

**MEADOW BROOK CORPORATE PARK
BUILDINGS 1,2, AND 3
BIRMINGHAM, ALABAMA**

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



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I. INTRODUCTION

PIEDMONT REALTY ADVISORS

1150 CONNECTICUT AVENUE, N. W.

SUITE 705

WASHINGTON, D. C. 20036

202-822-9000

April 30, 1987

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

**Re: Meadow Brook Office Park
Buildings 1,2, and 3
Birmingham, Alabama**

Dears Sirs and Madam:

Enclosed for your review is an investment report on three office buildings developed by Daniel Realty Corporation in Birmingham, Alabama. Meadow Brook 1 and 2 are 100% pre-leased to RUST International and are the collateral for a proposed \$23,500,000 participating mortgage. Meadow Brook 3 is 71% pre-leased to tenants which include USF&G, Daniel Realty, and RUST International, and this building would be the collateral for a proposed \$11,750,000 participating mortgage. Piedmont Realty Advisors reviewed the investments with the Real Estate Investment Committee on March 25, 1987. This report documents the presentation, provides the detailed analysis, and includes our investment recommendations. Summaries of the proposed investments appear as Exhibits I-1 and I-2.

Properties - The properties under consideration for the investment are three office buildings of similar size and construction located in the Meadow Brook Corporate Park, a development of Daniel Realty Corporation in Birmingham, Alabama. The Park lies at the southern end of Birmingham's rapidly growing Highway 280 office corridor nine miles southeast of downtown. The Park has excellent access to area amenities, the recently completed I-459 beltway, and Birmingham's better residential neighborhoods.

Meadow Brook 1,2, and 3 will all have poured-in-place concrete frames with concrete slab foundations and drilled and filled footings. Meadow Brook 1 and 2 will have rose-colored precast concrete panels alternating with ribbon vision glass, and Meadow Brook 3 will have sand colored precast panels, polished granite accent stripes and ribbon vision glass.

Meadow Brook 1 is a seven-story completed and occupied structure with 150,000 gross square feet and 126,502 usable square feet. Meadow Brook 2 is 85% complete and scheduled for full occupancy September 1, 1987. It is a six-story structure with 145,000 gross square feet and 126,430 usable

square feet. Meadow Brook 3 is scheduled to begin construction May 1, 1987 with completion of the five-story 135,000 gross square foot building expected by May 1988.

The three subject properties are the first major developments in the 179-acre Meadow Brook Corporate Park. The Park is planned for total development of 1.5 million square feet of office space in 15 buildings over the next five to ten years. The Park is already improved with heavily landscaped access roads and a 13-acre lake with waterfalls, fountain sprays, and jogging trails around its perimeter.

Market - The Birmingham market comprises five counties with a population of 934,000. The total inventory of multi-tenant Class A office space is 4,250,000 square feet, double the amount of space available in 1981. This rapid new development has mainly focused on the Highway 280 corridor which lies southeast of downtown and contains the subject properties.

Vacancy rates in the Birmingham area are about 19%, with 20% vacancy rates being experienced in the Highway 280 corridor. This vacancy reflects an over-supply of office space rather than a decrease in demand. Absorption has remained strong in the Highway 280 area averaging 360,000 square feet absorbed per year for the past four years. Rents in the area range from \$13.50 to \$15.90 per net rentable square foot with expense stops of \$4.50 to \$5.00; rental concessions are typically 1 to 1-1/2 months of free rent for each lease year.

The subject properties are well insulated from this current market softness since they are substantially pre-leased. Meadow Brook 1 is 100% leased and occupied by the engineering firm RUST International. Meadow Brook 2 is also 100% leased by RUST with occupancy scheduled for September 1987. The leases are for a ten-year term with one 5-year option. Rental rates are \$10.70 per usable square foot through year 5 when they step-up to \$14.40 for the balance of the term. Expenses are stopped at \$2.17 per foot through year 5 and \$2.50 thereafter. Meadow Brook 3 is 71% pre-leased to several tenants that include USF&G, Daniel Realty and RUST. Rates average \$15.12 per foot with \$5.00 expense stops projected.

Borrower - The borrowing entities for these two mortgages will be limited partnerships formed by Daniel Realty Corporation and its affiliates. Daniel Realty Corporation will also be the developer of the projects.

Daniel Realty Corporation was formed in 1964 to manage properties and projects constructed by Daniel International Corporation. In 1977 Daniel was purchased by the Fluor Corporation and in 1986 Daniel Realty Corporation was purchased from Fluor by the senior management of Daniel Realty in partnership with a wealthy Swiss citizen of Saudi Arabian ancestry. Daniel currently manages over 3 million square feet of commercial space and over 6,000 apartment units. Since the buy-out Daniel has increased its emphasis on development activity with the Meadow Brook Corporate Park in Birmingham and the Old Mansion Site in Richmond, Virginia.

Risk and Return - Due to the significant pre-leasing and the advanced stage of development for the buildings a substantial amount of risk has been eliminated from these investments. Meadow Brook 1 and 2 are 100% leased to RUST International, a major engineering firm with annual sales of \$500 million. Rust's rental rates are 15-20% below market, which enhances the security of the investment since any re-leasing of the space at market will improve the investment's yield. Meadow Brook 3 is 71% pre-leased to major tenants at market rates, and Daniel has 12 months to lease the remaining 35,000 square feet before the building opens.

The loans are to fund in three \$11,750,000 increments with the first funding scheduled for 60 days from commitment, the second six months from commitment, and the third within 18 months of commitment. This funding schedule reduces the interest rate risk associated with forward commitments.

The improvements of Meadow Brook 1 and 2 are subject to a fully subordinated ground lease. The term of the lease is 50 years with four 10-year extensions for a total of 90 years. Lease payments total \$130,016 per year for the first ten years, and are adjusted every ten years to equal 1% of the value of the land and improvements. The ground lessor is an affiliate of Daniel Realty and the lease will be subordinated to USF&G's first mortgage. This provides an equity "cushion" of approximately 10% of the properties' value in the event of foreclosure. Additionally, the mortgages will contain cross default provisions for all three properties.

Base debt service will be 8.50% for both mortgages, and USF&G will participate in 50% of cash flow and 50% of sale proceeds. USF&G will also receive 2 points as an origination fee. Due to the terms of RUST's 10-Year lease, the Meadow Brook 1 and 2 mortgage will not provide significant participations until year 6 when RUST's lease payments increase 35%, and upon sale when the rents move to market. Meadow Brook 3 is more evenly balanced with regard to cash flow and residual participations.

USF&G Real Estate Investment Committee Members

April 30, 1987

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Assuming 5% inflation the expected yield for Meadow Brook 1 and 2 is 11.24%, and the expected yield for Meadow Brook 3 is 11.53%. Piedmont Realty Advisors believes that these yields are adequate and competitive given the minimal risks in these investments.

Therefore, we recommend that USF&G issue permanent loan commitments in the amount of \$23,500,000 for Meadow Brook 1 and 2, and in the amount of \$11,750,000 for Meadow Brook 3 under the terms and conditions outlined in this report. If you have any questions, please feel free to call me or Dan Kohlhepp.

Sincerely,



William C. Hunter
Senior Acquisitions Associate

WCH:clg
Enclosures

Exhibit I-1
APPLICATION LETTER
MEADOW BROOK 1 AND 2

PIEDMONT REALTY ADVISORS

1150 CONNECTICUT AVENUE, N. W.

SUITE 705

WASHINGTON, D. C. 20036

202-822-9000

March 23, 1987

Mr. Jack Peterson
Investment Officer
Daniel Realty Corporation
One Meadow Brook Corporate Park
P.O. Box 43250
Birmingham, Alabama 35243-0250

Re: Meadow Brook Corporate Park, Buildings 1 and 2

Dear Jack:

Piedmont Realty Advisors is prepared to recommend to its client's Investment Committee that it issue a commitment for a participating mortgage on the above captioned properties subject to the following terms and conditions:

Property: Meadow Brook Corporate Park -- Buildings 1 and 2
Combined, the existing office structures consist of 263,387 square feet of useable area which are 100% leased to Rust International Corporation.

Building One: 7-story office building containing 126,502 square feet of useable area.

Building Two: 6-story building containing 126,430 square feet of useable area.

Location: The buildings are located on the west side of South Highway 280 in the Meadow Brook planned community, approximately nine miles southeast of Birmingham, Alabama in north Shelby County.

Land Area: Subject to the terms of a ground lease which is summarized in Exhibit A.

Borrower: Daniel Meadow Brook One, Ltd. a Virginia limited partnership, the general partners of which are Daniel Realty Company - Meadow Brook One, a Virginia corporation, and Danial Realty Company, a New York general partnership.

Lender: USF&G Realty Company

Loan Amount: \$23,500,000

Mr. Jack Peterson
Meadwo Brook Corporate Park 1 & 2
March 23, 1987
Page Two

Interest Rate: 8.50%

Term: 20 Years

Amortization: Not applicable, interest only.

Recourse: This will be a non-recourse loan.

Call Option: Lender has the right to call loan anytime after the 11th year. Lender will give Borrower 12 months written notice of intent to call the loan.

Prepayment: *

- * No prepayment through year 10.
- * Prepayment fee of 1% of the outstanding loan balance in year 11 and thereafter.
- * No prepayment fee if Lender exercises its call option, the loan matures, or the property is sold to an unrelated third party.

Additional Interest:

A. Operations: Lender receives 50% of the project's annual net cash flow. Net cash flow shall be defined as all collected gross revenue less all approved operating expenses and base debt service. Additional interest payments are payable monthly.

B. Sale or Refinancing: Lender receives 50% of the difference between the net sales price (selling expenses not to exceed 3%) and the outstanding loan balance if the property is sold, or 50% of the difference between the appraised value and the outstanding loan balance if the property is not sold before the loan is called, refinanced, or matures.

Commitment Fee: \$705,000, \$470,000 in cash which is earned upon acceptance of the commitment, and \$235,000 in an unconditional irrevocable letter of credit in a form acceptable to Lender which shall be refunded to Borrower at closing.

Initial Funding: \$23,500,000; Funding will occur within 30 days after receipt of the certificate of occupancy for both buildings. Funding must occur within seven months of the acceptance of this commitment.

Mr. Jack Peterson
Meadow Brook Corporate Park 1 & 2
March 23, 1987
Page Three

Contingencies:

A. Plans and

Specifications: The Lender reserves the right to review and approve the plans and specifications for all improvements and to inspect and approve all improvements.

B. Secondary

Financing: Secondary financing is not permitted.

C. Market Value

Appraisal: Lender will receive a market value estimate of the properties from an approved MAI-designated appraiser which is not less than \$26,400,000.

D. Lender

Approval: This application must be approved by the Lender's Investment Committee.

E. Tri-Party

Agreement: The commitment is contingent upon the Lender, Borrower, and Interim Lender entering into an acceptable Tri-Party Agreement within 90 days after acceptance of the commitment.

F. Right of First

Offer: If the Borrower desires to sell the properties, the Lender shall have the right of first offer to purchase the properties.

G. Budget

Approval: The Lender reserves the right to review and approval annual operating and capital budgets.

H. Economic Due

Diligence: The issuance of a commitment is contingent upon Piedmont Realty Advisors satisfactorily completing its economic due diligence including but not limited to the review and approval of Rust International Corporation's financial strength and current credit rating.

I. Rust International Corporation's

Lease: Issuance of the commitment will be contingent upon Lender's review and approval of the Rust International lease, and initial funding will be contingent upon the Rust International lease being in full force and effect.

Mr. Jack Peterson
Meadow Brook Corporate Park 1 & 2
March 23, 1987
Page Four

J. Cross Default

Provision: The commitment and mortgage on Meadow Brook I and II will have cross-default provisions with the commitment and mortgage on Meadow Brook III.

K. Master

Lease: Daniel Realty Corporation will master lease the project for 24 months or breakeven cash flow, which occurs first. The rental rate of the master lease must be sufficient to cover operating expenses and base debt services.

L. Syndication: Lender will allow a one-time syndication of the property provided that (a) the Borrowers retain at least 51% of the general partnership interest in the property, and (b) that the syndication occurs within 24 months from the acceptance of the commitment. Lender reserves the right to approve the syndication.


M. Ground Lease

Subordination: The commitment will be contingent upon the ground lessor subordinating its fee interest in the land to this mortgage.

h 50k
\$25,000
If the terms outlined in this letter are acceptable, please have the appropriate party sign below and return this letter with an application fee of ~~\$50,000~~ by March 25, 1987. The application fee should be wired to a custodial account. Please call me for wiring instructions. The application fee will be returned to the Borrower if the Lender does not issue a commitment according to the terms of this letter. The application fee will be earned upon issuance of the commitment by the Lender in accordance with this letter. The application fee will be applied to the cash commitment, and the cash commitment fee will be reduced by \$50,000.

Sincerely,


Daniel B. Kohlhepp
Vice President

 V.P.
Signed Title

3.24.87
Date

Exhibit A

GROUND LEASE SUMMARY

	<u>Building One</u>	<u>Building Two</u>
Lessor:	Daniel U.S. Properties, Ltd.	Same
Land Area:	8.317 acres	10.253 acres
Value at Transfer	\$618,000	\$700,000
Term:	50 years	50 years
Options to Extend:	Four at 10 years each. Lessee's option to extend must be exercised 13 months prior to expiration of current term.	
Commencement Date:	October 1, 1985	November 1, 1986
Rent:	Year 1-10: \$58,244 annually, paid in equal monthly installments.	Year 1-10: \$71,772 annually, paid in equal monthly installments.
	Each subsequent ten-year period annual rent will be established at 10% of the fair market value of the land as of the first day of each ten-year period.	
Expenses:	All taxes, assessments and other costs associated with the land are borne by the lessee.	
Subordination:	Lessor will subordinate its fee interest in the land to any mortgage less than or equal to 90% of the fair market value of the land and building.	
Lessee's Option to Purchase:	10% of the fair market value of the land and building (as encumbered by the Ground Lease).	
	Lessee also has right of first refusal to purchase land.	

PIEDMONT REALTY ADVISORS

1150 CONNECTICUT AVENUE, N. W.

SUITE 705

WASHINGTON, D. C. 20036

202-822-9000

April 1, 1987

Mr. Jack Peterson
Investment Officer
Daniel Realty Corporation
One Meadow Brook Corporate Park
P.O. Box 43250
Birmingham, Alabama 35243-0250

Re: Meadow Brook Corporate Park, Buildings 1 and 2
Birmingham, Alabama

Dear Jack:

As you requested, Piedmont Realty Advisors is prepared to amend its letter dated March 23, 1987 concerning financing of the above referenced property to provide for a split funding of the loan because Building 1 will be completed approximately six months prior to the completion of Building 2. The changes to accomplish this are as follows:

Change 1

Initial Funding: \$11,750,000; Initial Funding will occur within 30 days after receipt of the certificate of occupancy for Building 1. Funding must occur within two months after the acceptance of the commitment.

Change 2

Subsequent Fundings: \$11,750,000; Subsequent Funding will occur within 30 days after receipt of the certificate of occupancy for Building 2. Funding must occur within seven months after the acceptance of the commitment.

Change 3

Tri-Party
Agreement:

Since the loan will be closed and funded within 60 days after the acceptance of the commitment, a Tri-Party Agreement will not be necessary.

Mr. Jack Peterson
April 1, 1987
Page Two

Change 4

Rust International Corporation's
Lease:

The commitment will be contingent upon the Lender's review and approval of Rust International Corporation's lease, and initial funding and subsequent funding will be contingent upon this lease being in full force and effect.

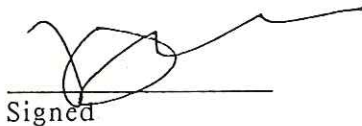
Please indicate your agreement with these changes by having the appropriate party sign below, and returning a copy of this letter to me.

Sincerely,


Daniel B. Kohlhepp
Vice President

DBK:clg

Agreed:


Signed

4-3-87
Date

Investment Officer
Title

Exhibit I-2
APPLICATION LETTER
MEADOW BROOK 3

PIEDMONT REALTY ADVISORS
1150 CONNECTICUT AVENUE, N. W.
SUITE 705
WASHINGTON, D. C. 20036
202-822-9000

March 23, 1987

Mr. Jack Peterson
Investment Officer
Daniel Realty Corporation
One Meadow Brook Corporate Park
P.O. Box 43250
Birmingham, Alabama 35243-0250

Re: Meadow Brook Corporate Park -- Building 3

Dear Jack:

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

Property: Meadow Brook Corporate Park -- Building 3

A proposed 4-1/2 story office building containing not less than 119,871 net rentable square feet. This building is 73% pre-leased to the tenants listed in Exhibit A.

Location: The building is located on the west side of South Highway 280 in the Meadow Brook planned community, approximately nine miles southeast of Birmingham, Alabama in north Shelby County.

Land Area: 7.25 Acres

Borrower: Daniel Meadow Brook III L.P., a Virginia limited partnership the general partners of which are Daniel Realty Corp. and Daniel Realty Company.

Lender: USF&G Realty Company

Loan Amount: \$11,750,000

Interest Rate: 8.50%

Term: 20 Years

Amortization: Not applicable, interest only

Recourse: This will be a non-recourse loan.

Mr. Jack Peterson
Meadow Brook Corporate Park 3
March 23, 1987
Page Two

Call Option: Lender has the right to call the loan anytime after the 10th year. Lender will give Borrower 12 months written notice of intent to call the loan.

Prepayment:

- * No prepayment through year 10.
- * Prepayment fee of 1% of the outstanding loan balance in year 11 and thereafter.
- * No prepayment fee if Lender exercises its call option, the loan matures, or the property is sold to an unrelated third party.

Additional Interest

A. Operations: Lender receives 50% of the project's annual net cash flow. Net cash flow shall be defined as all collected gross revenue less all approved operating expenses and base debt service. Additional interest payments are payable monthly.

B. Sale or

Refinancing: Lender receives 50% of the difference between the net sales price (selling expenses not to exceed 3%) and the outstanding loan balance if the property is sold, or 50% of the difference between the appraised value and the outstanding loan balance if the property is not sold before the loan is called, refinanced, or matures.

Commitment Fee: \$352,500. \$235,000 in cash which is earned upon acceptance of the commitment, and \$117,500 in an unconditional irrevocable letter of credit in a form acceptable to Lender which shall be refunded to Borrower at closing.

Initial Funding: \$9,593,872. Initial funding will occur within 30 days after receipt of the certificate of occupancy provided all leases in Exhibit A are in full force and effect. Funding must occur within 18 months from acceptance of the commitment.

Holdbacks:

A. Tenant

Improvements: \$1,326,480; disbursed for actual costs not to exceed an average of \$12.00 per square foot of usable office space as space is leased and tenant improvements are completed. Full disbursement will occur at 95% occupancy.

Mr. Jack Peterson
Meadow Brook Corporate Park 3
March 23, 1987
Page Three

B. Leasing

Commissions: \$79,648; disbursed as commissions are paid on 32,116 square feet of unleased space, not to exceed an average of \$2.48 per square foot of rentable, non pre-leased area. Full disbursement will occur at 95% occupancy.

C. Economic

Holdback: \$750,000; disbursed at a rate of \$3.02 per \$1.00 of annualized gross income collected in excess of \$1,522,367. Borrower has 24 months after initial funding to earnout the economic holdback. Disbursement of the economic holdback may occur after the 24-month earn-out period if the leases were finalized during that period.

The economic holdback will be disbursed using effective rents. The Lender will exempt a 10% discount (e.g. 3.6 months on a 3 year lease, 6 months on a 5-year lease, etc.) from the calculation of effective rents. If however, discounts exceed 10%, there will be an effective reduction in the rental income used in the calculation of the disbursement of the economic holdback. Discounts which occur before the initial funding will be exempt from the 10% allowance. See Exhibit B for examples for the calculation of effective rents.

Contingencies:

A. Plans and

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

B. Leases: Lender reserves the right to review and approve all leases subject to agreed upon leasing standards.

C. Secondary

Financing: Secondary financing is not permitted.

D. Market Value

Appraisal: Lender will receive a market value estimate of the property from an approved MAI-designated appraiser which is not less than \$13,800,000.

E. Lender

Approval: This application must be approved by the Lender's Investment Committee.

Mr. Jack Peterson
Meadow Brook Corporate Park 3
March 23, 1987
Page Four

F. Tri-Party

Agreement: The commitment is contingent upon the Lender, Borrower, and Interim Lender successfully entering into an acceptable Tri-Party Agreement within 90 days after the acceptance of the commitment.

G. Right of

First Offer: If the Borrower desires to sell the property, the Lender shall have the right of first offer to purchase the subject property.

H. Budget

Approval: The Lender reserves the right to review and approve annual operating and capital budgets.

I. Economic Due

Diligence: The issuance of a commitment is contingent upon Piedmont Realty Advisors satisfactorily completing its economic due diligence.

J. General

Contractor: The Lender reserves the right to approve the general contractor.

K. Existing

Leases: *AW* *pk*
~~Issuance of~~ The commitment is contingent upon Lender's approval of all existing leases listed in Exhibit A, and initial funding is contingent upon the existing leases being in full force and effect.

L. Master

Lease: Daniel Realty Corporaton will master lease the project for 24-months or breakeven, whichever occurs first. The rental rate of the master lease must be sufficient to cover operating expenses and base debt service. As third party leases are signed, the master lease will be reduced correspondingly.

M. Cross-Default

Provisions: The commitment and mortgage on Meadow Brook III will have cross default provisions with the commitment and mortgage on Meadow Brook I and II.

Mr. Jack Peterson
Meadow Brook Corporate Park 3
March 23, 1987
Page Five

N. Syndication: Lender will allow a one-time syndication of the property provided that (a) the Borrower retain at least 51% of the general partnership interest in the property and (b) that the syndication occur within 48 months from the acceptance of the commitment. Lender reserves the right to approve the syndication.

