684,000)	(684,000)	(684,000)	(684,000)	(684,000)	(684,000)	(684,000)
= Cash Flow (Deficit) Operations			86,976	418,527	473,654	531,536	592,313	656,129	723,135	793,492	867,367	944,935	0
+ Cash Flow Guarantee (Sanbury)			0	0	0	0	0	0	0	0	0	0	0
= Cash Flow before Cum.Pref.			86,976	418,527	473,654	531,536	592,313	656,129	723,135	793,492	867,367	944,935	0
- Cumulative Preferred Return			(86,976)	(418,527)	(473,654)	(500,256)	(500,256)	(500,256)	(500,256)	(500,256)	(500,256)	(500,256)	(500,256)
= Cash Flow to Split			0	0	0	31,281	92,058	155,873	222,880	293,236	367,111	444,679	0
x USF&G's Percentage Interest			50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
= Cash Flow to USF&G			0	0	0	15,640	46,029	77,937	111,440	146,618	183,556	222,340	0
Projected Sales Price												20,122,138	
Selling Expenses												(603,664)	
Unpaid Mortgage Balance												(7,200,000)	
repayment Penalty												0	
Cash Proceeds From Sale Before Equity Repayment												12,318,474	
USF&G Equity Repayment												(4,800,000)	
Unpaid Cumulative Preferred Return												(465,848)	
Cash Proceeds Available For Yield Maintenance Payment												7,052,626	
USF&G's Yield Maintenance Payment												(2,312,645)	
Cash Proceeds Available For Distribution												4,739,981	
USF&G's Share												2,369,990	
Sanbury's Share												2,369,990	
USF&G Equity Yield Analysis													
USF&G Equity Contrib. (4,800,000)			0	0	0	0	0	0					
Cumulative Preferred Return			86,976	418,527	473,654	500,256	500,256	500,256					
									0	0	0	0	0
									500,256	500,256	500,256	500,256	500,256
Cash Flow from Operations			0	0	0	15,640	46,029	77,937	111,440	146	111,440	146,618	183,556
Return of Equity Capital at Sale			0	0	0	0	0	0	0	0	0	0	0
Unpaid Cum. Pref. at Sale			0	0	0	0	0	0	0	0	0	0	4,800,000
Yield Maintenance at Sale			0	0	0	0	0	0	0	0	0	0	465,848
Cash Proceeds at Sale			0	0	0	0	0	0	0	0	0	0	2,312,645
													2,369,990
Equity Cash Flow	(4,800,000)		86,976	418,527	473,654	515,896	546,284	578,192	611,695	646	611,695	646,874	683,811
													10,671,078
Estimated Yield (IRR) on Equity =			15.0%										
Estimated Yield (IRR) on Debt =			9.5%										
Est. Yield (IRR) on Total Capital - i.e. Debt and Equity =			12.1%										
Annual Return on Equity Capital =			1.8%	8.7%	9.9%	10.7%	11.4%	12.0%	12.7%		12.7%	13.5%	14.2%
Annual Return on Total Capital =			6.4%	9.2%	9.6%	10.0%	10.3%	10.5%	10.8%		10.8%	11.1%	11.7%

Exhibit V - 48  
CASH FLOW SUMMARY  
HABERSHAM POINTE  
Most Likely

Gross Income : (Assumes 7.5% vacancy throughout holding period)