If the terms outlined in this letter are acceptable, please have the appropriate party sign below and return this letter with an application fee of \$25,000 by March 25, 1987. The application fee could be wired to a custodial account. Please call me for wiring instructions. The application fee will be returned to the Borrower if the Lender does not issue a commitment according to the terms outlined in this letter. The application fee will be earned upon the issuance of the commitment, and the cash commitment fee will be reduced by \$25,000.

Sincerely,



Daniel B. Kohlhepp
Vice President

Accepted:

Allan D. Worthington 3-24-87
Name Date

V.P.
Title

Exhibit A

MEADOW BROOK III PRE-LEASING SUMMARY

Tenant	Premises	Initial Term	Rental Rate (Per S.F.)	Operating Expense Pass-Through	Renewal Options	Tenant Improvement Allowance	Concessions	Special Conditions	Lease Commencement Date (1)
Daniel Realty Corporation	4th Floor 23,000 SF rentable	5 Yrs.	\$15.00 gross w/CPI escalation after year 3.	Yes	3-5 yr. at market	\$12.00	6 Months Free Rent	None	May, 1988
USF&G	3rd Floor 27,045 SF rentable	10 Yrs.	\$14.50 gross Yrs. 1-5; \$16.00 gross Yrs. 6-10 \$23.00 per SF	Yes	2-5 yr. at market with 1st option not to exceed \$23.00 per SF	\$12.00	\$3 TI	Two expansion option of 3,000 sf each after Yr. 3 and 6 at rent equal to current year lease rent.	April, 1988
Gresham, Smith and Partners	12,000 SF rentable	5 Yrs.	Not to exceed \$16.50 (say \$15.50) gross plus annual CPI not to exceed 5%.	No	None	Not less than \$10, say \$12	None	Termination option after Year 3 requiring one year notice with penalty of 75% of remaining rent unamortized tenant improvement allowance.	May, 1988
Rust International Corporation	2nd Floor 25,710 SF rentable	3 Yrs.	\$15.50 gross	Yes	1-5 yrs. at market	\$10	6 months free rent	None	April, 1988

(1) The lease commencement date reflects the date income will commence. Rent concessions, either in lump sum payment or as rent abatement, are reflected in these dates.

Exhibit B
EFFECTIVE RENT EXAMPLES

The allowable rent concession is 10.00% of the total lease payments without the rent concession. The effective rent is calculated as follows:

EXAMPLE ONE -- FLAT LEASE

Assumptions: Contract Rate: \$12.00PSF/Year
Lease Term: 3 Years
Rent Concession: .5 Year of Free Rent

Calculations:

	Rent Concession (.5 Yr. X \$12 PSF/Yr.)	\$ 6.00
divided by:	Total Rent Payments w/o Concession (3 Yrs. X \$12 PSF/Yr.)	<u>36.00</u>
equals:	Rent Concession Given	16.67%
less:	Allowable Concession	<u>10.00%</u>
equals:	Reduction in Contract Rent	6.67%

so that,

Contract Rent	\$12.00/PSF/Yr.
Reduction in Contract Rent (6.67% X \$12.00)	<u>.80</u>
Effective Rental Rate	\$11.20

EXAMPLE TWO -- STEP UP LEASE

Assumptions:

Contract Rental Rate	Year One	\$11.00 PSF
	Year Two	\$12.00 PSF
	Year Three	<u>\$13.00 PSF</u>
	Total Payments	\$36.00 PSF
Lease Term:	3 Years	
Rent Concession:	.5 Year of Free Rent	

Calculations:

	Rent Concession (.5 X \$11 PSF)	\$ 5.50
divided by:	Total Rental Payment w/o Concession	<u>36.00</u>
equals:	Rental Concession Given	15.28%
less:	Allowable Concession	<u>10.00%</u>
equals:	Reduction in Contract Rent	5.28%
so that,		
	Average Contract Rent* (36/3 Yrs.)	\$12.00 PSF
less:	Reduction in Contract Rents (\$12 X 5.28%)	<u>.63</u>
equals:	Effective Rental Rate	\$11.37

* Average Contract Rent is based on fixed rent increases over a maximum period of five years.

II. THE PROPERTY

II. THE PROPERTY

A. INTRODUCTION

This investment report covers three office properties located in Meadow Brook Corporate Park, a development of Daniel Realty Corporation in Birmingham, Alabama. The park is located on Birmingham's U.S. Highway 280, the high-growth, high quality office corridor that begins approximately four miles southeast of downtown. The properties, known as Meadow Brook 1, 2, and 3, are similar in terms of size, architecture, and amenities. Meadow Brook 1 was completed in December 1986 and is now 100% occupied by the engineering firm of RUST International. Meadow Brook 2 was 85% complete as of April 1, 1987, and is also 100% leased to RUST. Meadow Brook 3 is scheduled to commence construction May 1, 1987 and is 71% pre-leased to several tenants including USF&G and Daniel Realty.

B. LOCATION

1. Accessibility

The subject properties are located in the Meadow Brook Corporate Park, a 179-acre office park nine miles southeast of downtown Birmingham (see Exhibits II-1 and II-2). Primary access is provided by U.S. Highway 280, a divided four-lane surface street that is one of three traffic arteries that run north/south in southern Birmingham. Highway 280 has become a major office corridor in the past few years while Route 31 (four miles west of 280) has become a major retail corridor. Highway 280 also provides direct access to Birmingham's most exclusive residential neighborhoods (Mountain Brook and Homewood) which are located five miles north of the subject. Two miles north of the subject Highway 280 intersects Interstate 459, a recently completed six-lane freeway that provides beltway access for southern Birmingham and connects Highway 280 with Route 31, Interstate 65, and Interstate 20.

Once inside the Meadow Brook Corporate Park, access is provided by four-lane roads that are divided by a heavily landscaped median (see Exhibit II-3). This interior road network will be expanded as new phases of the park are opened for development. Traffic lights will be added at the Highway 280 intersections in approximately 18 months.

2. Adjacent Land Uses

Meadow Brook is a master planned corporate park with adjacent land uses that conform with a high quality office park. Including the three subject properties the park presently has four buildings with a fifth building expected to begin in mid-1987. Additionally, the Alabama Research Center has just announced final plans for a 15,000 square foot facility to be located on the lake opposite Meadow Brook 3. This facility will house a statewide economic development organization that will recruit and assist firms moving to or expanding within Alabama. When fully developed, the park will contain approximately 1.5 million square feet of office space in 15 buildings. A conference center will provide meeting rooms,

restaurants, exercise facilities, and other amenities.

Adjacent land uses outside of the park include the Inverness Office Park to the north, a high-end office park developed as a joint venture between Metropolitan Life and Taylor & Mathis. The area to the west of Mountain Brook is predominantly new executive homes that sell in the \$150,000 to \$200,000 range. Across Highway 280 to the east of the park is a master-planned community (controlled by Daniel) known as The Meadows. The interior of this parcel has been developed with multifamily projects and Daniel plans to develop a community retail center on the currently vacant portion of the parcel that fronts on Highway 280. This community center will provide a variety of amenities, including shopping and restaurants that will be within walking distance of the subject properties. Exhibits II-4A and B provide further information on the land uses around the park.

C. THE SITES

The land areas for Buildings 1, 2, and 3 are 8.3 acres, 10.3 acres, and 7.3 acres respectively for a total of 25.90 acres (see Exhibits II-5A and II-5B). The sites are gently rolling, and the parcels for Meadow Brook 1 and 2 are slightly elevated above the rest of the park providing greater visibility from Highway 280. The surrounding common areas of the park are well landscaped and improved with a 13-acre lake that has waterfalls, 50-foot high fountain sprays, and paved walkway/jogging trails around the perimeter. All appropriate utilities are available at the sites, and the improvements conform with the current zoning regulations.

D. THE IMPROVEMENTS

All three of the buildings will have structural frames of poured-in-place concrete over a concrete slab foundation with drilled and filled footings. The exteriors of Buildings 1 and 2 are a rose-colored precast concrete panel system alternating with solarized ribbon vision glass. Meadow Brook 3 will use sand-colored precast panels with granite accent stripes and ribbon vision glass. Roofing systems will incorporate an elasticized membrane with aggregate cover. The buildings' HVAC will be a computer controlled, constant volume, multi-zone system with electric heat and York air conditioning packages. Surface parking will be provided by asphalt covered areas that include landscaped islands and perimeter berms. The overall parking ratio will exceed 4.0 spaces per 1,000 square feet of office space.

Meadow Brook 1 is a seven-story structure containing 150,000 gross square feet and 126,502 square feet of usable area with three Dover elevators providing access to all floors. It was originally conceived as a speculative building and the first major project in the Meadow Brook Park. To take advantage of its highly visible site Daniel included several upgrades in its design. Meadow Brook 1 has a polished black granite exterior at the entry level, a large two-story atrium lobby with water features and an elevator balcony, and several recessed corners on the upper floors which provide eight exterior patios and increase the number of corner offices.

Meadow Brook 1 was completed and fully occupied by Rust International in December 1986. Although Rust was given a tenant improvement allowance of \$11 per square foot and spent a total of \$17 per square foot on the space, the space is finished out in a rather functional manner. Excess tenant improvement dollars were spent primarily by retaining the "executive finish" fixtures that were specified when the building was expected to serve multiple tenants. These include nine-foot full height mahogany doors, brass fixtures, and extensive partitioning. Additionally, Rust installed lighting systems that provide 120-foot candles at desk level (50 foot candles is standard), and a computer room. Floor plans for Meadow Brook 1 are provided in Exhibits II-6 A through F.

Meadow Brook 2 is a six-story structure containing 145,000 gross square feet and 126,430 usable square feet. Construction commenced in September 1986 and is scheduled for completion in September 1987. The construction and exterior of Meadow Brook 2 will be very similar to Building 1. However, since the second building was 100% pre-leased to Rust before ground breaking, the polished granite and two-story lobby atrium statements have been excluded. The building's floor plates will also provide greater efficiency than Building 1 with the off-set rectangles of the floor plans providing a uniform 21,000 square feet of usable area per floor. The long narrow design improves the ratio of vision glass to floor area and makes the building very suitable for multi-tenant use in the event of re-marketing (see Exhibits II-7A and II-7B).

Meadow Brook 3 will retain the same structural elements of Meadow Brook 1 and 2 but will use an articulated design to take advantage of its lake front site (see Exhibits II-8A through II-8D). As a multi-tenant building, Building 3 will also have a polished granite entry statement, a two-story atrium lobby that overlooks the lake and fountain, and polished granite accent stripes. Meadow Brook 3 will be a five-story structure with 135,000 square feet of gross building area and 119,871 square feet of net rentable area.

E. PROJECT BUDGETS

The budgets for the three buildings are presented in Exhibits II-9A, II-9B, and II-9C. Total project costs for Meadow Brook 1 were \$12,000,000 (\$80.00 per gross square foot), Meadow Brook 2 \$11,500,000 (\$79.31 per gross square foot), and Meadow Brook 3 \$11,750,000 (\$87.04 per gross square foot). The lower per square foot cost of Meadow Brook 2 reflects its simpler design and construction. Rent concessions of \$950,000 for each of Meadow Brook 1 and 2 (\$1,900,000 total) took the form of cash payments to Rust in lieu of free rent periods. This amount equates to approximately nine months of free rent on 10-year leases, a concession of 7% which is slightly less than concessions currently found in the market. Seventy-five percent of these payments were reinvested in the projects for overstandard tenant improvements. Overall, all of the projects cost less than \$90 per gross square foot a competitive figure for the Birmingham area.

F. CONCLUSION

The subject properties will be located in one of Birmingham's most attractive corporate office parks with excellent access to downtown and the area's most exclusive residential areas. The improvements will be of high quality and the shared architectural style will provide an integrated theme. Meadow Brook's thoughtful design and high amenity level have already attracted a very desirable tenant roster to the park.

Exhibit II-1
REGIONAL LOCATION MAP

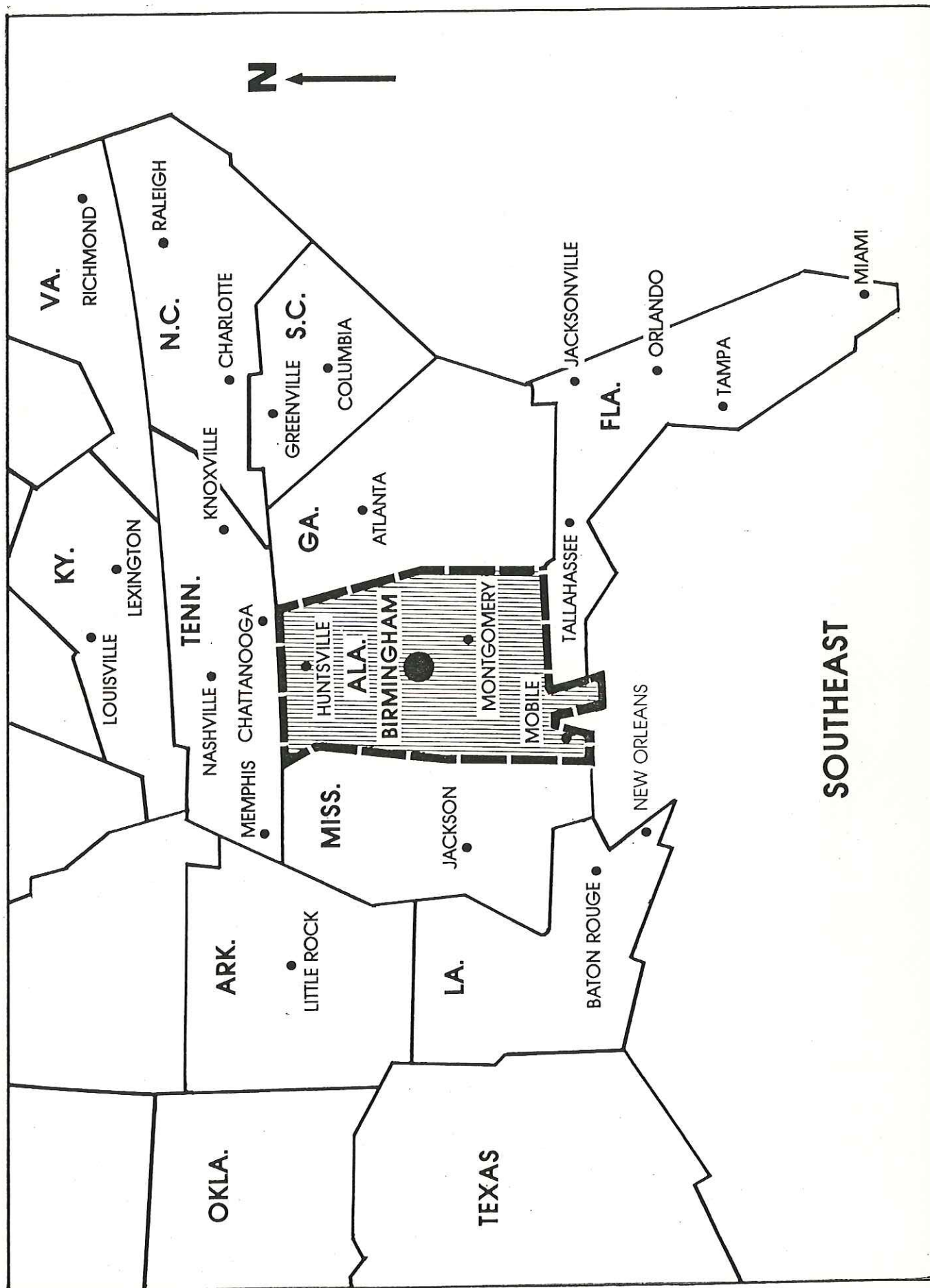
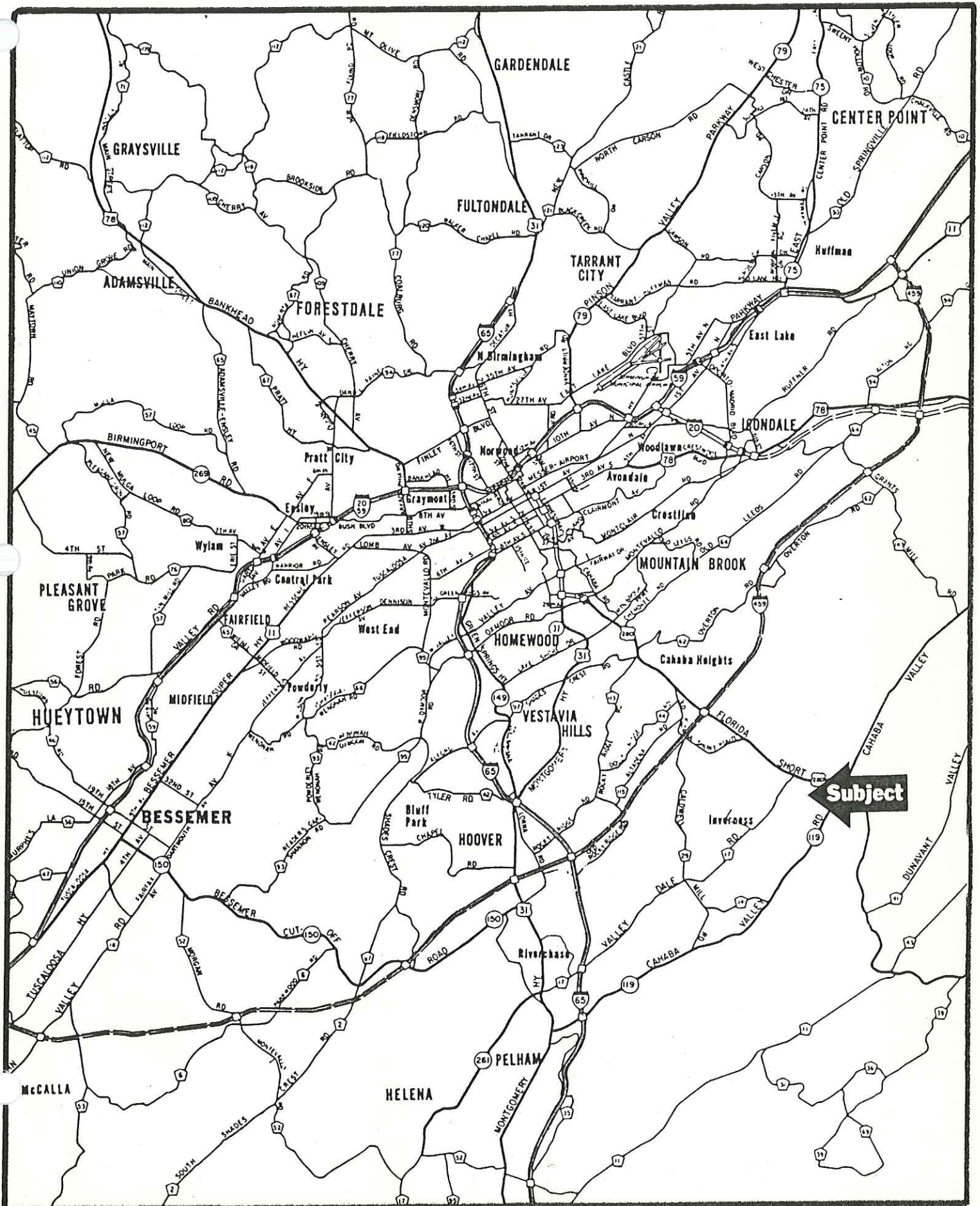
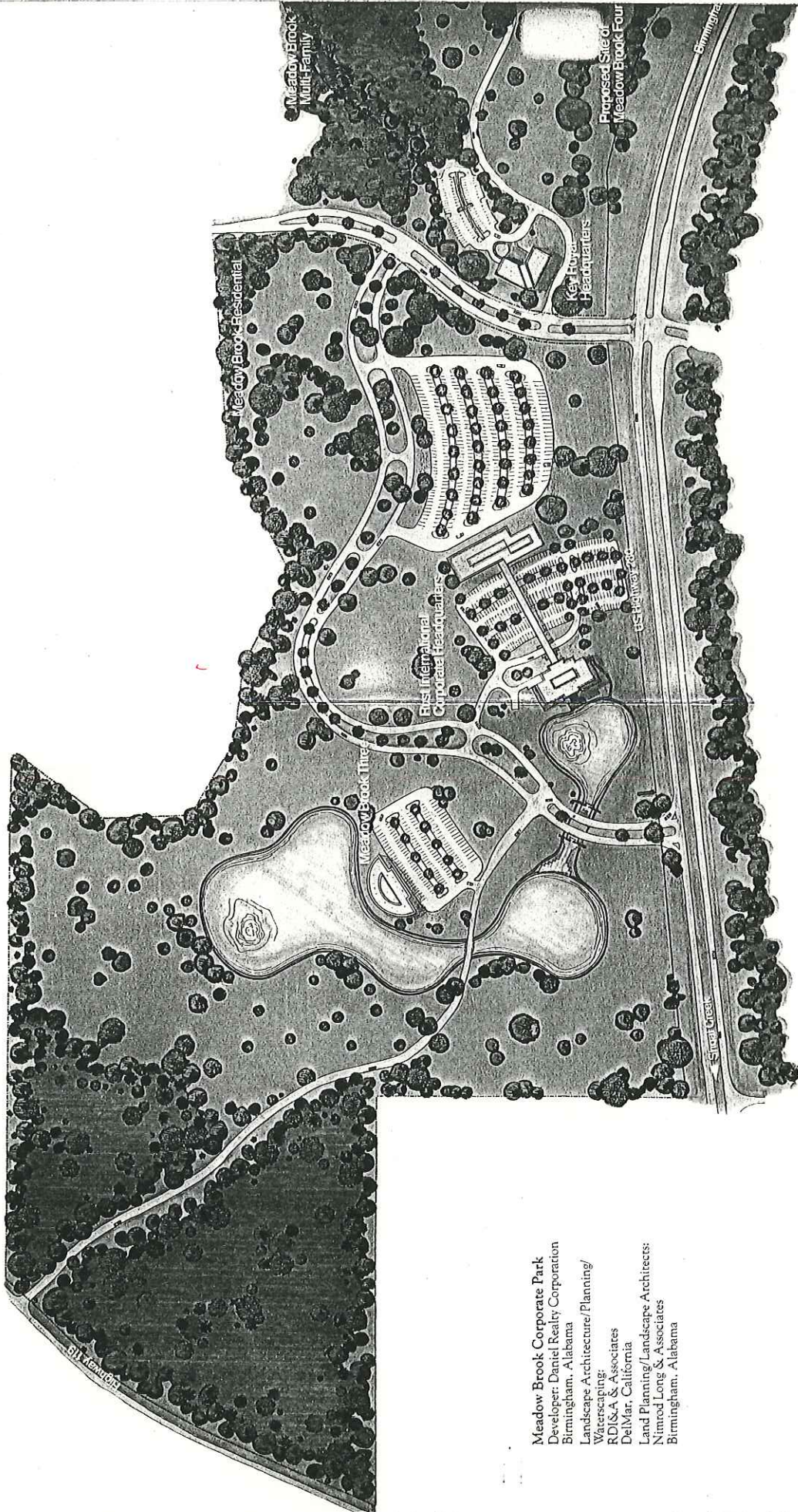


Exhibit II-2
METROPOLITAN LOCATION MAP





Meadow Brook Corporate Park
 Developer: Daniel Realty Corporation
 Birmingham, Alabama
 Landscape Architecture/Planning/
 Waterscaping:
 RDI&A & Associates
 DelMar, California
 Land Planning/Landscape Architects:
 Nimrod Long & Associates
 Birmingham, Alabama

Exhibit II-4A
ADJACENT LAND USE KEY

- | | |
|----------------------------------|--|
| 1. South Central Bell | 26. Rust Headquarters Buildings |
| 2. Southridge | 27. Women's Missionary Union |
| 3. Sheraton | 28. L.M. Berry Headquarters |
| 4. T.G.I. Friday's | 29. Eagle Ridge Apts. |
| 5. Perimeter Park | 30. The Meadows on the Lake Apts. |
| 6. Jack's | 31. Meadows in the Park Apt. |
| 7. Taco Bell | 32. Shoal Run Apts. |
| 8. McDonald's | 33. Turtle Lake Apts. |
| 9. Cahaba Forest Apts. | 34. Shoal Creek Country Club |
| 10. Cahaba Park South | 35. Water Works Site |
| 11. Inverness Center Office Park | 36. Key Royal Headquarters |
| 12. Hardee's | 37. Residence Inn |
| 13. Quincy's | 38. Comfort Inn |
| 14. River Hills Shopping Ctr. | 39. Shoney's |
| 15. SouthTrust Bank | 40. Captain D's |
| 16. Wendy's | 41. Lee's Chicken |
| 17. Heatherbrooke Shopping Ctr. | 42. Pizza Hut |
| 18. Heatherbrooke Apts. | 43. Riverview Animal Clinic |
| 19. Inverness Subdivision | 44. To Riverchase Galleria Mall
(4 miles from site) |
| 20. Inverness Landing Apts. | 45. To downtown Birmingham |
| 21. Inverness Cliffs Apts. | 46. Colonnade |
| 22. Hunter's Pointe Apts. | 47. To Birmingham Turf Club |
| 23. Morning Sun Villas Apts. | 48. Brookwood Mall |
| 24. Meadow Brook Townhomes | 49. EBSCO Industries Headquarters |
| 25. Meadow Brook Subdivision | |

Exhibit II-4B
ADJACENT LAND USE MAP

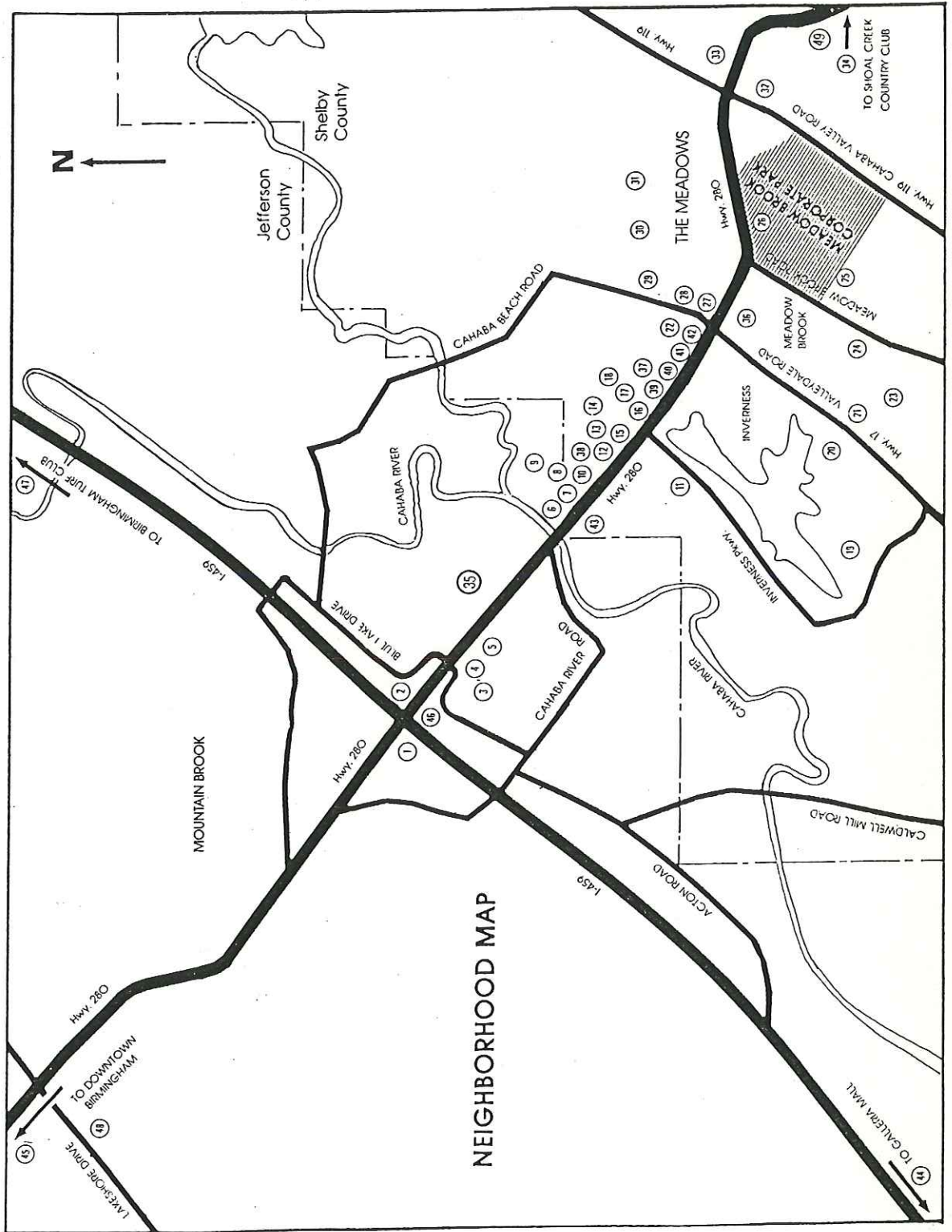


Exhibit II-5A
SITE PLAN
MEADOW BROOK 1 AND 2

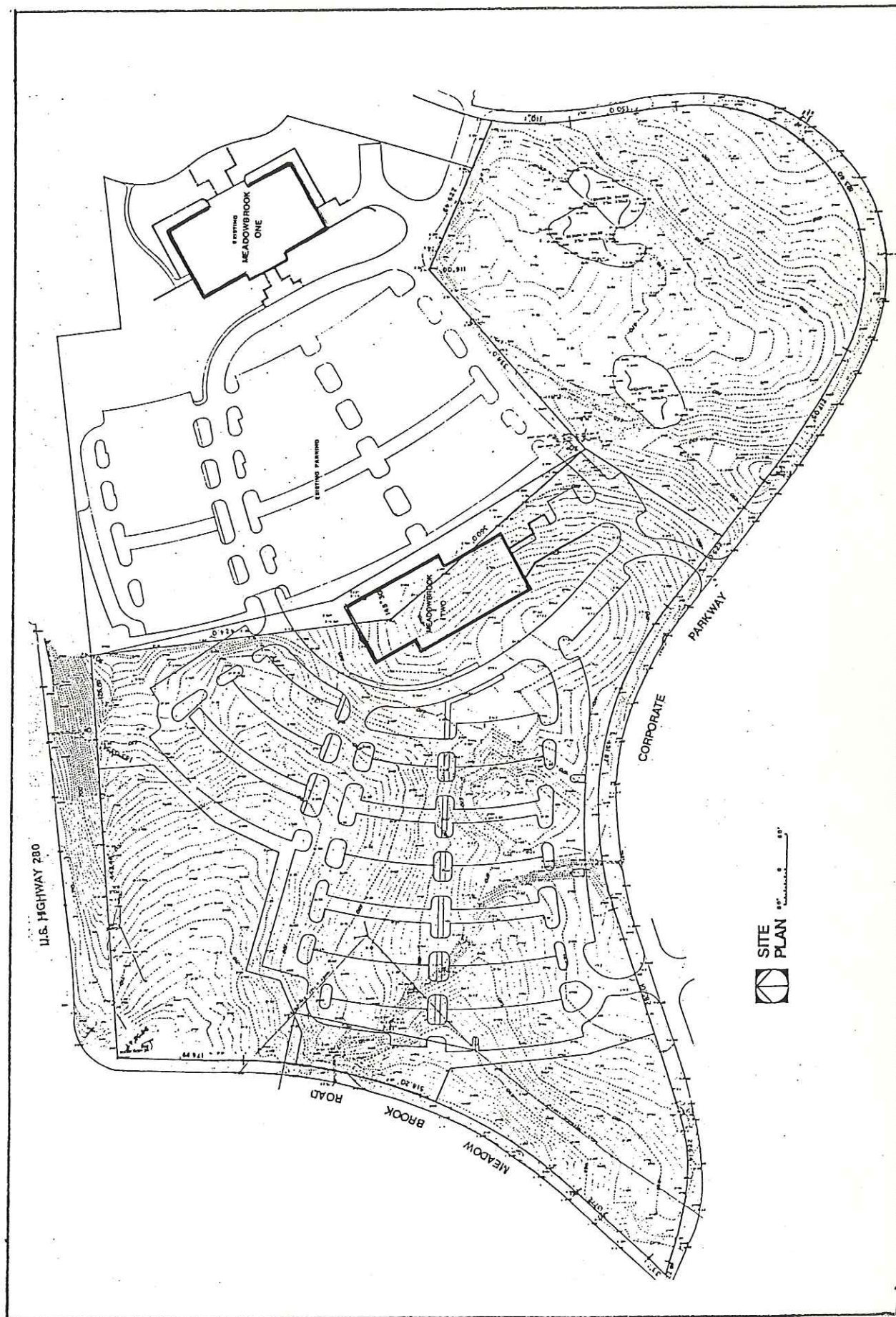


Exhibit II-5B
SITE PLAN
MEADOW BROOK 3

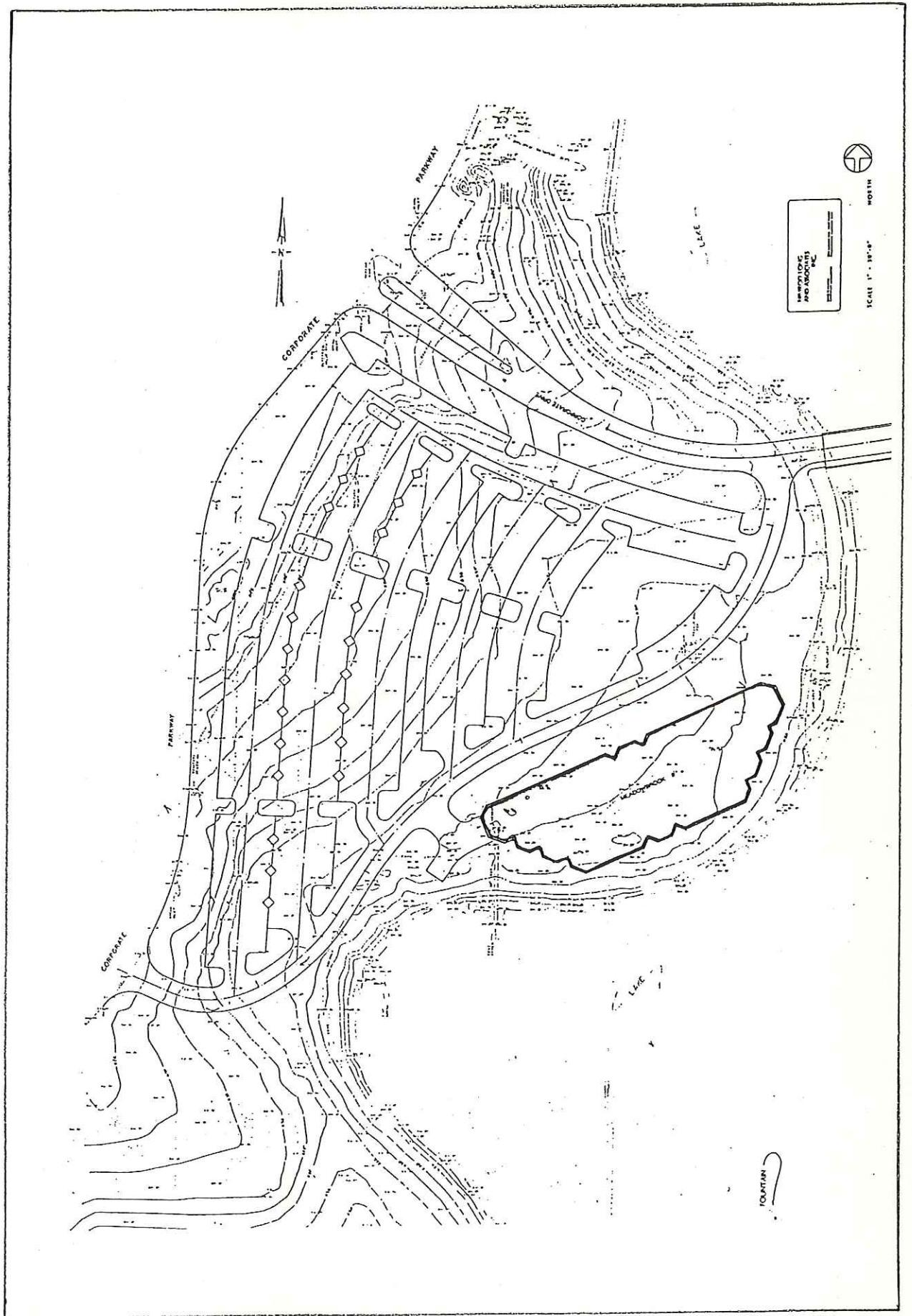


Exhibit II-6A
FLOOR PLANS
MEADOW BROOK I

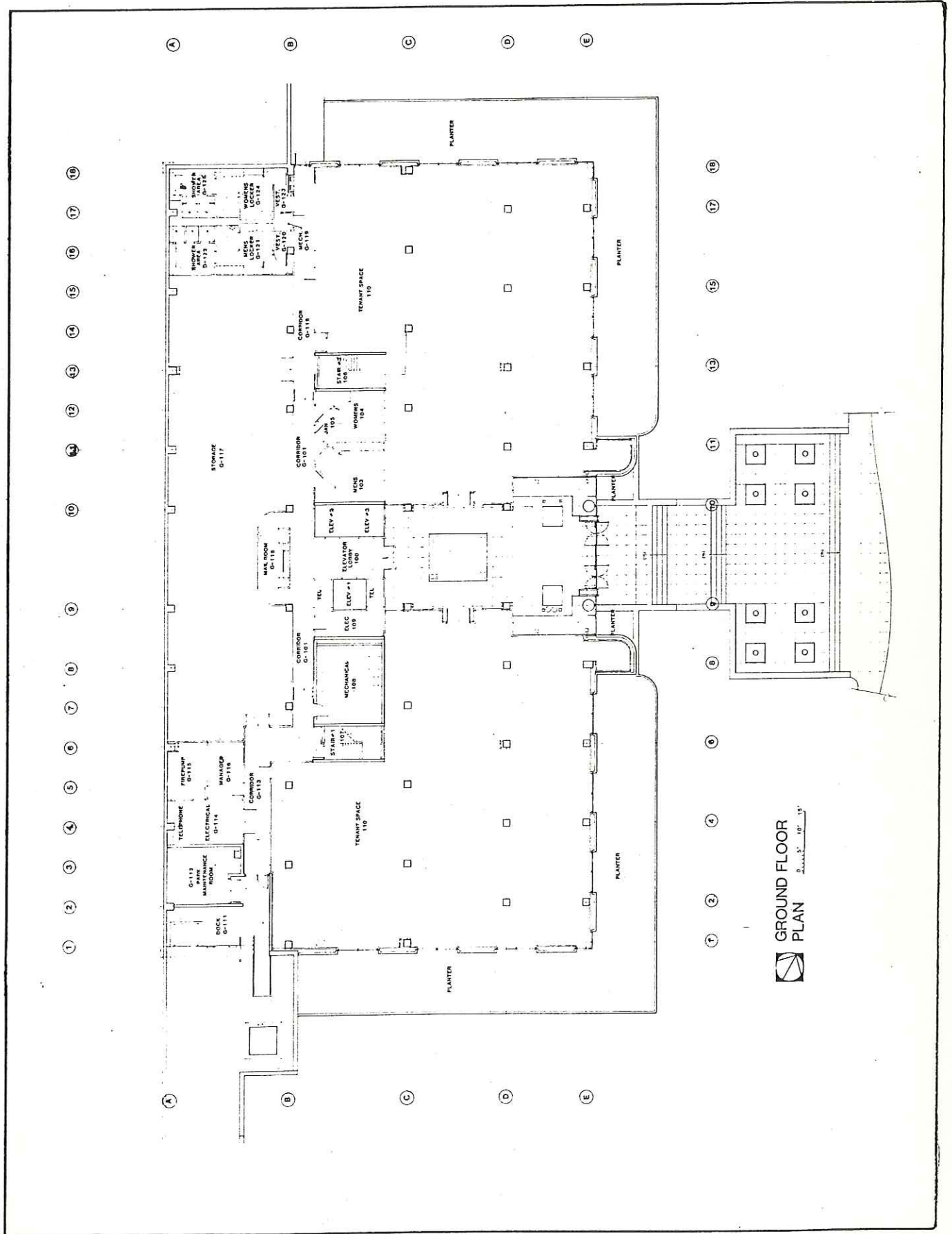
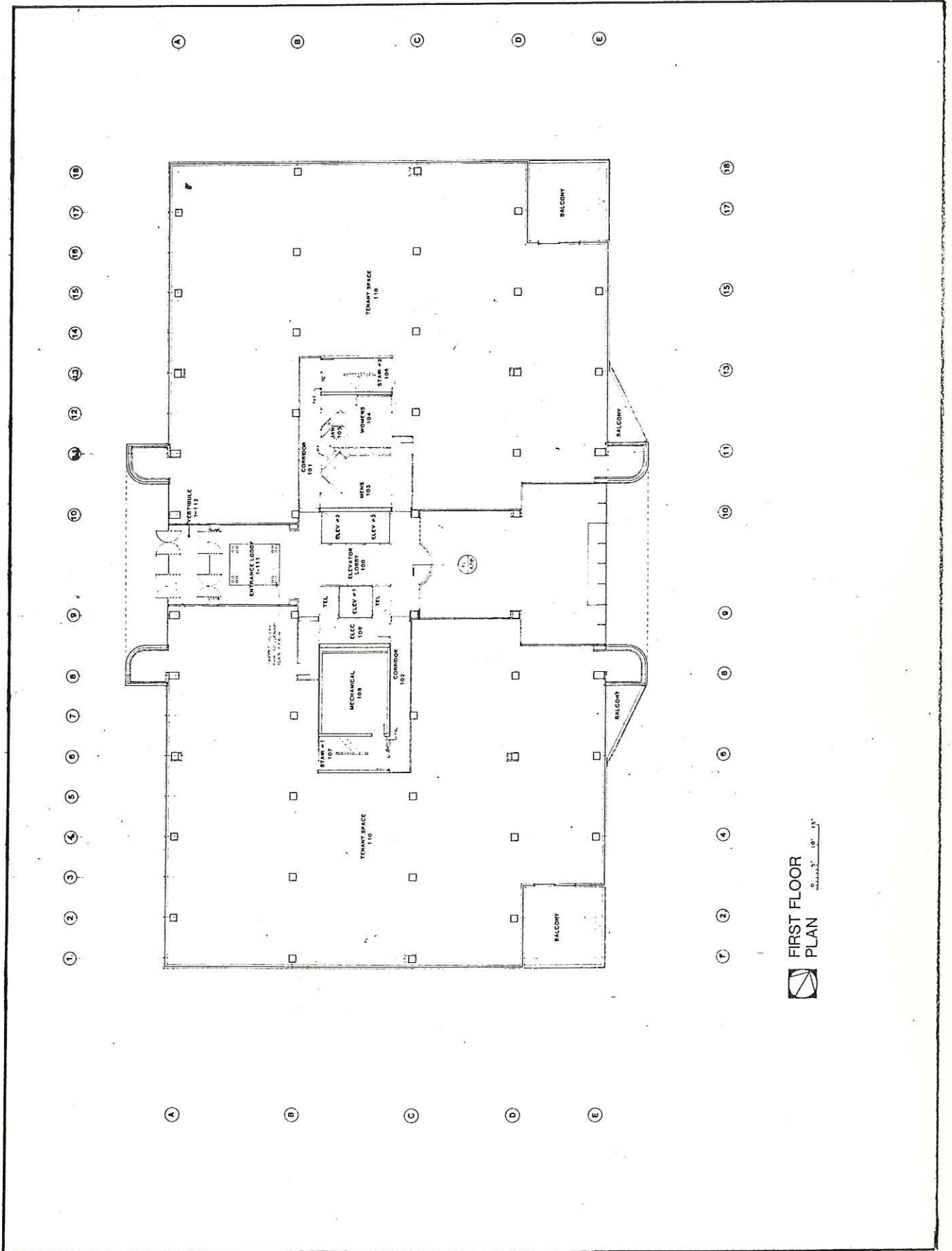