Unit Type	# Units	SF per Unit / Rent per SF	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
1/1 Loft	44	787 / .87	363,000	415,800	436,590	458,420	481,340	505,407	530,678	557,212	585,072	614,326	645,042
1/1 Flat	101	828 / .80	805,475	922,635	968,767	1,017,205	1,068,065	1,121,469	1,177,542	1,236,419	1,298,240	1,363,152	1,431,310
2/2 Flat	36	1150 / .74	366,300	419,580	440,559	462,587	485,716	510,002	535,502	562,277	590,391	619,911	650,906
Rental Inc.	181	882 / .80	1,534,775	1,758,015	1,845,916	1,938,212	2,035,122	2,136,878	2,243,722	2,355,908	2,473,704	2,597,389	2,727,258
+ Premiums (Included in Rental Inc)			0	0	0	0	0	0	0	0	0	0	0
+ Other Income (Included)			0	0	0	0	0	0	0	0	0	0	0
= Gross Potential Income			1,534,775	1,758,015	1,845,916	1,938,212	2,035,122	2,136,878	2,243,722	2,355,908	2,473,704	2,597,389	2,727,258
- Vacancy Allowance			(306,955)	(131,851)	(138,444)	(145,366)	(152,634)	(160,266)	(168,279)	(176,693)	(185,528)	(194,804)	(204,544)
= Effective Gross Income			1,227,820	1,626,164	1,707,472	1,792,846	1,882,488	1,976,612	2,075,443	2,179,215	2,288,176	2,402,585	2,522,714
- Operating Expenses			(456,844)	(479,686)	(503,671)	(528,854)	(555,297)	(583,062)	(612,215)	(642,825)	(674,967)	(708,715)	(744,151)
= Net Operating Income			770,976	1,146,478	1,203,802	1,263,992	1,327,191	1,393,551	1,463,228	1,536,390	1,613,209	1,693,870	1,778,563
- Debt Service			(684,000)	(684,000)	(684,000)	(684,000)	(684,000)	(684,000)	(684,000)	(684,000)	(684,000)	(684,000)	(684,000)
= Cash Flow (Deficit) Operations			86,976	462,478	519,802	579,992	643,191	709,551	779,228	852,390	929,209	1,009,870	
+ Cash Flow Guarantee (Sanbury)			0	0	0	0	0	0	0	0	0	0	
= Cash Flow before Cum.Pref.			86,976	462,478	519,802	579,992	643,191	709,551	779,228	852,390	929,209	1,009,870	
- Cumulative Preferred Return			(86,976)	(462,478)	(493,772)	(493,772)	(493,772)	(493,772)	(493,772)	(493,772)	(493,772)	(493,772)	
= Cash Flow to Split			0	0	26,029	86,219	149,419	215,778	285,456	358,617	435,437	516,097	
x USF&G's Percentage Interest			50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	
= Cash Flow to USF&G			0	0	13,015	43,110	74,709	107,889	142,728	179,309	217,718	258,049	
Projected Sales Price												20,924,273	
- Selling Expenses												(627,728)	
- Unpaid Mortgage Balance												(7,200,000)	
- Prepayment Penalty												0	
= Cash Proceeds From Sale Before Equity Repayment												13,096,544	
- USF&G Equity Repayment												(4,800,000)	
- Unpaid Cumulative Preferred Return												(397,604)	
= Cash Proceeds Available For Yield Maintenance Payment												7,898,941	
- USF&G's Yield Maintenance Payment												(1,933,486)	
= Cash Proceeds Available For Distribution												5,965,455	
= USF&G's Share												2,982,728	
= Sanbury's Share												2,982,728	
USF&G Equity Yield Analysis													
USF&G Equity Contrib. (4,800,000)			0	0	0	0	0	0	0	0	0	0	0
Cumulative Preferred Return			86,976	462,478	493,772	493,772	493,772	493,772	493,772	493,772	493,772	493,772	
Cash Flow from Operations			0	0	13,015	43,110	74,709	107,889	142,728	179,309	217,718	258,049	
Return of Equity Capital at Sale			0	0	0	0	0	0	0	0	0	4,800,000	
Unpaid Cum. Pref. at Sale			0	0	0	0	0	0	0	0	0	397,604	
Yield Maintenance at Sale			0	0	0	0	0	0	0	0	0	1,933,486	
Cash Proceeds at Sale			0	0	0	0	0	0	0	0	0	2,982,728	
Equity Cash Flow	(4,800,000)		86,976	462,478	506,787	536,882	568,482	601,662	636,500	673,081	711,491	10,865,638	
Estimated Yield (IRR) on Equity =			15.5%										
Estimated Yield (IRR) on Debt =			9.5%										
Est. Yield (IRR) on Total Capital - i.e. Debt and Equity =			12.3%										
Annual Return on Equity Capital =			1.8%	9.6%	10.6%	11.2%	11.8%	12.5%	13.3%	14.0%	14.8%	15.7%	
Annual Return on Total Capital =			6.4%	9.6%	9.9%	10.2%	10.4%	10.7%	11.0%	11.3%	11.6%	12.0%	

CASH FLOW SUMMARY  
NABERSHAM POINTE

Optimistic

(Assumes 5% vacancy throughout holding period)

Gross Income :