Exhibit II-6B
FLOOR PLANS
MEADOW BROOK 1

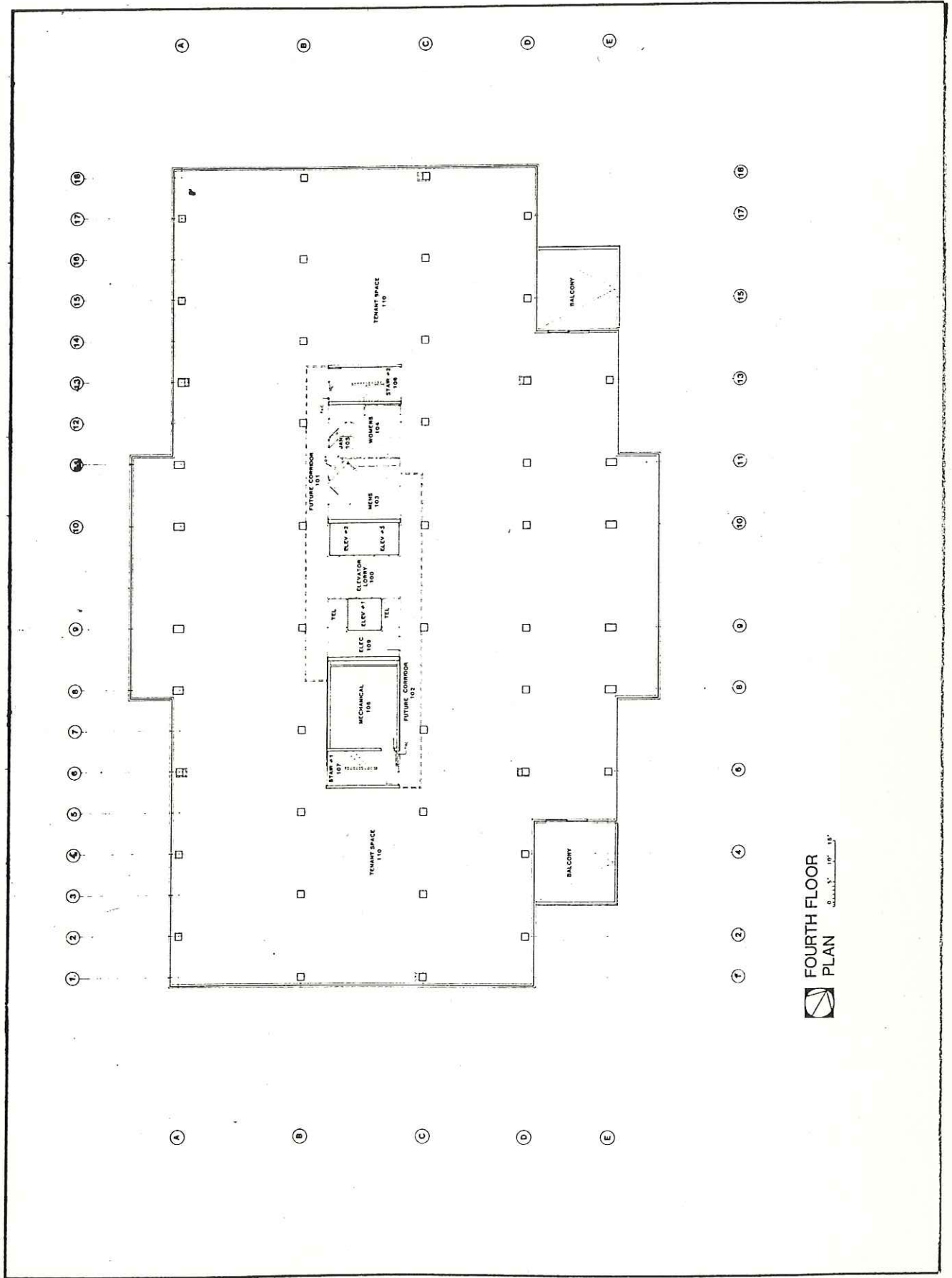


FIRST FLOOR
PLAN
0' 10' 15'

Architectural floor plan of the typical second and third floors. The plan shows a large rectangular building footprint with a central core. The core contains a mechanical room (108), an elevator lobby (109), and two elevators (ELEV #1 and ELEV #2). There are also two restrooms (MEN 103 and WOMEN 104), a stairwell (STAIR #1), and a future common area (101). The plan is surrounded by tenant spaces (110 and 111). The plan is oriented with North at the top. A scale bar indicates 0, 10, 20 feet. The plan is labeled "TYPICAL SECOND & THIRD FLOOR PLAN".

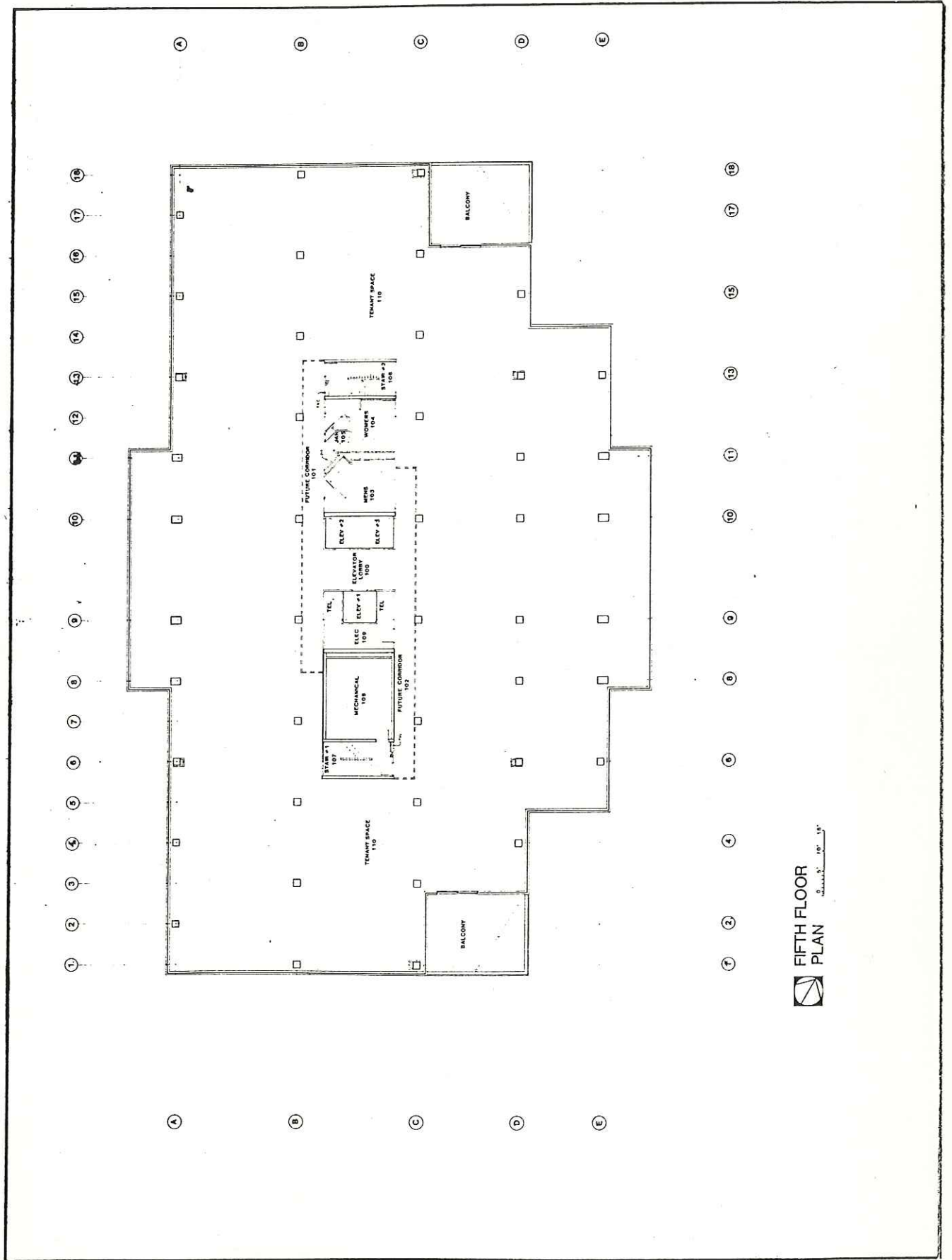
 TYPICAL SECOND & THIRD FLOOR
PLAN

Exhibit II-6D
FLOOR PLANS
MEADOW BROOK 1



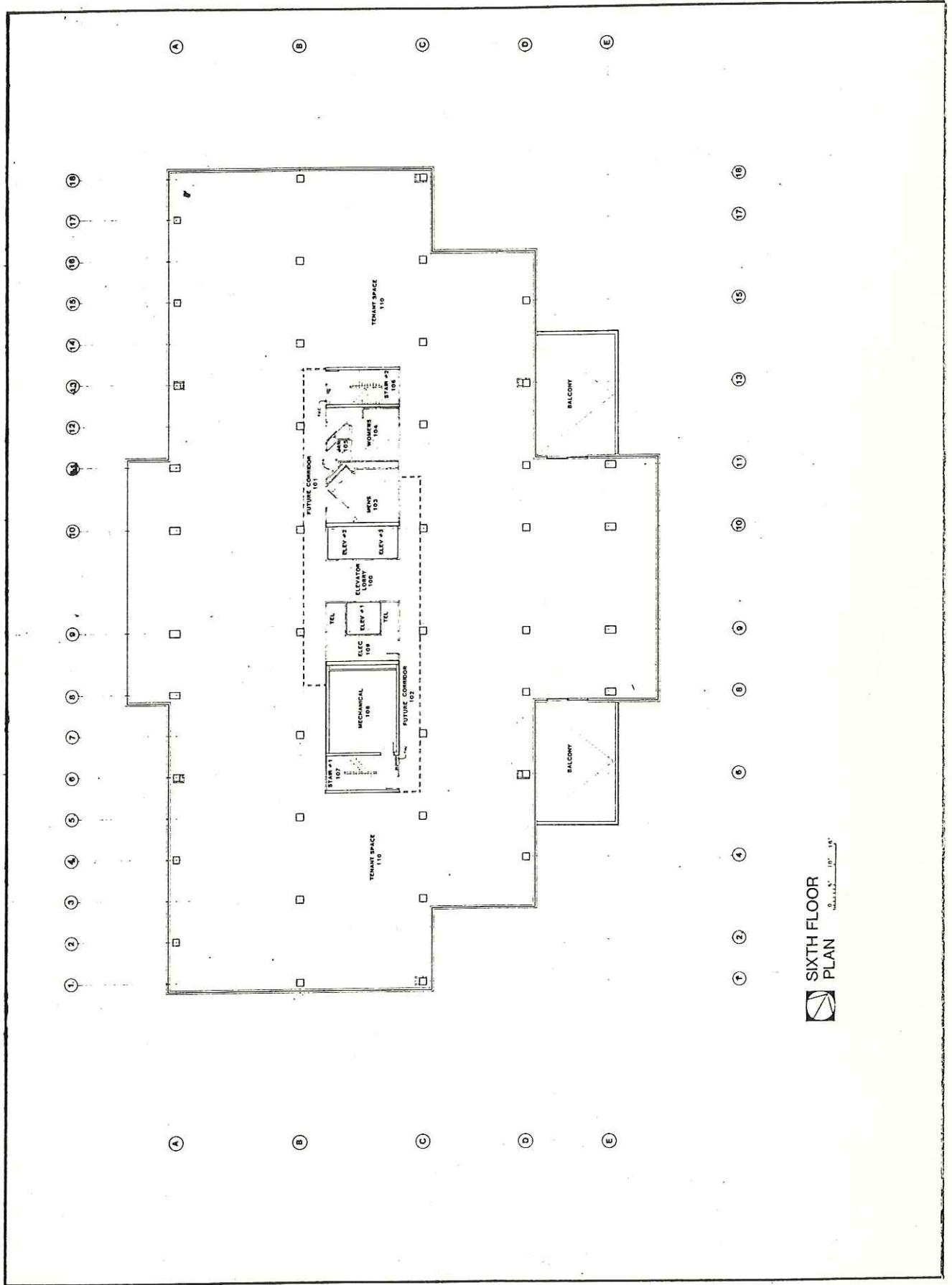
FOURTH FLOOR
PLAN
0 10' 20' 30'

Exhibit II-6E
FLOOR PLANS
MEADOW BROOK 1



FIFTH FLOOR
PLAN
0 5 10 15'

Exhibit II-6F
FLOOR PLANS
MEADOW BROOK 1



SIXTH FLOOR
PLAN
0' 10' 14'

ENTRY FLOOR

ENTRY FLOOR

Exhibit II-7B
FLOOR PLANS
MEADOW BROOK 2

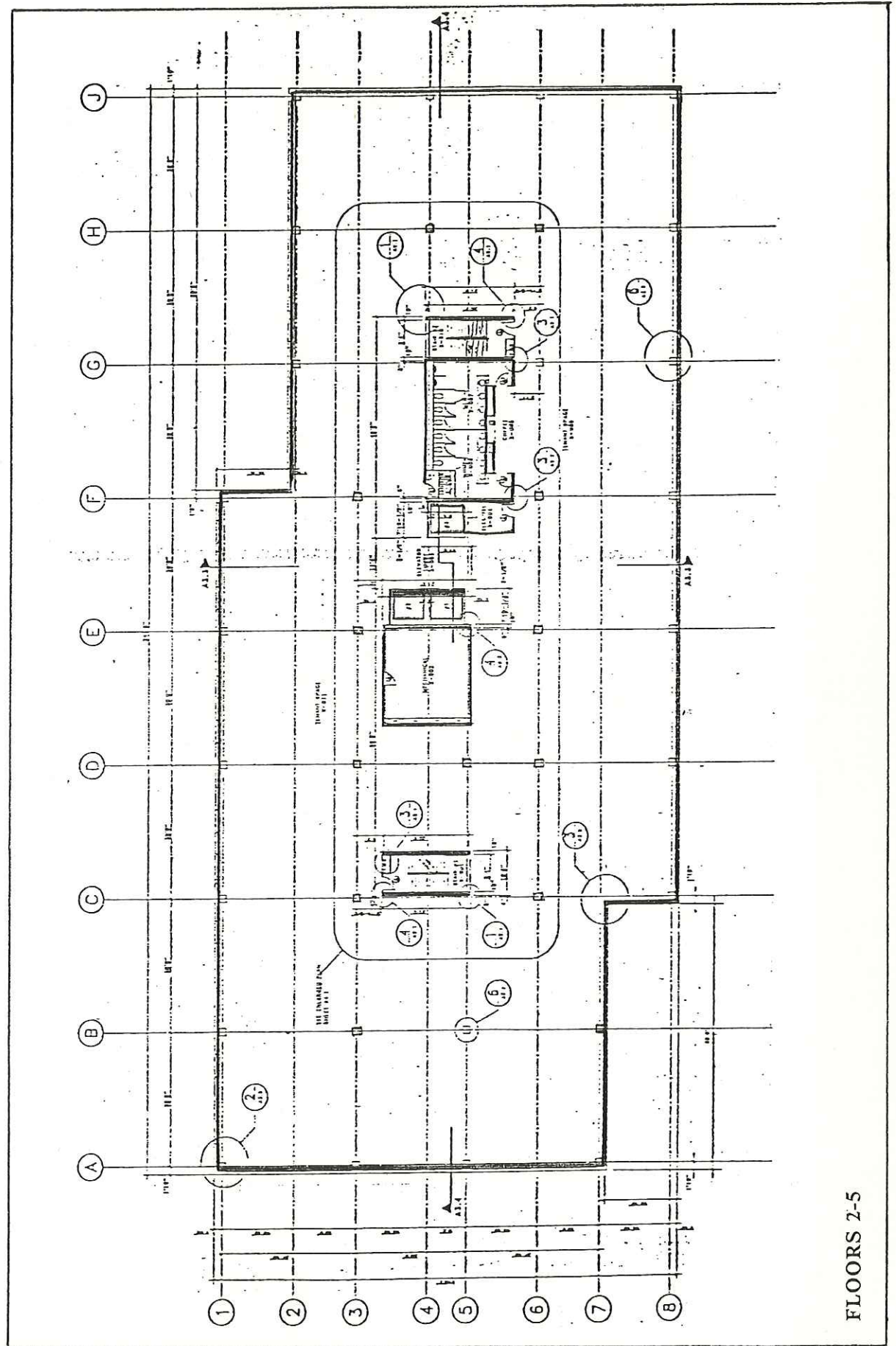


Exhibit II-8A
FLOOR PLANS
MEADOW BROOK 3

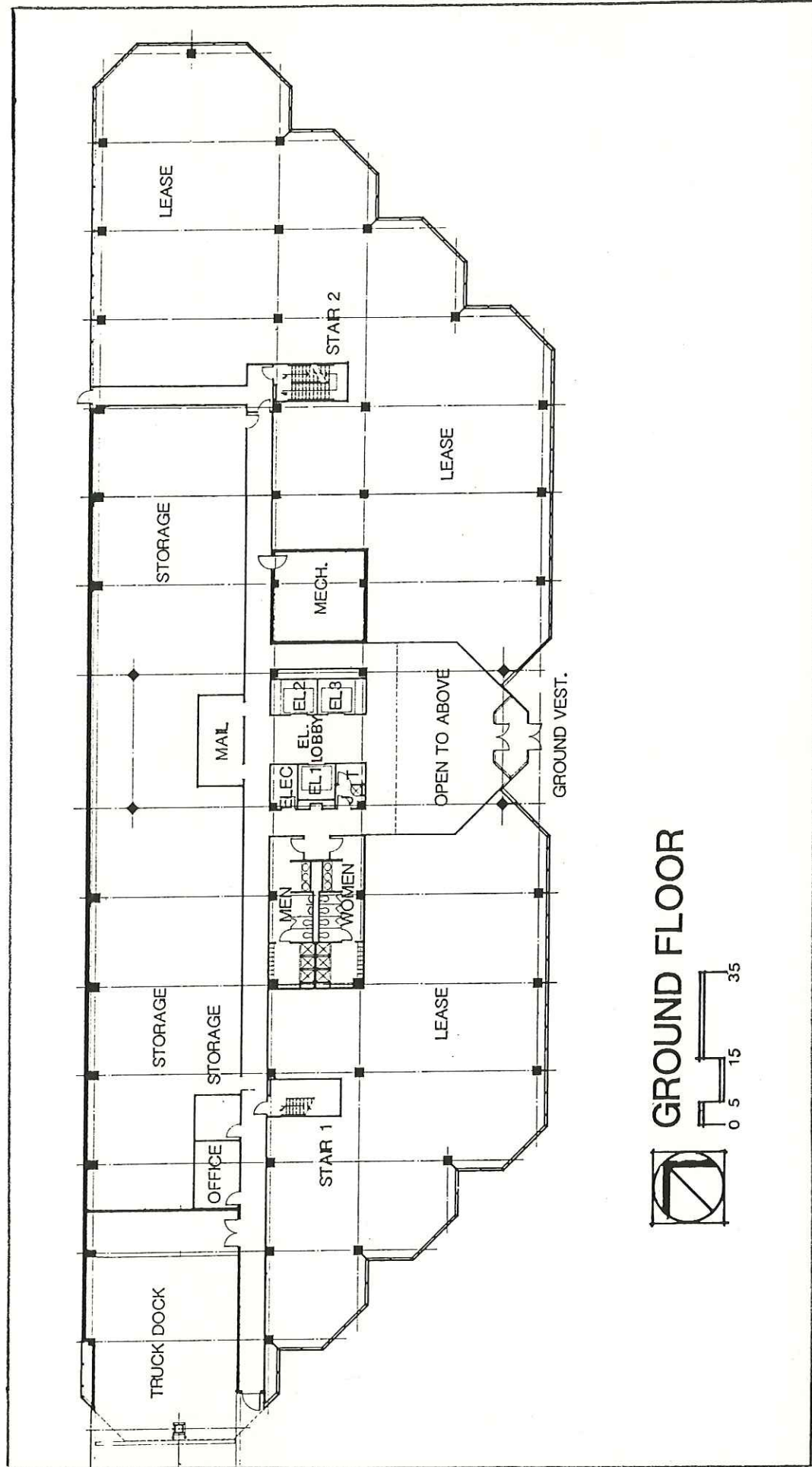
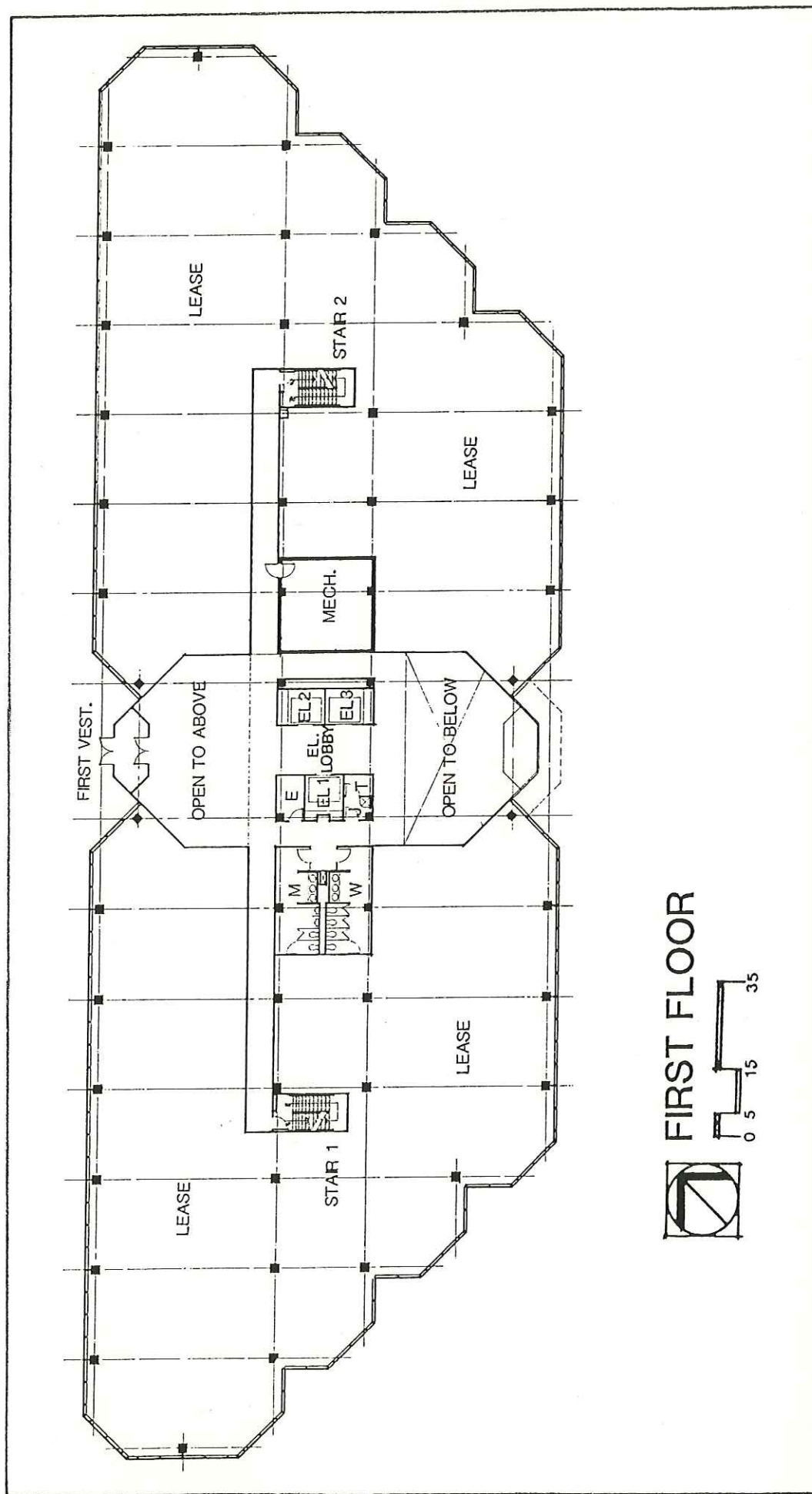
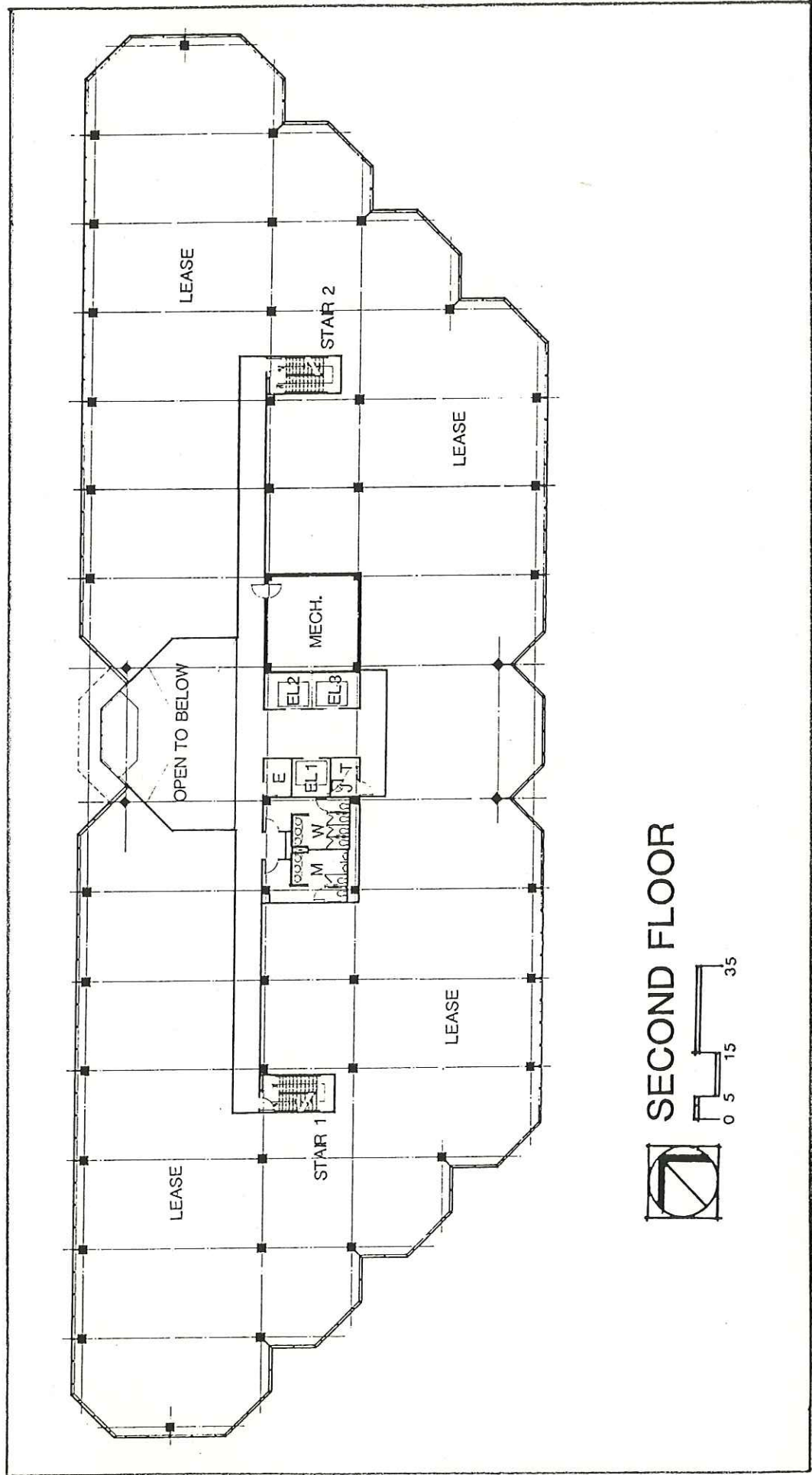


Exhibit II-8B
FLOOR PLANS
MEADOW BROOK 3



FIRST FLOOR

Exhibit II-8C
FLOOR PLANS
MEADOW BROOK 3



SECOND FLOOR

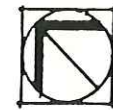
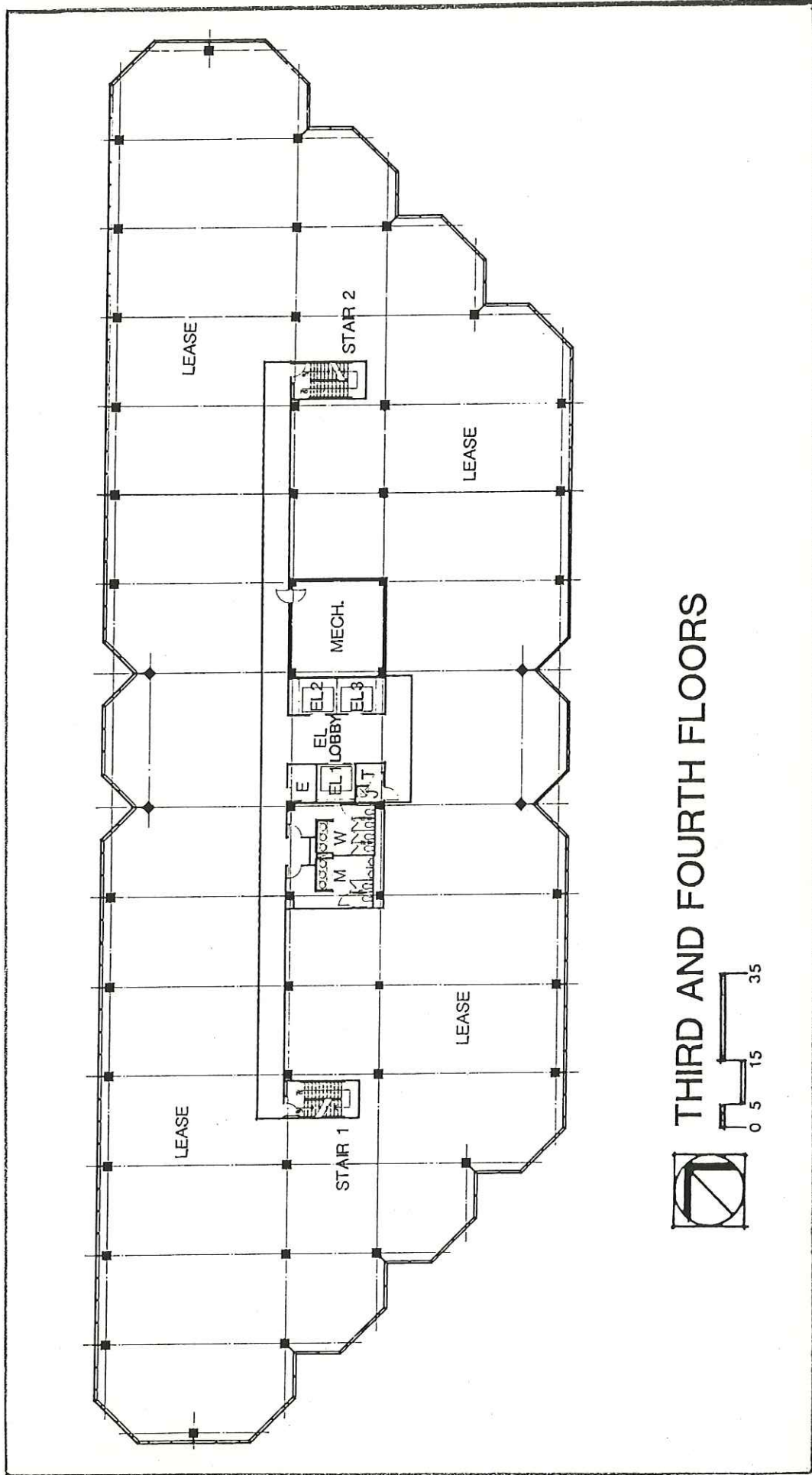


Exhibit II-8D
FLOOR PLANS
MEADOW BROOK 3



THIRD AND FOURTH FLOORS

Exhibit II-9A
MEADOW BROOK I DEVELOPMENT BUDGET

<u>Hard Costs</u>		<u>\$/GBA</u>
Land Development Costs	\$ 184,028	
Base Building (150,000 S.F. @ \$50/S.F.)	7,500,000	
Tenant Improvements (126,502 S.F. @\$11/S.F.)	1,391,522	
Utilities (sewer, water, electric)	<u>175,000</u>	
Total Hard Costs	\$ 9,250,550	\$61.67

<u>Soft Costs</u>		
Testing and Survey	\$ 65,000	
Taxes	5,000	
Insurance	20,000	
Design Fee	325,000	
Interest	492,450	
Leasing and Marketing	125,000	
Rent Concessions	950,000	
Loan Origination Fees	367,000	
Development Fees	<u>400,000</u>	
Total Soft Costs	\$ 2,749,450	\$18.33
Total Building Costs	\$12,000,000	\$80.00

Gross Building Area	150,000 S.F.
Net Rentable Area	134,467 S.F.
Net Usable Area	126,502 S.F.

Exhibit II-9B
MEADOW BROOK 2 DEVELOPMENT BUDGET

Hard Costs

\$/GBA

Land Development Costs	\$ 234,162	
Base Building (145,000 S.F. @ \$48/S.F.)	6,960,000	
Tenant Improvements (126,430 S.F. @ \$7/S.F.)	885,000	
Utilities (sewer, water, electric)	<u>185,000</u>	
Total Hard Costs	\$ 8,264,162	\$56.99

Soft Costs

Testing and Survey	\$ 58,000	
Taxes	5,000	
Insurance	19,000	
Design Fee	325,000	
Interest	452,250	
Leasing and Marketing	125,000	
Rent Concessions	950,000	
Loan Origination Fees	337,500	
Contingency	350,000	
Development Fees	<u>614,088</u>	

Total Soft Costs \$ 3,235,838 \$22.32

Total Building Costs \$11,500,000 \$79.31

Gross Building Area 145,000 S.F.

Net Rentable Area 132,171 S.F.

Net Usable Area 126,430 S.F.

Exhibit II-9C
MEADOW BROOK 3 DEVELOPMENT BUDGET

<u>Hard Costs</u>		<u>\$/GBA</u>
Land (7.17 acres @ \$120,000/acre)	\$ 860,000	
Base Building (135,000 S.F. @ \$50/S.F.)	6,750,000	
Tenant Improvements (110,540 S.F. @ \$12/S.F.)	1,326,480	
Lobby Finishes and Overstandards	317,680	
Utilities (water, sewer, electric)	<u>184,000</u>	
Total Hard Costs	\$ 9,438,160	\$69.91

<u>Soft Costs</u>		
Testing and Survey	\$ 60,000	
Taxes	5,000	
Insurance	17,000	
Design Fee	350,000	
Interest	468,000	
Leasing and Marketing	78,000	
Rent Concessions	290,000	
Loan Origination Fees	352,500	
Contingency	291,340	
Development Fee	<u>400,000</u>	
Total Soft Costs	\$ 2,311,840	\$17.12
Total Building Costs	\$11,750,000	\$87.03

Gross Building Area	135,000 S.F.
Net Rentable Area	119,871 S.F.
Net Usable Area	111,480 S.F.

III. THE MARKET OVERVIEW

III. THE MARKET

A. INTRODUCTION

The Birmingham Metropolitan Statistical Area (MSA) encompasses five counties with a population of 934,000 and accounts for roughly 25% of the population and economic activity for the entire state of Alabama. Once heavily dependent on the steel industry (the "Pittsburgh of the South"), Birmingham has successfully diversified its economic base. Although U.S. Steel and U.S. Pipe still have a major influence on the area with over 5,000 employees, other major employers include the University of Alabama at Birmingham (a leader in medical research) with 11,000 employees, Bell South with over 10,000 employees, and Hayes International Corporation (a high-tech firm) with 2,800 employees. Engineering firms have a large presence in the area (Rust, Harbert, BE&K) with total employment estimated at 10,000. Birmingham also has 750 high-tech firms that employ 47,000 people and generate an annual payroll of almost \$1 billion.

The direction of growth for Birmingham has largely been shaped by the extensive land holdings of U.S. Steel and U.S. Pipe to the north and to the east of downtown. These holdings were purchased in the early 1900's for their raw material potential and remain undeveloped. This situation has focused growth and new development to the south of town, most notably along the Route 31 and Highway 280 corridors (see Exhibit III-1).

B. THE BIRMINGHAM OFFICE MARKET

The Greater Birmingham Office Market contains a total of 9,380,000 square feet of Class A and B office space. Of this total, 1,795,000 square feet is available for lease, indicating an overall vacancy rate of 19%. When only Class A space is considered, the total inventory is 4,250,000 square feet with a vacancy rate of 20%. Birmingham has experienced very rapid development over the past few years, with the total inventory of Class A space doubling since 1981 (see Exhibit III-2).

The major sub-markets in Birmingham reflect the southern growth trend of the city with no significant office inventory or new development activity existing outside of this path of progress. In general, leases in Birmingham are structured with 3 to 5 year terms except for larger institutional tenants that elect longer terms. Rent typically remains flat for the term of the lease, with only 30% of the buildings surveyed including C.P.I. escalators in their leases. Leases longer than five years usually have a fixed increase at the midpoint of the term. Throughout Birmingham the current soft market has brought on standard rent concessions of 1 to 1-1/2 months of free rent for each lease year.

The Central Business District has a total Class A inventory of 2,300,000 square feet with a current vacancy rate of 13%. Most of the available space is contained in two buildings, The Atrium (140,000 square feet total, 93,000 square feet available) that was built in 1930 and renovated in 1986, and The Southeast Bank Building (551,000 square feet total, 175,000 square feet available) that was completed in 1986. Other than these two buildings virtually no new activity has taken place in downtown since

1982. Major tenants in the CBD are typically firms involved in banking, finance, or affiliated with the university. Rental rates for better buildings in downtown range from \$13.50 to \$18.00 per net rentable square foot with concessions of one to two months of free rent for each lease year being given.

The suburban office market is located in the "Over The Mountain" area of Birmingham referring to Red Mountain, a significant physical and psychological boundary that separates downtown from the growing south side. The first entry in this market was the Mountain Brook Office Park, a series of 17 small (10,000-30,000 square feet) buildings constructed in 1965. The Mountain Brook/Homewood area was the focus for most new office development through the 1970's with a total inventory of about 1.9 million square feet developed by 1980.

Office development moved further south along Highway 280 beginning in the mid-1970's. At this time Metropolitan Life in joint venture with Taylor & Mathis began development of "Inverness", a 1,400-acre planned unit development (350-acre office park, 1,050 acres residential) that is located one mile north of the subject property. At the time it was built, Inverness was a pioneering location on the outskirts of town. However, it did provide a southern anchor for the Highway 280 corridor and several in-fill developments followed in the late-1970's and early 1980's.

The construction and completion of the I-459 Beltway in 1983 provided access throughout the Over The Mountain area, and development activity accelerated during this period. The Route 31 area also benefitted from this southern expansion although it is primarily a retail corridor, and office parks along Route 31 serve mainly smaller less image-conscious tenants.

Today the 280 corridor is an established office location offering an assortment of quality space to the office tenant. As Exhibit III-3 indicates, the Highway 280 corridor dominates the Birmingham market with regard to new office development. While occupancy in the area has lagged behind development activity, absorption remains strong and has increased markedly since the opening of I-459 (see Exhibit III-4).

C. COMPETITIVE OFFICE SURVEY

The properties that are most directly comparable to the Meadow Brook Park are located in Inverness Center one mile north of the subject on Highway 280 (see Exhibits III-5 and III-6). It is a low density, highly wooded and landscaped park with lake views for most of the buildings. Four 6-story speculative buildings of 135,000 square feet each were built between 1980 and 1983, and three buildings totalling 380,000 square feet were added on a build-to-suit basis in 1984-1985. The park has land available for an additional 2 million square feet of space although nothing is currently under construction or planned. Inverness offers speculative space at \$13.50 to \$13.75 per net rentable foot with \$4.50 expense stops, free surface parking and concessions of one free month per lease year. Inverness has typically enjoyed healthy occupancy rates but is currently only 65% occupied due to the Southern Services Company recently moving out of speculative buildings and into their build-to-suit properties in the

Inverness Park.

Perimeter Park is one mile north of Inverness on Highway 280. The park has two buildings, the first of 140,000 square feet built in 1982 and the second of 200,000 square feet built in 1985. These properties are well located but lack the quality of finish and amenities of Meadow Brook or Inverness. Rates are quoted at \$13.50 and \$14.00 per net rentable square foot with \$4.75 expense stops, free parking, and one free month per lease year. Occupancy is currently 80%, average for the area. The Colonnade is currently under construction in this park, scheduled for delivery in Fall 1988. This will be a 650,000 square foot building that is 65% pre-leased to Bell South with speculative space being pre-marketed at \$16.00 and \$5.00 expense stops. A regional retail mall has just broken ground on a site adjacent to Perimeter Park.

International Park has two recently completed projects that total 175,000 square feet. These are developments of BE&K Engineering who occupies approximately 60% of the projects. The buildings are high quality with lake views and wooded sites. Space is being offered at \$15.50 per rentable foot with \$5.00 expense stops, free surface parking, and rent concessions of one month free per year.

River Chase Galleria is located on Highway 31, four miles west of the subject. This 275,000 square foot project was completed in 1986 and is part of the Galleria Mall complex. While this is a high quality office tower, its retail-oriented location has not met with good market acceptance due to parking and identity problems. Originally offered at \$18.00 per net rentable foot, current quotes for this 53% occupied project are \$15.90 per foot, free parking, and 1-1/2 months free rent per lease year.

Several older properties have been included in the competitive property survey to show the broader range of rental rates. Properties in Office Park Circle, the Metroplex or Chase Park are 10 to 20 years old and rent for between \$10.25 to \$12.50 per net rentable foot with \$4.00 expense stops and minimal rent concessions.

D. CONCLUSIONS

The suburban Birmingham office market is typical of most national markets. Recent overbuilding has created a soft market with vacancies in the 20% range. Rent concessions in the form of free rent make the effective rental rates 8-10% below the contract rates. However, construction has slowed significantly and absorption remains healthy indicating that the market should firm up in the next 12 to 18 months. Due to very favorable pre-leasing the subject properties are well insulated from this current softness. The 35,000 square feet remaining to be leased in Meadow Brook 3 will be offered on terms that are within the range of competitive properties, and the space is expected to be leased for \$15.50 per net rentable square foot with \$5.00 expense stops by the time the building opens in mid-1988. The Highway 280 corridor is clearly the desirable suburban office location in Birmingham, and the Meadow Brook Corporate Center offers the highest visibility and best amenities in this market.