Unit Type	# Units	SF per Unit / Rent per SF	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
1/1 Loft	44	787 / .87	363,000	415,800	436,590	458,420	481,340	505,407	530,678	557,212	585,072	614,326	645,042
1/1 Flat	101	828 / .80	805,475	922,635	968,767	1,017,205	1,068,065	1,121,469	1,177,542	1,236,419	1,298,240	1,363,152	1,431,310
2/2 Flat	36	1150 / .74	366,300	419,580	440,559	462,587	485,716	510,002	535,502	562,277	590,391	619,911	650,906
Rental Inc.	181	882 / .80	1,534,775	1,758,015	1,845,916	1,938,212	2,035,122	2,136,878	2,243,722	2,355,908	2,473,704	2,597,389	2,727,258
+ Premiums (Included in Rental Inc)			0	0	0	0	0	0	0	0	0	0	0
+ Other Income (Included)			0	0	0	0	0	0	0	0	0	0	0
= Gross Potential Income			1,534,775	1,758,015	1,845,916	1,938,212	2,035,122	2,136,878	2,243,722	2,355,908	2,473,704	2,597,389	2,727,258
- Vacancy Allowance			(306,955)	(87,901)	(92,296)	(96,911)	(101,756)	(106,844)	(112,186)	(117,795)	(123,685)	(129,869)	(136,363)
= Effective Gross Income			1,227,820	1,670,114	1,753,620	1,841,301	1,933,366	2,030,034	2,131,536	2,238,113	2,350,018	2,467,519	2,590,895
- Operating Expenses			(456,844)	(479,686)	(503,671)	(528,854)	(555,297)	(583,062)	(612,215)	(642,825)	(674,967)	(708,715)	(744,151)
= Net Operating Income			770,976	1,190,428	1,249,949	1,312,447	1,378,069	1,446,973	1,519,321	1,595,287	1,675,052	1,758,804	1,846,745
- Debt Service			(684,000)	(684,000)	(684,000)	(684,000)	(684,000)	(684,000)	(684,000)	(684,000)	(684,000)	(684,000)	(684,000)
= Cash Flow (Deficit) Operations			86,976	506,428	565,949	628,447	694,069	762,973	835,321	911,287	991,052	1,074,804	
+ Cash Flow Guarantee (Sanbury)			0	0	0	0	0	0	0	0	0	0	
= Cash Flow before Cum.Pref.			86,976	506,428	565,949	628,447	694,069	762,973	835,321	911,287	991,052	1,074,804	
- Cumulative Preferred Return			(86,976)	(491,057)	(491,057)	(491,057)	(491,057)	(491,057)	(491,057)	(491,057)	(491,057)	(491,057)	
= Cash Flow to Split			0	15,371	74,892	137,390	203,012	271,915	344,264	420,230	499,995	583,747	
x USF&G's Percentage Interest			50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	
= Cash Flow to USF&G			0	7,685	37,446	68,695	101,506	135,958	172,132	210,115	249,997	291,874	
Projected Sales Price												21,726,407	
- Selling Expenses												(651,792)	
- Unpaid Mortgage Balance												(7,200,000)	
- Prepayment Penalty												0	
= Cash Proceeds From Sale Before Equity Repayment												13,874,615	
- USF&G Equity Repayment												(4,800,000)	
- Unpaid Cumulative Preferred Return												(369,024)	
= Cash Proceeds Available For Yield Maintenance Payment												8,705,591	
- USF&G's Yield Maintenance Payment												(1,542,349)	
= Cash Proceeds Available For Distribution												7,163,242	
= USF&G's Share												3,581,621	
= Sanbury's Share												3,581,621	
<b>USF&amp;G Equity Yield Analysis</b>													
USF&G Equity Contrib. (4,800,000)			0	0	0	0	0	0	0	0	0	0	0
Cumulative Preferred Return			86,976	491,057	491,057	491,057	491,057	491,057	491,057	491,057	491,057	491,057	491,057
Cash Flow from Operations			0	7,685	37,446	68,695	101,506	135,958	172,132	210,115	249,997	291,874	
Return of Equity Capital at Sale			0	0	0	0	0	0	0	0	0	4,800,000	
Unpaid Cum. Pref. at Sale			0	0	0	0	0	0	0	0	0	369,024	
Yield Maintenance at Sale			0	0	0	0	0	0	0	0	0	1,542,349	
Cash Proceeds at Sale			0	0	0	0	0	0	0	0	0	3,581,621	
Equity Cash Flow			(4,800,000)	86,976	498,743	528,503	559,752	592,563	627,015	663,189	701,172	741,055	11,075,925
Estimated Yield (IRR) on Equity =				16.0%									
Estimated Yield (IRR) on Debt =				9.5%									
Est. Yield (IRR) on Total Capital - i.e. Debt and Equity =				12.6%									
Annual Return on Equity Capital =			1.8%	10.4%	11.0%	11.7%	12.3%	13.1%	13.8%	14.6%	15.4%	16.3%	
Annual Return on Total Capital =			6.4%	9.9%	10.1%	10.4%	10.6%	10.9%	11.2%	11.5%	11.9%	12.2%	