Exhibit III-1
BIRMINGHAM OFFICE MARKETS

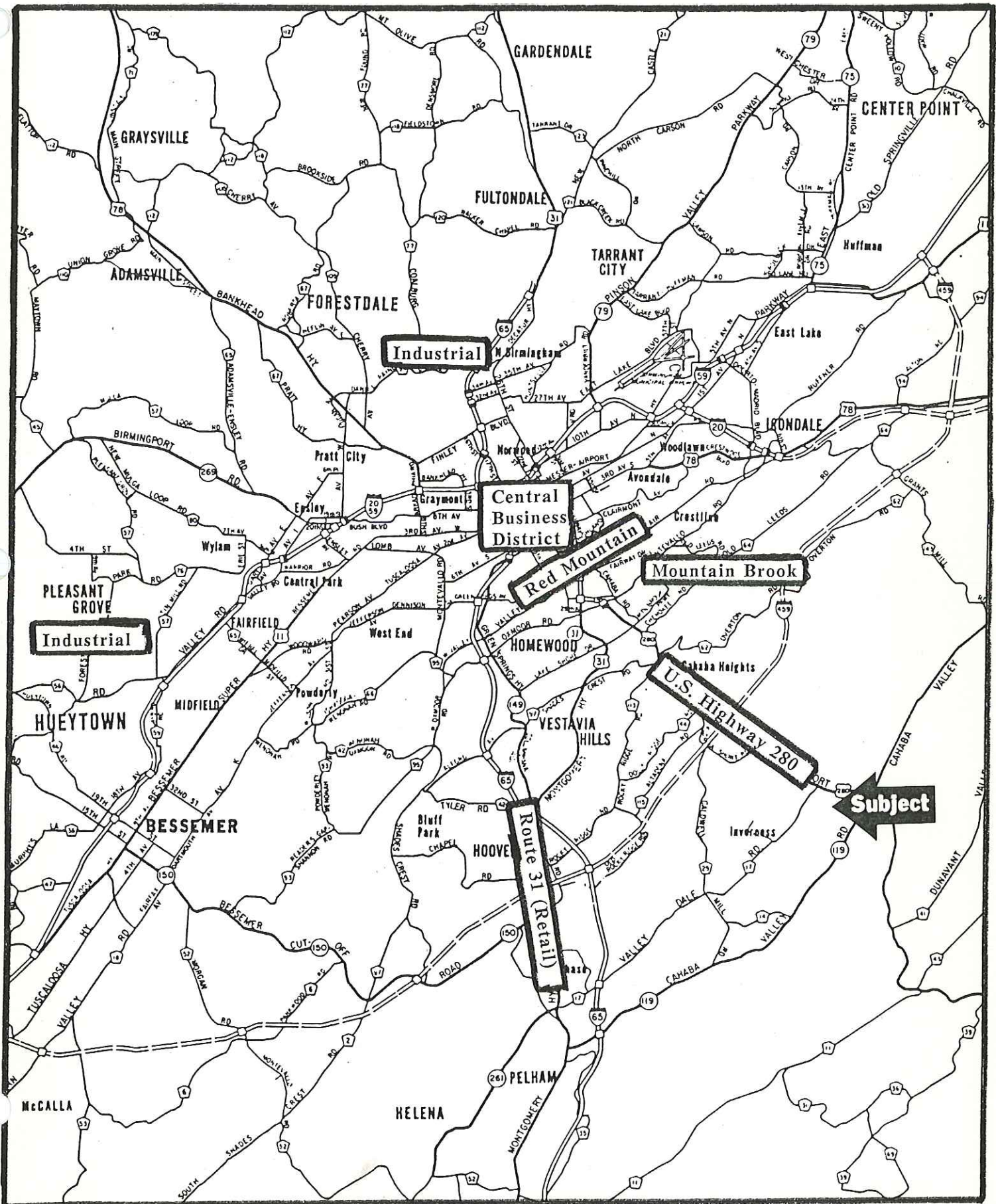


Exhibit III-2
CLASS A OFFICE SPACE
GREATER BIRMINGHAM

<u>Year</u>	<u>Square Feet Added</u>	<u>Total Inventory</u>
1976	237,000	979,000
1977	88,000	1,216,000
1978	355,000	1,304,000
1979	442,000	2,101,000
1980	283,000	2,384,000
1981	328,000	2,712,000
1982	596,000	3,308,000
1983	628,000	3,936,000
1984	403,000	4,339,000
1985	952,000	5,291,000
1986	558,000	5,849,000
Under Construction	600,000	

Note 1: Total Class A inventory is currently 4,250,000 square feet due to older buildings dropping out of the Class A category.

Sources: The Wilhelm Report
Piedmont Realty Advisors

Exhibit III-3
DEVELOPMENT ACTIVITY
280 CORRIDOR VS. ALL OTHER MARKETS

New Class A Office Completions (S.F.)

Year	Greater Birmingham	Highway 280 Corridor	Highway 280 % of Total
1981	328,000	94,000	29%
1982	596,000	438,000	73%
1983	628,000	417,000	66%
1984	403,000	336,000	83%
1985	952,000	680,000	71%
1986	558,000	331,000	59%

Sources: The Wilhelm Report
Daniel Realty Corporation
Piedmont Realty Advisors

Exhibit III-4
HIGHWAY 280 CORRIDOR
ABSORPTION TRENDS

Year	Total Inventory	New Additions	Absorption	Occupancy
1980	176,000			81%
1981	270,000	94,000	126,000	99%
1982	708,000	438,000	243,000	72%
1983	1,125,000	417,000	458,000 1	86%
1984	1,461,000	336,000	245,000	83%
1985	2,141,000	680,000	243,000	68%
1986	2,472,000	331,000	497,000	79%

Note 1: This increased absorption in 1983 coincides with the opening of Beltway I-459 which improved access to the area.

Sources: The Wilhelm Report
Daniel Realty Corporation
Piedmont Realty Advisors

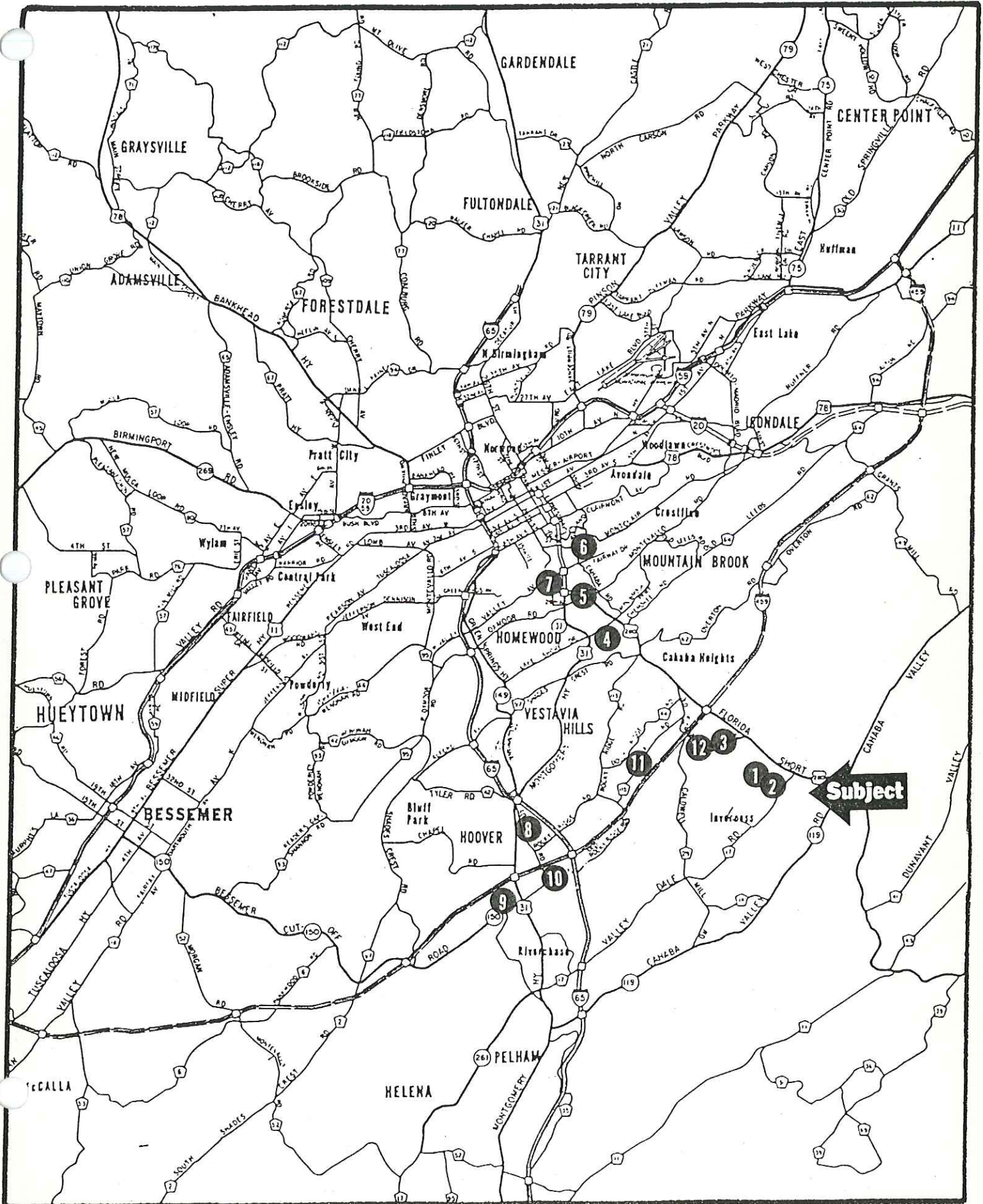
Exhibit III-5

COMPETITIVE PROPERTY SURVEY

Map #	Name/Address	Size (S.F.)	Date Completed	Occupancy	Rate	Comments
1	31 Inverness Center 31 Inverness Parkway	92,000	1980	100%	\$12.75	Older building but well maintained.
2	22 Inverness Center 22 Inverness Parkway	135,000	1983	70%	\$13.75	Low occupancy due to recent move of major tenant.
3	Perimeter Park II Highway 280 and I-459	200,000	1985	73%	\$14.00	New, but lower quality and image than subject.
4	Metroplex I 1 Metroplex Drive	104,000	1975	100%	\$12.00	
5	Luckie Building Highway 280	47,000	1986	75%	\$15.00	Primarily build-to-suit. High quality, good location.
6	Buildings 1-17 Office Park Circle	280,000 Total	1965	95%	\$10.25	Older properties, good location. First suburban properties in area.
7	Southbridge 2000 Southbridge Parkway	20,000	1984	68%	\$14.50	
8	Buildings 1-5 Chase Park South	160,000 Total	1979-1982	90% +	\$12.50	Older, smaller buildings on Route 31.
9	Riverchase Galleria Highway 31	275,000	1986	53%	\$15.90	Quality building but inconsistent with market demand.
10	Chase Corporate Center Route 31 at I-459	89,000	1985	96%	\$15.00	125,000 S.F. Phase II under construction.
11	2000 Building 2000 International Drive	125,000	1986	80%	\$15.50	Mostly pre-leased by developer BE&K.
12	The Colonnade Perimeter Park	650,000	U/C 1988	65%	\$16.00	Pre-leased to Bell South.

Source: Piedmont Realty Advisors

Exhibit III-5A
COMPETITIVE PROPERTY MAP



IV. THE BORROWER/DEVELOPER

IV. THE BORROWER/DEVELOPER

A. INTRODUCTION

The Borrower/Developer for all three Meadow Brook properties will be Daniel Realty Corporation, a diversified real estate investment and development firm. The actual borrowing entities will be limited partnerships whose general and limited partners are Daniel Realty Company and/or Affiliates. Meadow Brook 1 and 2 are held by Daniel Meadow Brook One, Ltd., and Meadow Brook 3 is held by Daniel Meadow Brook III, L.P. The ownership structure for the properties is diagrammed in Exhibit IV-1.

B. THE BORROWER

1. History and Organization

Hugh Daniel founded Daniel International Corporation (DIC) in 1934 to pursue large scale engineering, construction and industrial maintenance activities throughout the United States and several foreign countries. In 1964 Daniel Realty Corporation (DRC) was formed as a wholly owned subsidiary of DIC to handle the ongoing management of real estate projects that were developed or acquired by DIC. DRC also provided management services under contract to third parties.

In 1977 DIC and all of its assets (including DRC) was acquired by the Fluor Corporation. In 1985 the ownership of DRC was separated from DIC and transferred to Fluor Real Estate Services, which in turn is a wholly owned subsidiary of Fluor.

In August of 1986 DRC was purchased from Fluor Real Estate Services by Daniel Realty Company. Daniel Realty Company is a New York general partnership which serves as a holding company for DRC and other assets. Daniel Realty Company is owned by two partners, Knutsdorp, Inc., a Delaware corporation that functions as a holding company for private Swiss interests, and Daniel Equity Partners L.P., a Virginia limited partnership that was formed by the senior management of DRC. A chart illustrating these relationships appears in Exhibit IV-2.

Capitalization for DRC is primarily provided by Knutsdorp, Inc., a holding company owned through several intermediate companies by Mohamed Binladin, an individual of Swiss citizenship and Saudi Arabian ancestry. Mohamed's father founded the Binladin organization in the 1940's to engage in small construction projects. After working with ARAMCO Binladin attracted the attention of the royal family and won several commissions to construct royal palaces and public works projects. Today Binladin is a major contractor in the middle east with annual billings of approximately \$400 million and net income of approximately \$15 million. The organization has diversified into financial services and investments through vehicles such as Knutsdorp and its investment in Daniel. While Binladin has no specific capital obligation to Daniel, Binladin has contributed \$2.75 million in equity, \$5 million in working capital loans,

and has assumed \$30 million of recourse liability on Daniel debt. Daniel Realty Company has a book value net worth of \$5.8 million, and a market value net worth of approximately \$25 million.

DRC is currently organized into four departments: (A) Investments, responsible for the acquisition, financing, and disposition of properties, (B) Finance, which manages equity-oriented relationships such as syndication, credit enhanced instruments, and institutional equity partners, (C) Development, which handles the development of commercial and residential properties, and (D) Operations, responsible for ongoing management of the portfolio properties. Exhibit IV-3 lists some of the projects developed and/or owned by DRC or associates.

2. Principal Personnel

DRC is comprised of approximately 15 professionals from various real estate disciplines. The following is only a partial list of principal personnel. Of particular interest is the fact that Messrs. Findley and Gleissner of DRC's Development Department had extensive experience in the construction and leasing of Inverness Center, Meadow Brook's most direct competitor.

Executive and Finance Department - The principal executive personnel of DRC are the following:

T. Charles Tickle (age 37) is a Director and President of DRC. Mr. Tickle served as the Controller of DRC from 1974 to 1980. He was promoted to the position of Vice President in 1984 and President in 1985. In 1985, Mr. Tickle became a Director of DRC. Mr. Tickle attended Jefferson State Junior College in Birmingham, Alabama and Auburn University.

Stephen R. Monk (age 32) is the General Counsel, a Vice President and the Secretary of DRC. From 1980 to 1983 Mr. Monk was associated with the law firm of Berkowitz, Lefkovits, Patrick, Isom, Edwards & Kushner in Birmingham, Alabama. He joined DRC in 1983. Mr. Monk graduated from Auburn University in 1977 with a B.S. degree in Business Administration (Accounting) and from Cumberland School of Law with a J.D. degree in 1980.

James W. Kluber (age 36) is the Chief Financial Officer, a Vice President and Treasurer of DRC. From July 1982 until joining DRC in May 1985, Mr. Kluber served as Controller and as Partner-Administrative Services Manager with Dimension Development Company of Dallas, Texas. From 1980 to 1982 Mr. Kluber was employed with Lincoln Property Company and Trammell Crow Company. Prior to that time, Mr. Kluber served as an auditor and audit supervisor with Ernst & Whinney. Mr. Kluber graduated from Ohio University with a dual major in Accounting and Political Science in 1973.

Operations Department

Robert M. Bushong (age 56) is Vice President of Property Management at DRC. Mr. Bushong, a Certified Property Manager, served from 1974 to 1977 as the General Manager of Imperial Plaza Corporation, an affiliate of DIC. In 1977, Mr. Bushong joined DRC as the General Property Manager and in 1984 was promoted to Vice President of DRC.

J. Michael Cottle (age 49) is an Assistant Secretary of DRC and currently serves as Commercial Director of Property Management for DRC. Mr. Cottle also holds the Real Property Administrator designation.

Robert A. Carr (age 34) joined DRC in 1985 as an Asset Manager and currently serves as Multi-family Director of the DRC Property Management Department.

Development Department

Michael D. Fuller (age 33) is a Vice President of DRC. Mr. Fuller joined DRC in 1984 and served as Director of Development until October 1985 at which time Mr. Fuller became a Vice President of DRC. From 1974 to 1984, Mr. Fuller was Project Manager with University Financial, an industrial and commercial development company in San Diego, California. Mr. Fuller graduated from Auburn University with a B.B.A. degree in Marketing in 1975 and from National University, San Diego, California with an M.B.A. in Finance in 1979.

Kenneth B. Findley, II (age 32) joined DRC in 1984 as Director of Office Leasing. From 1979 to 1984, Mr. Findley was employed by Taylor & Mathis, a real estate development company, and was responsible for office leasing at Inverness Center Office Park in Birmingham, Alabama. Mr. Findley graduated from Auburn University with a B.A. in Political Science in 1977.

F. Bruce Gleissner (age 36) joined DRC in 1985 and serves as Development Manager of Commercial Projects. Mr. Gleissner was formerly Product Manager with Brice Building Company, Inc., in Birmingham, Alabama from 1973 until joining DRC. During his twelve years with Brice, he was responsible for construction of most of the office space in Inverness Center. Mr. Gleissner graduated from the School of Architecture at Auburn University with a B.S. degree in Building Construction in 1974.

Investment Department

Allan D. Worthington (age 33) is a Senior Vice President of DRC. Mr. Worthington joined DRC in 1981 as a member of the real estate brokerage division of DRC and became an Acquisitions Manager in 1982.

Jack Peterson (age 31) joined DRC as a Product Manager in 1983. In August of 1986 he joined the Investments Group as an Investment Officer. Mr. Peterson received a B.S. degree in Economics in 1977 and an M.B.A. in Finance in 1979, each from Florida State University.

C. DEVELOPMENT TEAM

1. General Contractor

Brasfield & Gorrie, Inc. will serve as general contractor for all three buildings. It is a major regional construction company headquartered in Birmingham, Alabama, with branch offices in Atlanta, Georgia and Orlando, Florida. Founded in 1922, the company is experienced in all forms of buildings, including light and heavy industrial, commercial, medium to high-rise residential, institutional, health care facilities, warehousing, and water and waste water treatment plant construction. Brasfield & Gorrie is extremely active in the Birmingham market, with 1,542 million square feet of office, institutional or municipal structures in progress. The company was ranked as the 120th of the top 400 construction companies in the nation last year, according to Engineering News Record.

2. Architect

Gresham, Smith and Partners is the architect for Meadow Brook 1 and 2. Gresham, Smith and Partners (GS&P) is a multi-discipline architectural and engineering firm with offices in Birmingham, Orlando, Nashville and Dallas. With approximately 225 employees, GS&P specializes in commercial developments, health care work, industrial projects, and manufacturing structures. In addition to providing architectural services on Daniel Realty's Meadow Brook 1 and 2 office buildings, GS&P acts as space planner for Daniel Realty and will occupy 12,000 square feet in Building 3.

Meadow Brook 3 has been designed by Harwood K. Smith & Partners (HKS), a Dallas based firm providing professional services in architecture, planning, interior architecture and structural engineering. Founded in 1939, HKS has executed commissions for structures valued in excess of \$5 billion. During this 48-year period HKS has grown to be the sixth largest architectural and engineering firm in the nation with projects in 20 states. HKS presently has a staff of 381 employees of which 372 are located in Dallas, Texas. In addition to Meadow Brook 3 office building, HKS is providing architectural services for the design, engineering and construction of Daniel Realty's Old Mansion project, an 800,000 square feet twin tower office development in Richmond, Virginia.

3. Landscape Architect

Nimrod Long & Associates, Inc. is a professional design firm of landscape architects/land planners with offices in Birmingham, Alabama. Their staff includes nine landscape architects with professional registration in eight states and supporting drafting and

administration staff. In-house project capabilities include all aspects of landscape architecture, site planning, and urban design. Nimrod Long & Associates provided land planning and site planning services for Meadow Brook Corporate Park, Daniel Realty's Morning Sun Villas Apartments and site planning and landscape architecture for Meadow Brook 1,2, and 3 office buildings.

4. Engineers: Civil - Walter Schoel Engineering Company
 Structural - Lane/Bishop/Hodnett
 Mechanical/Electrical - Miller and Weaver, Inc./
 Kater and Parks Electrical Engineers

D. CONCLUSION

Daniel Realty Corporation has an excellent track record in the development and management of real estate projects. The recent reorganization left all of DRC's personnel in place, and new capital partners (Knutstorp/Benladin) provide the financial resources for future growth. The development team includes some of the country's largest contractors and architects. Additionally, the experience of Messrs. Findley and Gleissner in building and leasing Inverness Center is directly transferable to the development of Meadow Brook.