Exhibit V - 5A  
INVESTOR'S YIELD SUMMARY  
HABERSHAM POINTE  
Conservative  
(Assumes 10% vacancy throughout holding period)

Note :	(1)	(2)	(3)	(4)	(5)	(6)		
Loan Year	Annual Debt Service	Unpaid Mortgage Balance	Cumulative Preferred Return	Cash Flow - Operations	Unpaid Equity Balance	Unpaid Cum Pref	Cash Flow - Sale	Total Cash Flow - USF&G
1	684,000		86,976	0				770,976
2	684,000		418,527	0				1,102,527
3	684,000		473,654	0				1,157,654
4	684,000		500,256	15,640				1,199,896
5	684,000		500,256	46,029				1,230,284
6	684,000		500,256	77,937				1,262,192
7	684,000		500,256	111,440				1,295,695
8	684,000		500,256	146,618				1,330,874
9	684,000		500,256	183,556				1,367,811
10	684,000	7,200,000	500,256	222,340	4,800,000	465,848	2,369,990	16,242,434
Estimated Yield (IRR) on total capital =				12.1%				
Estimated Yield (IRR) on equity capital =				15.0%				

- (1) Original Loan Balance = \$7,200,000 .
- (2) USF&G receives a 9.5% cumulative preferred return on its outstanding equity capital .
- (3) USF&G receives 50.0% of cash flow from operations after debt service payments and payment of its cumulative preferred return .
- (4) USF&G's initial equity contribution = \$4,800,000 .
- (5) Unpaid cumulative preferred return equals the difference between its ending balance (\$5,265,848) and its beginning balance (\$4,800,000) .
- (6) USF&G's cash proceeds from sale is derived by subtracting the sum of USF&G's (a) unpaid mortgage balance , (b) unpaid equity balance , (c) unpaid cumulative preferred return and (d) yield maintenance payment at 13.0% from net sales proceeds (\$19,518,474) , and multiplying the difference by 50.0% .

Exhibit V - 5B  
INVESTOR'S YIELD SUMMARY  
HABERSHAM POINTE

(Assumes 7.5% vacancy throughout holding period)

Note :	(1)	(2)	(3)	(4)	(5)	(6)	
Loan Year	Annual Debt Service	Unpaid Mortgage Balance	Cumulative Preferred Return	Cash Flow - Operations	Unpaid Equity Balance	Unpaid Cum Pref	Total Cash Flow - USF&G
1	684,000		86,976	0			770,976
2	684,000		462,478	0			1,146,478
3	684,000		493,772	13,015			1,190,787
4	684,000		493,772	43,110			1,220,882
5	684,000		493,772	74,709			1,252,482
6	684,000		493,772	107,889			1,285,662
7	684,000		493,772	142,728			1,320,500
8	684,000		493,772	179,309			1,357,081
9	684,000		493,772	217,718			1,395,491
10	684,000	7,200,000	493,772	258,049	4,800,000	397,604	2,982,728
							16,816,152
	Estimated Yield (IRR) on total capital =			12.3%			
	Estimated Yield (IRR) on equity capital =			15.5%			

- (1) Original Loan Balance = \$7,200,000 .
- (2) USF&G receives a 9.5% cumulative preferred return on its outstanding equity capital .
- (3) USF&G receives 50.0% of cash flow from operations after debt service payments and payment of its cumulative preferred return .
- (4) USF&G's initial equity contribution = \$4,800,000 .
- (5) Unpaid cumulative preferred return equals the difference between its ending balance (\$5,197,604) and its beginning balance (\$4,800,000) .
- (6) USF&G's cash proceeds from sale is derived by subtracting the sum of USF&G's (a) unpaid mortgage balance , (b) unpaid equity balance , (c) unpaid cumulative preferred return and (d) yield maintenance payment at 13.0% from net sales proceeds (\$20,296,545) , and multiplying the difference by 50.0% .