Exhibit IV-1
OWNERSHIP STRUCTURE
PROPERTIES

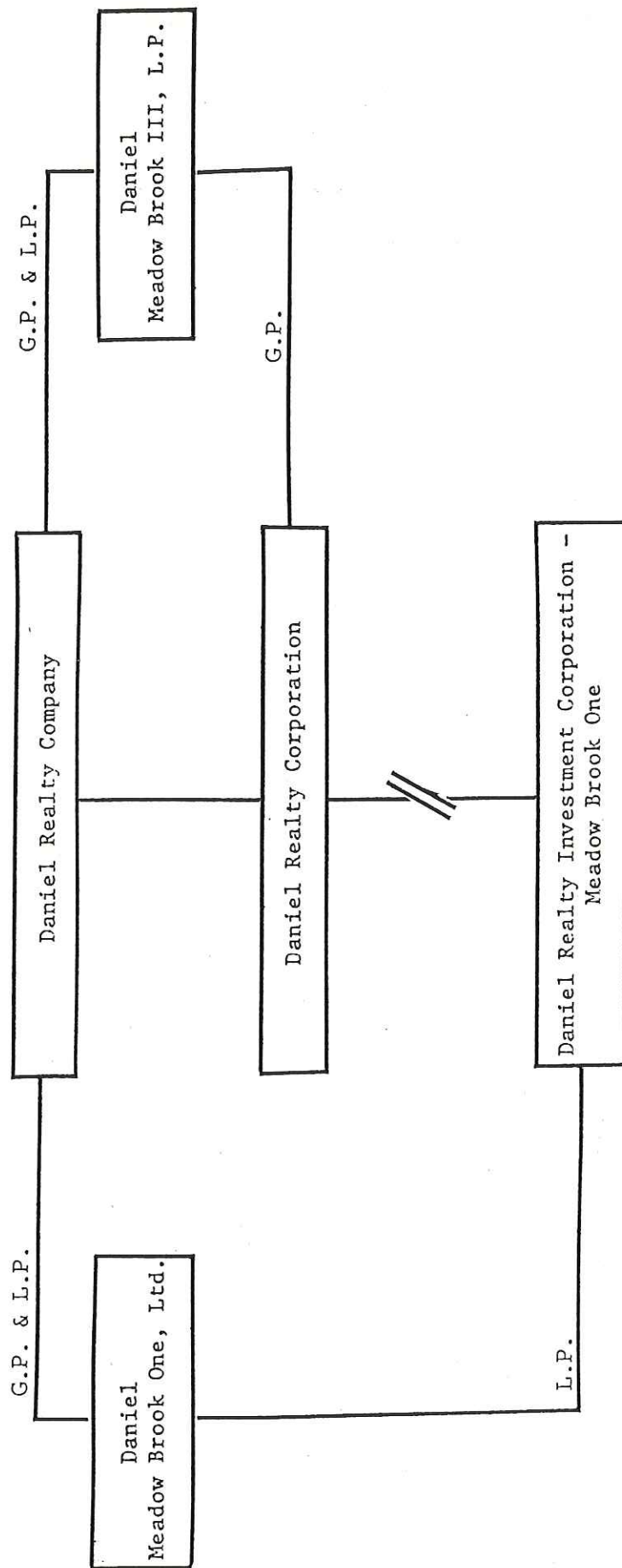


Exhibit IV-2
OWNERSHIP STRUCTURE
DANIEL REALTY CORPORATION

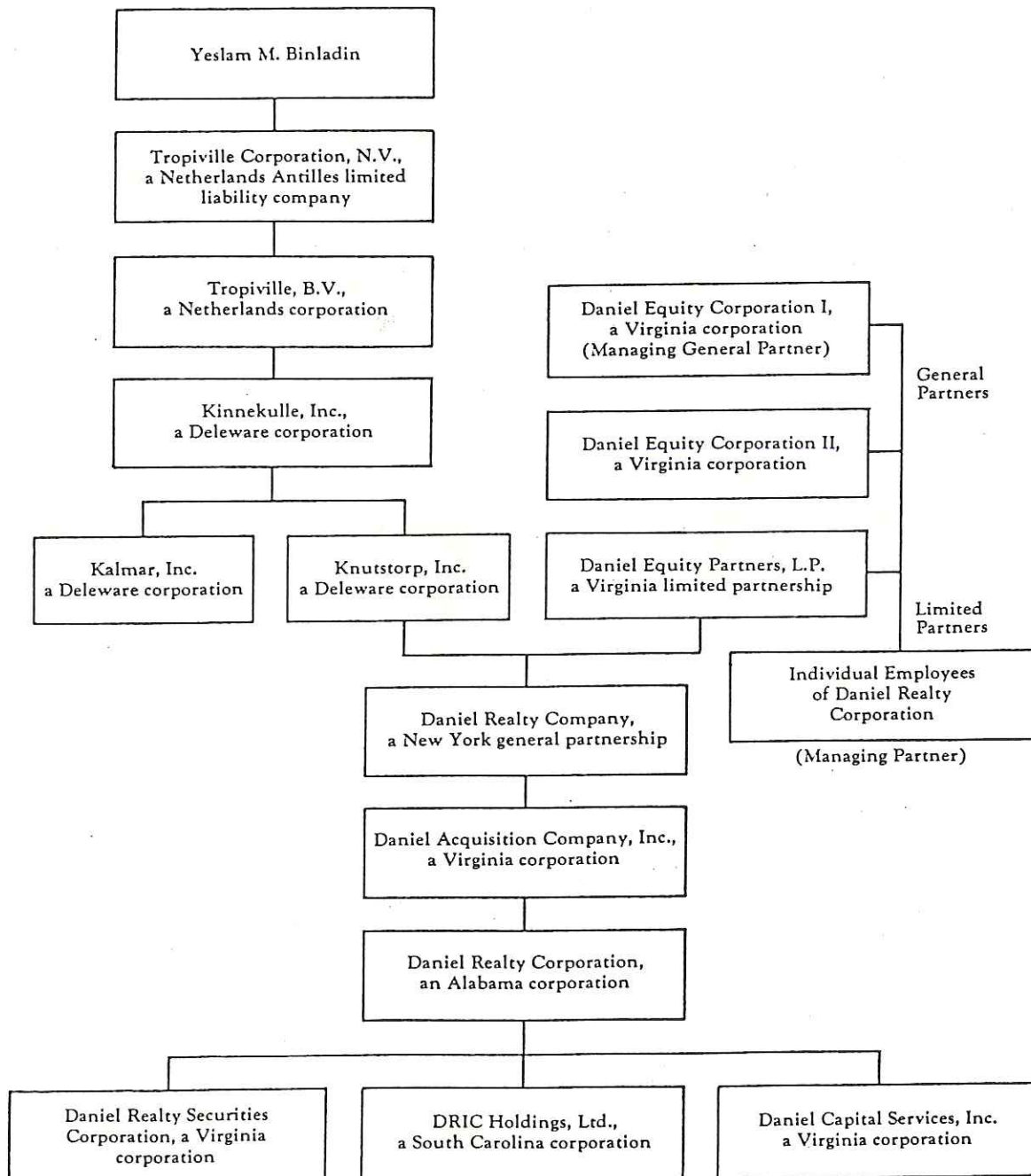


Exhibit IV-3
DANIEL PROJECTS

The following is a partial listing of properties that are either owned, managed or developed by Daniel Realty Corporation.

DEVELOPMENT

Name	Description	Location
Daniel Building	277,000 S.F. Office	Birmingham, Alabama
Somerset Building	120,000 S.F. Office	Raleigh, North Carolina
Reynolds Office/Whse.	50,000 S.F.	Birmingham, Alabama
Rust Buildings	300,000 S.F. Office	Birmingham, Alabama
Morning Sun Apts.	184 Units	Birmingham, Alabama
The Meadows	200 Units	Birmingham, Alabama
Old Mansion Site (U/C)	800,000 S.F. Office	Richmond, Virginia

MANAGEMENT

Name	Description	Location
Fluor Building	260,000 S.F. Office	Redwood City, California
Metro Commerce Center	117,000 S.F. Office	Phoenix, Arizona
Daniel Center	355,000 S.F. Office	Greenville, South Carolina
Daniel Center II	150,000 S.F. Office	Greenville, South Carolina
Fluor Complex	1,200,000 S.F. Office	Sugarland, Texas
Oxmoor Center	150,000 S.F. Office	Birmingham, Alabama
Reflections Center	117,000 S.F. Office	West Palm Beach, Florida
Central Valley Plaza	93,600 S.F. Office	San Diego, California
Imperial Plaza Apts.	891 Units	Richmond, Virginia
Westbridge Apts.	462 Units	Knoxville, Tennessee
Tara Hills Apts.	214 Units	Oak Ridge, Tennessee
Fountain View Apts.	260 Units	Irving, Texas
Woodgate Apts.	314 Units	Houston, Texas
Westminster Apts.	155 Units	Fulton Co., Georgia
Inverrary Club Apts.	428 Units	Lauderhill, Florida
Foxwood Village Apts.	350 Units	Las Vegas, Nevada

V. THE RISK AND RETURN

V. RISK AND RETURN

A. INTRODUCTION

As a form of investment, the participating mortgage has some of the advantages of equity investment as well as the guaranteed return and senior security position of a traditional mortgage debt. The participating mortgage on Meadow Brook 1 and 2 will be collateralized by a first lien on the improvements and land leasehold (the land lease will be fully subordinated to the mortgage) while the mortgage on Meadow Brook 3 will be collateralized by the land and improvements. As additional security, the general partners of the borrowing entities will master lease Meadow Brook 3 for 24 months or breakeven, whichever comes first.

The properties involved in the proposed investment structure are somewhat unique because they are substantially pre-leased. Meadow Brook 1 and 2 are both 100% leased to RUST International, and Building 3 is 71% pre-leased to several tenants including USF&G and Daniel Realty Corporation.

The projects are also much further along in the development cycle than is typical for USF&G's participating mortgage program. Meadow Brook 1 is completed and fully occupied, Building 2 is scheduled for completion in August, 1987, and Meadow Brook 3 will begin construction May 1, 1987. Funding of the loans is anticipated to follow a similar schedule of \$11,750,000 funded within 60 days, \$11,750,000 funded within six months, and \$11,750,000 funded within 18 months.

This situation of substantial pre-leasing, the majority of development activity being complete and near-term funding alters the risk/return equation since many of the risks are greatly reduced and the return can be projected with greater certainty. However, it does introduce new topics for underwriting, namely the leases in place and the credit of the tenants.

B. LEASES

1. Meadow Brook 1 and 2

Meadow Brook 1 and 2 are both 100% leased to RUST International Corporation on terms that are summarized in Exhibit V-1. The primary term of both leases is 10 years with one 5-year renewal option. The Meadow Brook 1 lease commenced on January 1, 1987, and the Meadow Brook 2 lease is expected to commence September 1, 1987. The premises leased are 126,502 and 126,430 usable square feet for Buildings 1 and 2 respectively.

The lease rate for both buildings is quoted on a usable square foot basis: \$10.70 per foot per year through year 5, and \$14.40 per foot for the balance of the ten year term. On a rentable basis these rates are \$10.00 for years 1-5 and \$13.46 for years 6-10. This step-up in rental rate equates to a 6.12% increase annually, compounded. Expenses are stopped at \$2.17 per usable foot (\$2.02 rentable) per year through year 5, and

\$2.50 thereafter. RUST will be responsible for utilities, janitorial, and any operating costs above this stop. If RUST exercises its five year options, both rent and expenses move to market as determined by an appraisal/arbitration process.

Both the rent and expense stops are considerably below market comparables of \$14.50-\$15.50 for rent, and \$4.50-\$5.00 for expenses. However, on a net basis (gross rent less expenses) RUST is paying \$7.98 per rentable foot while market is approximately \$10.00 to \$10.50 on a net rentable basis. When this rate is increased by 5% to compensate for the vacancy factor found in multi-tenant buildings, the appropriate rental rate for comparison purposes is \$8.38 for RUST versus \$10.00 to \$10.50 in the market. This analysis indicates that RUST's lease is 16% to 20% below market contract rates and 7-1/2% to 13% below effective market rates. This difference will increase as market rates rise while RUST's rate remains flat for five years.

The Meadow Brook 2 lease has a "give-back" provision which allows RUST to give back up to 75,000 square feet in Meadow Brook 2 under the following conditions:

- * one year's prior notice is given;
- * RUST must pay for unamortized tenant improvements and free rent which are amortized over a ten-year period;
- * RUST must extend its Meadow Brook 1 lease by an area and term equivalent to the space given back.

The chance of RUST Exercising this option appears very small since RUST has absorbed an average of 15,000 square feet of new space per year for the last 20 years, and RUST has never relinquished space due to personnel cutback or business slowdown. The employee density in Meadow Brook 2 is particularly high at 5.5 persons per 1,000 square feet.

Overall, the leases are on favorable terms for the landlord. Rents are below market compared to multi-tenant space, but this is typical of such large leases. While it would be desirable to have annual C.P.I. escalations, flat leases are standard for the Birmingham market, and the step-up in year 5 is significant.

2. RUST International

The Rust Engineering Company was formed in Birmingham in 1905 by three brothers to sell a patented steam boiler system and to erect steam generation facilities. Over the years Rust expanded its operations to include the engineering, construction and management of major industrial plants and facilities with particular expertise in pulp and paper mills, environmental control facilities and refuse-to-energy plants.

Ownership of the company was maintained by the Rust family until 1967 when Rust became a division of Litton Industries. In 1972 Wheelabrator-Frye, Inc. acquired the firm, and in 1981 Wheelabrator consolidated Rust with Kellogg, Inc. (another Wheelabrator division) to form Kellogg Rust,

Inc. In 1982 the operating divisions that had been associated with Rust Engineering were consolidated as RUST International Corporation, though still owned by Kellogg Rust, Inc. and Wheelabrator. In 1983 the merger of The Signal Companies and Wheelabrator-Frye, Inc. brought RUST under the Signal corporate umbrella. In late 1985 Signal spun off several divisions including RUST to form the Henley Group. An organization chart illustrating the current ownership structure is included as Exhibit V-2.

While the ownership of RUST has changed several times the lease obligation is solely the responsibility of RUST International which has shown consistent profitability. Financial highlights of the company are provided in Exhibit V-3.

The engineering/construction business is fairly cyclical, and RUST experienced a sharp increase in billings for 1986 (total sales \$500 million vs. \$246 million in 1985). Backlogged orders have been increasing consistently for the past three years. Since these orders are typically for long-term contracts, the financial health of RUST appears assured for at least the next three years.

3. Ground Leases for Meadow Brook 1 and 2

The sites on which the improvements of Meadow Brook 1 and 2 are located are subject to a ground lease which is summarized in Exhibit V-4. The ground is leased from Daniel U.S. Properties, Ltd., an affiliate of Daniel Realty Corporation. The lease has a 50-year term with four options to renew for 10 years each, for a total possible term of 90 years. Rent is on a net basis and is fixed for each ten year period. Rent for the first ten years is a total of \$130,016 per year for both parcels, and rent is adjusted at the beginning of each ten-year period to equal 10% of the fair market value of the land at that time. The lease will be subordinate to the first mortgage, and the lessee has the right of first refusal to purchase the land as well as an option to purchase the land upon 120 days notice for 10% of the fair market value of the land and improvements.

4. Meadow Brook 3

The lease summary for Meadow Brook 3 appears as Exhibit V-5. The major tenants are Daniel Realty Corporation, USF&G, and RUST, which in the aggregate occupy over 70,000 net rentable square feet or 61% of the building. An additional 12,000 square feet has been leased to Gresham, Smith and Partners, the architectural firm that designed Meadow Brook 1 and 2 bringing occupancy to 71%.

C. VALUATION

Pro forma income statements for the properties are presented in Exhibits V-6A and V-6B, and the valuation analyses for the properties are presented in Exhibits V-6C and V-6D. Meadow Brook 1 and 2 have an estimated value of \$26,000,000 which indicates a loan to value ratio of 90%. This high a ratio is justified due to the fully leased status of the building, and to the high value of equity at reversion.

Meadow Brook 3 has an estimated value of \$13,500,000, indicating a loan to value ratio of 87%. This lower ratio is due to the higher rents being achieved in this multi-tenant building. The combined loan to value ratio for all three properties is 89% with a combined debt coverage ratio of 1.08.

D. RETURN

The projected income for the properties is presented in Exhibits V-7A and V-7B. The projections are based on the terms of the leases actually in place with pro forma numbers being factored in for the speculative space remaining in Meadow Brook 3. Inflation is projected at 5% annually, and appropriate cost numbers have been included for releasing and refitting the space as leases roll over.

1. Yield Analysis

All three properties have been modelled assuming a ten-year investment term, as shown in Exhibits V-8A and V-8B although the residual value for the buildings are based on year 11 income and expenses to reflect releasing the space at the then current market rates. The residual value is an important component of the yield for Meadow Brook 1 and 2 since the flat lease does not provide for significant cash flow participations until year 6 and also, the below market rental rate moves to market in year 11 creating additional value for the building. The projected yield for Meadow Brook 1 and 2 is 11.24%. Meadow Brook 3 is again more typical of multi-tenant buildings with the yield more evenly balanced between cash flow and appreciation. The projected yield for Meadow Brook 3 is 11.52%.

A sensitivity analysis for both buildings is provided in Exhibits V-9A and V-9B. The variables for this analysis include inflation, capitalization rates at sale, and beginning market rent. The analysis indicates a spread of approximately 300 basis points between the worst case and best case scenarios on a nominal basis, although on an inflation adjusted real return basis the range is between 4.60% and 8.10% for both investments.

The cash flows which contribute to the investment yields are base debt service, additional interest from operations and additional interest from sale. A unique feature of these loans is that USF&G will receive 2 points in origination fees instead of the customary 1 point. Only the additional 1 point has been included in the yield analysis.

2. Base Debt Service

Base debt service on both loans will be 8.50% of the loan amount. There are no step-ups or accruals in these loans so base debt service will remain at 8.50% for the full term of the loan.

3. Additional Interest From Operations

Additional interest from operations will be 50% of net cash flow for all three properties. For Meadow Brook 1 and 2 additional interest of

\$15,000 per year is expected for the first five years. In the sixth loan year Rust's lease calls for a step-up which increases USF&G's additional interest to \$441,000 for the next five years. This translates to a 1.88% cash return on the loan amount which when added to the base debt service provides an effective coupon of 10.38% for the second half of the loan term.

Because of its multi-tenant rent roll Meadow Brook 3 is expected to provide additional interest in the second loan year of approximately \$75,000. This amount increases moderately in the third loan year and then declines in the fourth loan year as tenant re-fit and re-leasing costs are incurred. This is typical of multi-tenant buildings where both cash flow and its variability are greater than single tenant investments.

4. Additional Interest From Sale or Refinancing

USF&G will receive 50% of the properties' residual value upon sale or refinancing. A 9.0% capitalization rate has been used in determining residual value, and the Borrower is allowed to deduct actual selling expenses up to 3% of the gross sales price. The buildings are valued on their projected income for year 11 since the RUST space in Buildings 1 and 2 and USF&G's space in Building 3 will move to market at that time, increasing income and value significantly.

E. RISKS

The risks of this investment can be divided into four broad categories: market, operations, default, and interest rate risk.

1. Market Risk

The market risk of this investment has been greatly reduced by the substantial pre-leasing which has already occurred. Meadow Brook 1 and 2 are 100% leased, and Meadow Brook 3 is 71% pre-leased with excellent prospects for leasing the remaining space during the 12 months before the building is completed. In the aggregate, the Meadow Brook properties are currently 90% pre-leased. This strong market performance creates only minimal market risks.

The "give-back" provision in the Meadow Brook 2 lease creates a unique market risk. Because the contract rental rate is well below the market rental rate for similar properties, RUST's giving back space would increase the profitability of the project even when all the costs of releasing are considered. Exhibit V-10 is a cost-benefit analysis which demonstrates that the return on the releasing costs in a worst case scenario would be 17%.

2. Operational Risks

Operational risks involve the ability of Daniel Realty Corporation to effectively manage the properties on a day to day basis, and to re-lease the properties in a timely and profitable manner when space becomes available in the buildings. Daniel Realty has been active in property management for over 20 years and currently has 3.3 million square feet

of commercial space and 6,325 residential units under management. The subject properties represent the centerpieces of Daniel's Meadow Brook Corporate Park and Daniel will be a tenant in Building 3. As such, they should certainly receive proper management attention from Daniel. Additionally, the leasing performance Daniel has provided as well as Daniel's large tenant base in the Birmingham market indicate that Daniel should perform well on the re-leasing of these properties. Overall, the operational risks for this investment are minimal.

3. Default Risks

The risks of default have been addressed in several ways for this transaction. First, 90% of the space is pre-leased to major tenants. Additionally, Daniel will master lease the balance of the space in Meadow Brook 3 until the earlier of 24 months or breakeven cash flow.

Daniel has agreed to subordinate its fee interest in the land leased for Meadow Brook 1 and 2 to the first mortgage of USF&G. This provision provides for an annual \$130,000 cash flow "cushion" in the event of default, and in the event of foreclosure provides an equity "cushion" approximating 10% of the properties' value. Furthermore, the documents will include cross default provisions between Meadow Brook 1 and 2 and Meadow Brook 3.

4. Interest Rate Risk

An interest rate risk arises due to the forward commitment aspect of the loan. Typically USF&G's program involves an 18-month forward commitment for funding, thereby creating an 18-month interest rate risk.

Funding for the Meadow Brook properties will occur earlier than normal, reflecting the advanced stage of construction for the buildings. Meadow Brook 1 is completed and occupied and is scheduled to fund as soon as documentation is complete in approximately 60 days. Funding will be in the amount of \$11,750,000. Meadow Brook 2 is expected to fund in early September 1987 for \$11,750,000. The building's shell is substantially complete and tenant improvements are currently being installed.

Meadow Brook 3 is just now starting construction with completion and funding scheduled for the third quarter of 1988. It too will be in the amount of \$11,750,000.

If rates move significantly during the 6 and 18-month commitment periods, the Lender will be protected from a downward move in rates by a Tri-Party Agreement which will lock in the Borrower to USF&G's permanent loan. If rates increase, it is expected that inflation will increase as well and the participating features of the loans will provide a hedge for the Lender.

F. CONCLUSIONS AND RECOMMENDATIONS

The Meadow Brook properties provide an investment opportunity that combines the security of a major long term tenant with the upside of a multi-tenant building. While the projected yields are slightly lower than former investments, this is appropriate in light of the current interest rate environment and the low market, interest rate and operational risks involved.

The investment will be secured by distinctive properties located in Birmingham's strongest office corridor. The Meadow Brook Corporate Park should continue to grow and further enhance the properties' value in years to come.