Exhibit V - 5C  
INVESTOR'S YIELD SUMMARY  
HABERSHAM POINTE  
Optimistic  
(Assumes 5% vacancy throughout holding period)

Note :	(1)	(2)	(3)	(4)	(5)	(6)	
Loan Year	Annual Debt Service	Unpaid Mortgage Balance	Cumulative Preferred Return	Cash Flow - Operations	Unpaid Equity Balance	Unpaid Cum Pref	Total Cash Flow - USF&G
1	684,000		86,976	0			770,976
2	684,000		491,057	7,685			1,182,743
3	684,000		491,057	37,446			1,212,503
4	684,000		491,057	68,695			1,243,752
5	684,000		491,057	101,506			1,276,563
6	684,000		491,057	135,958			1,311,015
7	684,000		491,057	172,132			1,347,189
8	684,000		491,057	210,115			1,385,172
9	684,000		491,057	249,997			1,425,055
10	684,000	7,200,000	491,057	291,874	4,800,000	369,024	3,581,621
							17,417,576
	Estimated Yield (IRR) on total capital =			12.6%			
	Estimated Yield (IRR) on equity capital =			16.0%			

- (1) Original Loan Balance = \$7,200,000 .
- (2) USF&G receives a 9.5% cumulative preferred return on its outstanding equity capital .
- (3) USF&G receives 50.0% of cash flow from operations after debt service payments and payment of its cumulative preferred return .
- (4) USF&G's initial equity contribution = \$4,800,000 .
- (5) Unpaid cumulative preferred return equals the difference between its ending balance (\$5,169,024) and its beginning balance (\$4,800,000) .
- (6) USF&G's cash proceeds from sale is derived by subtracting the sum of USF&G's (a) unpaid mortgage balance , (b) unpaid equity balance , (c) unpaid cumulative preferred return and (d) yield maintenance payment at 13.0% from net sales proceeds (\$21,074,615) , and multiplying the difference by 50.0% .

Exhibit V - 6A  
 SENSITIVITY ANALYSIS  
 HABERSHAM POINTE  
 Conservative  
 (Assumes 10% vacancy throughout holding period)

Return on Total Capital

Overall Cap Rate	Growth Rate		
	3.0%	5.0%	7.0%
9.00%	11.0%	11.9%	12.8%
8.50%	11.2%	12.1%	13.1%
8.00%	11.4%	12.4%	13.4%

Return on Equity Capital

Overall Cap Rate	Growth Rate		
	3.0%	5.0%	7.0%
9.00%	12.8%	14.6%	16.4%
8.50%	13.2%	15.0%	16.8%
8.00%	13.6%	15.4%	17.3%

Exhibit V - 6B  
 SENSITIVITY ANALYSIS  
 HABERSHAM POINTE  
 Most Likely  
 (Assumes 7.5% vacancy throughout holding period)

Return on Total Capital

Overall Cap Rate	Growth Rate		
	3.0%	5.0%	7.0%
9.00%	11.2%	12.1%	13.1%
8.50%	11.4%	12.3%	13.4%
8.00%	11.7%	12.6%	13.6%

Return on Equity Capital

Overall Cap Rate	Growth Rate		
	3.0%	5.0%	7.0%
9.00%	13.3%	15.1%	16.9%
8.50%	13.7%	15.5%	17.3%
8.00%	14.1%	15.9%	17.8%

Exhibit V - 6C  
 SENSITIVITY ANALYSIS  
 HABERSHAM POINTE  
 Optimistic  
 (Assumes 5% vacancy throughout holding period)

Return on Total Capital

Overall Cap Rate	Growth Rate		
	3.0%	5.0%	7.0%
9.00%	11.4%	12.3%	13.3%
8.50%	11.6%	12.6%	13.6%
8.00%	11.9%	12.8%	13.9%

Return on Equity Capital

Overall Cap Rate	Growth Rate		
	3.0%	5.0%	7.0%
9.00%	13.7%	15.5%	17.4%
8.50%	14.1%	16.0%	17.8%
8.00%	14.6%	16.4%	18.3%