Piedmont Realty Advisors therefore recommends that the Real Estate Investment Committee of the United States Fidelity and Guaranty Company approve the issuance of a commitment for first mortgages of \$23,500,000 for Meadow Brook 1 and 2 and \$11,750,000 for Meadow Brook 3 under the terms and conditions outlined in this report.

Exhibit V-1 **RUST LEASE SUMMARY**

Lessee:	Rust International Corporation	Rust International Corporation
Premises:	126,502 useable square feet	126,430 useable square feet
Term:	10 Years	10 Years
Commencement Date:	January 1, 1987	September 1, 1987 (Estimated)
Renewal Options:	One at five years with rent at market.	One at five years with rent at market.

Year One Pro Forma				Total -----
Net Income:	Gross Rental Income	\$1,353,571	\$1,352,801	\$2,706,372
	Expense Stop	274,509	274,353	548,862
	Ground Lease	58,244	71,772	130,016
		-----	-----	-----
	Net Rental Income	\$1,020,818	\$1,006,676	\$2,027,494

Annual Rent:	Lease Years 1-5	\$1,353,571	\$1,352,801	\$2,706,372
	Lease Years 6-10	1,821,629	1,820,592	3,642,221

Option period rent will be established at market rent as of the date of renewal.

Rent during each option period shall remain level.			Total -----	
Expense Stop:	Years 1-5 @ \$2.17/S.F.	\$274,509	\$274,353	\$548,862
	Years 6-10 @ \$2.50/S.F.	316,255	316,075	632,330

Lessor shall be responsible for the following operating costs: maintenance salaries and costs, insurance, management and administrative costs, real estate taxes, sewer charges, and common area charges of the park. Lessor shall also be responsible for all structural upkeep of the buildings. All lessor's operating costs in excess of the Expense Stop shall be paid by lessee as additional rent. For any option period, the expense stop will be re-established as the amount incurred during the initial year of that option period.

Exhibit V-1 (Continued)
RUST LEASE SUMMARY

**Lessee's
Operating
Expense:**

In addition to specific operating costs exceeding \$2.17 per square foot, Lessee shall be responsible for all costs incurred for electricity, water, and other utility charges (excluding sewer), janitorial service, building security, day porter services and the costs of normal everyday upkeep (janitorial supplies, light bulbs, etc.)

**Building Two
Give-Back
Option:**

Lessee has the right at any time during the initial lease term to terminate its lease of premises up to 75,000 square feet in Building Two. Notice of any give-back must be exercised by Lessee at least one year prior to its effective date. In event of give-back, Lessee must (i) extend the term of its lease of a comparable amount of space in Building One beyond the initial lease term by a period equal to the remaining term after give-back of the Building Two space, and (ii) pay to the Lessor an amount equal to any unamortized tenant improvement costs and lease concessions attributable to the give-back space.

Lease

Concessions: In conjunction with taking of occupancy in each building, Lessor shall pay to Lessee the following:

			Total
Moving Cost Reimbursement:	\$125,000	-	\$125,000
December Rent for Former Premises:	120,000	-	120,000
Discounted Free Rent:	1,077,039	818,178	1,895,217

Total:	\$1,322,039	\$818,178	\$2,140,217

Each lease concession amount will be paid upon commencement of its respective lease.

Exhibit V-2
ORGANIZATION CHART
HENLEY GROUP

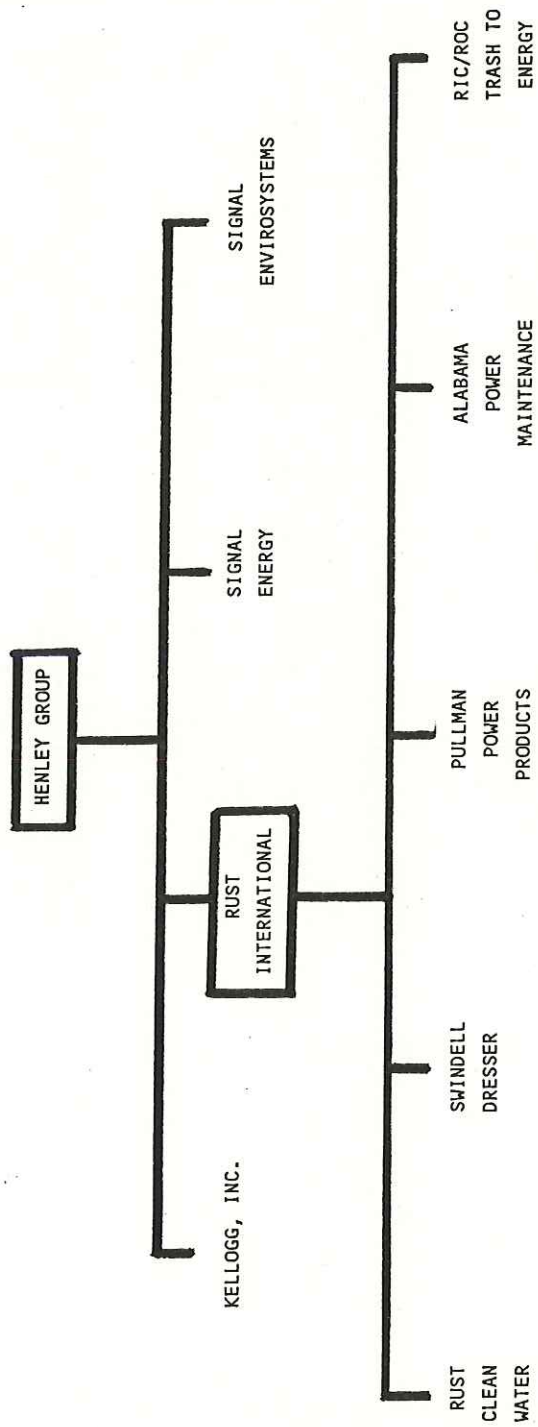


Exhibit V-3
RUST INTERNATIONAL
FINANCIAL HIGHLIGHTS

(000'S Omitted)

Year	1984	1985	1986
Sales ¹	\$292,871	\$246,000	\$500,000
Cost of Sales	<u>262,683</u>	<u>216,589</u>	<u>469,938</u>
Gross Margin	\$ 30,188	\$ 29,411	\$ 35,062
SG&A	<u>23,888</u>	<u>25,154</u>	<u>21,437</u>
Income Before Taxes	\$ 6,300	\$ 4,257	\$ 13,625
Taxes	<u>2,348</u>	<u>1,504</u>	<u>6,825</u>
Net Income	\$ 3,952	\$ 2,753	\$ 6,800
Current Assets ²	\$ 45,838	\$ 31,565	
Current Liabilities	47,946	32,310	
Net Worth ²	\$ 6,073	\$ 8,764	
Backlog	\$313,084	\$474,905	\$651,927

Note 1: Results of operations are unaudited.

Note 2: Assets, liabilities and net worth are from statements audited by Arthur Anderson & Co.

Exhibit V-4
GROUND LEASE SUMMARY

	<u>Building One</u>	<u>Building Two</u>
Lessor:	Daniel U.S. Properties, Inc.	Same
Land Area:	8.317 Acres	10.253 Acres
Value at Transfer:	\$618,000	\$700,000
Term:	50 Years	50 Years
Options to Extend:	Four at 10 years each. Lessee's option to extend must be exercised 13 months prior to expiration of current term.	
Commencement Date:	October 1, 1985	November 1, 1986
Rent:	Year 1-10; \$58,244 annually; paid in equal monthly installments	Year 1-10: \$71,772 annually; paid in equal monthly installments
	Each subsequent ten-year period annual rent will be established at 10% of the fair market value of the land as of the first day of each ten-year period.	
Expenses:	All taxes, assessments and other costs associated with the land are borne by the Lessee.	
Subordination:	Lessor will subordinate its fee interest in the land to any mortgage less than or equal to 90% of the fair market value of the land and building.	
Lessee's Option to Purchase:	10% of the fair market value of the land and building (as encumbered by the Ground Lease).	
	Lessee also has right of first refusal to purchase land.	

71% Leased

Exhibit V-6A
PRO FORMA INCOME AND EXPENSES
MEADOW BROOK 1 AND 2

Gross Income		
	Meadow Brook 1	\$1,353,571
	Meadow Brook 2	<u>1,352,801</u>
	Total	\$2,706,372
Less:	Vacancy and Collections	<u>0</u>
	Effective Gross Income	\$2,706,372
Less:	Operating Expenses	
	Meadow Brook 1	\$ 274,509
	Meadow Brook 2	<u>274,353</u>
	Total	\$ 548,862
	Net Operating Income	\$2,157,510
Less:	Land Lease	
	Meadow Brook 1	\$ 58,244
	Meadow Brook 2	<u>71,772</u>
	Total	\$ 130,016
	Cash Flow Before Debt Service	\$2,027,494
Less:	Base Debt Service	<u>1,997,500</u>
	Net Cash Flow	\$ 29,994

Debt Coverage Ratio 1.02

Exhibit V-6B
PRO FORMA INCOME AND EXPENSES
MEADOW BROOK 3

Gross Income

	Daniel Realty	\$ 300,000
	USF&G	392,153
	Gresham et al	186,000
	RUST	398,505
	Other Office	467,399
	Storage	<u>46,628</u>
	Total	\$1,790,685
Less:	Vacancy @ 5%	<u>89,534</u>
	Effective Gross Income	\$1,701,151
Less:	Operating Expenses	<u>569,750</u>
	Net Operating Income	\$1,131,401
Less:	Base Debt Service	<u>998,750</u>
	Cash Flow	\$ 132,651

Debt Coverage Ratio 1.13

Exhibit V-6C
VALUATION ANALYSIS
MEADOW BROOK 1 AND 2

Cost Approach

Improvements (Exhibit II-9A and II-9B)	\$23,500,000
Developer's Profit @ 10%	<u>2,350,000</u>
Estimated Value	\$25,850,000
Rounded to	\$25,850,000

Direct Sales Comparison Approach

Unit Sales Price Method (Exhibit V-6E)

252,932 Net Usable Area X 1.07 Common Area Factor =	
270,637 Net Rentable S.F. @ \$105/S.F. =	\$28,416,885

Direct Conversion Ratio

NOI/OCR = \$2,157,510/.08 =	\$26,968,875
Less: Land Value @ 10%	<u>2,696,888</u>

Improvements Only	\$24,271,987
Rounded to	\$24,300,000

Capitalized Income Approach

Present Value of Cash Flow to Leased Fee	
Years 1-5 @ 12%	\$ 7,308,662
Plus: Present Value of Cash Flow to Leased Fee	
Years 6-10 @ 12%	5,890,631
Plus: Present Value of Reversion to Leased Fee in	
Year 10 @ 12%	<u>\$12,829,395</u>
Estimated Value	\$26,028,688
Rounded to	\$26,000,000

Correlation of Value Estimates

The three approaches to value indicate a range of values from \$24,300,000 to \$28,416,885. In the correlation of value estimates little weight is given to the cost approach because it reflects primarily historic costs. The direct sales comparison approach is a good indication of value since it reflects current market activity in terms of unit sales prices. The capitalized income or discounted cash flow approach is considered the best indication of value because it reflects a reasonable estimate of the property's earning power on an annual cash basis over the next ten years. Therefore, the value of the subject property (i.e. the leased fee estate) when it is built and leased is estimated to be:

\$26,000,000
Indicated Loan to Value Ratio: 90%

Exhibit V-6D
VALUATION ANALYSIS
MEADOW BROOK 3

Cost Approach

Improvements Cost (Exhibit II-9C)	\$10,880,000
Plus: Land Value (7.3 Acres @ \$159,000, Exhibit V-6F)	1,160,700
Developer's Profit @ 10%	<u>1,204,070</u>
Estimated Value	\$13,244,770

Direct Sales Comparison Approach

Unit Price Sales Method (Exhibit V-6E)

119,871 Net Rentable S.F. @ \$105/S.F.	\$12,586,455
Plus: Land @ \$159,000/Acre (Exhibit V-6F)	<u>1,160,700</u>

\$13,747,155

Direct Conversion Ratio

NOI/OCR = \$1,131,401/.08 =	\$14,142,500
-----------------------------	--------------

Capitalized Income Approach

Present Value of Net Operating Income	
Years 1-10 @ 12%	\$ 7,259,555
Plus: Present Value of Reversion	
to Property in Year 10 @ 12%	<u>6,091,826</u>
Estimated Value	\$13,351,381
Rounded to	\$13,350,000

Correlation of Value Estimates

The three approaches to value indicate a range of values from \$13,244,770 to \$14,142,500. In the correlation of value estimates little weight is given to the cost approach because it reflects primarily historic costs. The direct sales comparison approach is a good indication of value since it reflects current market activity in terms of units sales prices. The capitalized income or discounted cash flow approach is considered the best indication of value because it reflects a reasonable estimate of the property's earning power on an annual cash basis over the next ten years. Therefore, the value of the subject property when it is built and leased is estimated to be:

\$13,500,000
Indicated Loan to Value Ratio: 87%

Indicated Loan to Value Ratio for All Three Properties:
\$35,250,000/\$39,500,000 = 89%

**Exhibit V-6E
RECENT BUILDING SALES**

Map #	1	2	3	4
Name	Metroplex I,II	Independence Pl	Southridge	Daniel Building
Sale Date	August 1983	January 1984	February 1985	May 1982
Price	\$13,276,324	\$6,748,000	\$12,500,000	\$21,700,000
Less Land: S.F.	747,054	(Leasehold)	448,670	(Leasehold)
Price per S.F.	\$3.50		\$2.00	
Land Value	\$2,614,689		\$897,340	
= Improvements	\$10,661,635	\$6,748,000	\$11,602,660	\$21,700,000
Net Rentable Area	198,323	97,000	140,000	270,000
Price Imps./S.F.	\$53.76	\$69.57	\$82.88	\$80.37
Adjustments				
Time	1.20	1.15	1.10	1.20
Sale Terms	1.15	1.00	1.10	0.90
Space Quality	1.20	1.20	1.15	1.15
Age	1.10	1.10	1.05	1.10
Adj'd Price				
S.F./Imps.	\$97.93	\$105.61	\$110.09	\$109.80

Average: \$105.86 per Net Rentable Square Foot

Source: Piedmont Realty Advisors

**Exhibit V-6F
RECENT LAND SALES**

Map #	Location	Size	Price	Date	Comments
8	Intersection of I-459 and Hwy 280	105.3 Acres	\$150,000/Acre \$3.44/S.F.	10/86	Site for new Bell South Building and Regional Mall.
9	Hwy. 280 1/8 mile North of Inverness	14 Acres	\$264,285/Acre \$6.00/S.F.	3/87	Proposed luxury car dealership
10	Hwy. 280 South of Inverness	5.7 Acres	\$100,529/Acre \$2.31/S.F.	11/84	Improved with 128-room Residence Inn
11	Hwy 280 North of Inverness	100 Acres	\$124,000/Acre \$2.85/S.F.	U/C	Daniel has purchase under contract.
Mean Sales Price			\$159,000/Acre		

The land value of the subject is estimated at \$159,000 per acre.

Source: Daniel Realty Corporation
Piedmont Realty Advisors

Exhibit V-6G
RECENT SALES MAP

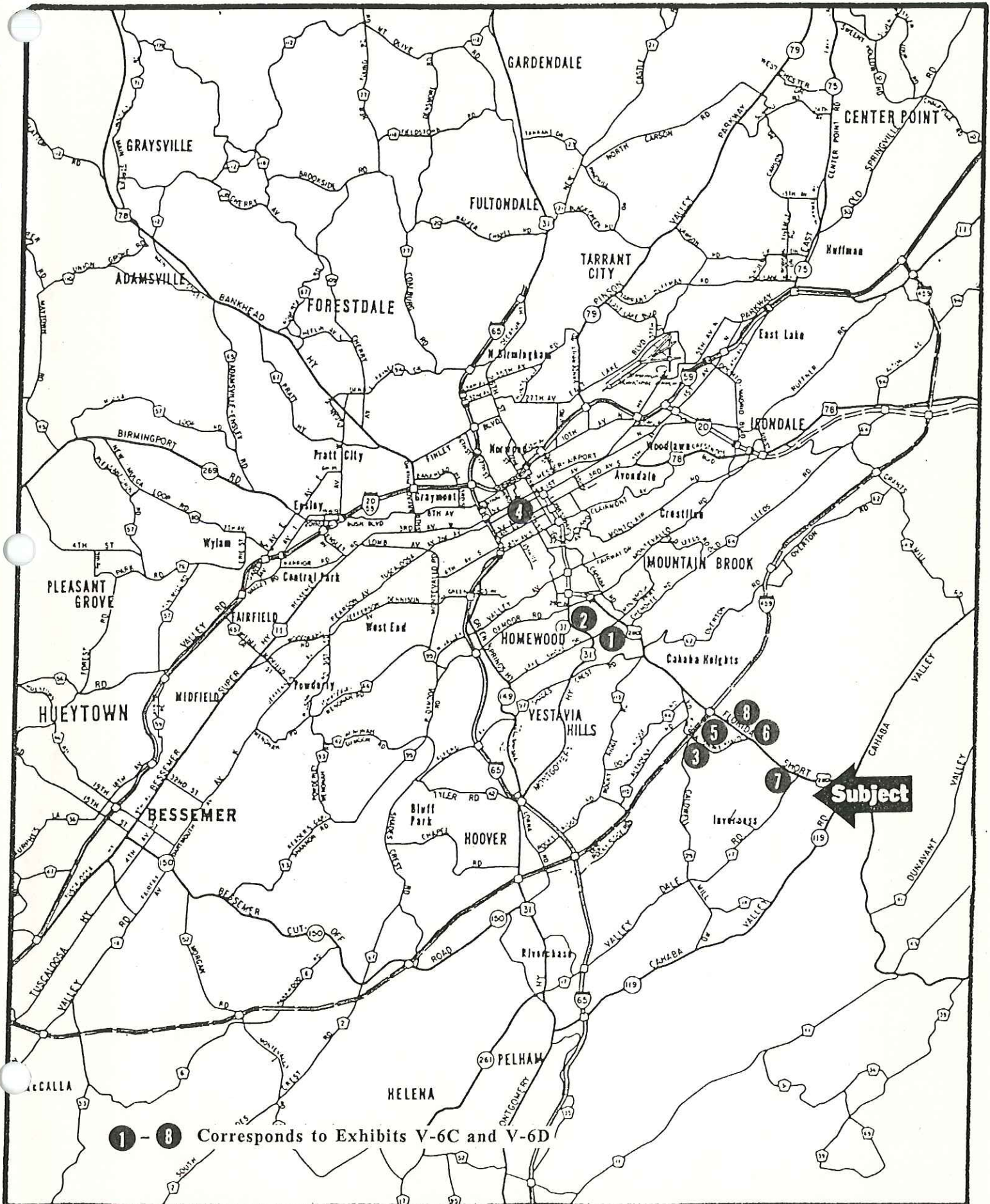


Exhibit V-7A
INCOME PROJECTIONS
MEADOW BROOK 1 AND 2

DANIEL REALTY
MEADOWBROOK I AND II (RUST)
126,502 S.F. BLDG I
126,430 S.F. BLDG II

LOAN YEAR	1	2	3	4	5	6	7	8	9	10
INCOME										
BLDG I	1,353,571	1,353,571	1,353,571	1,353,571	1,353,571	1,821,629	1,821,629	1,821,629	1,821,629	1,821,629
BLDG II	1,352,801	1,352,801	1,352,801	1,352,801	1,352,801	1,820,592	1,820,592	1,820,592	1,820,592	1,820,592
EXPENSES										
BLDG I	274,509	274,509	274,509	274,509	274,509	316,255	316,255	316,255	316,255	316,255
BLDG II	274,353	274,353	274,353	274,353	274,353	316,075	316,075	316,075	316,075	316,075
GROUND LEASE										
BLDG I	58,244	58,244	58,244	58,244	58,244	58,244	58,244	58,244	58,244	58,244
BLDG II	71,772	71,772	71,772	71,772	71,772	71,772	71,772	71,772	71,772	71,772
NET OPERATING INCOME										
BLDG I	1,020,818	1,020,818	1,020,818	1,020,818	1,020,818	1,447,130	1,447,130	1,447,130	1,447,130	1,447,130
BLDG II	1,006,676	1,006,676	1,006,676	1,006,676	1,006,676	1,432,745	1,432,745	1,432,745	1,432,745	1,432,745
TOTAL NET OPERATING INCOME										
	2,027,494	2,027,494	2,027,494	2,027,494	2,027,494	2,879,875	2,879,875	2,879,875	2,879,875	2,879,875

MEADOW BROOK I AND II (RUST)

Exhibit V-7B
INCOME PROJECTIONS
MEADOW BROOK 3

DANIEL REALTY
MEADOW BROOK III
119,871 SFNRA

ASSUMPTIONS
INFLATION 5.00%
MARKET RENT 15.50
EXPENSES 5.00
VACANCY 4.00%

	LOAN YEAR	1	2	3	4	5	6	7	8	9	10
GROSS INCOME											
DANIEL	S.F.	15,000	300,000	300,000	358,864	376,807	395,647	415,430	436,201	458,011	480,912
USF&G	RATE	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00
GRESHAM		392,153	392,153	392,153	392,153	392,153	392,153	392,153	392,153	392,153	392,153
RUST		186,000	195,300	205,065	215,318	226,084	237,388	237,388	237,388	237,388	237,388
PRELEASE		199,253	398,505	398,505	461,319	461,319	461,319	461,319	461,319	461,319	461,319
SPEC		77,500	155,000	155,000	179,432	179,432	179,432	179,432	179,432	179,432	179,432
STORAGE		0	312,399	328,019	344,419	361,640	379,722	398,709	418,644	439,576	461,555
		44,408	46,628	48,959	51,407	53,978	56,676	59,510	62,486	65,610	68,891
TOTAL GROSS INCOME		1,049,313	1,799,984	1,827,700	2,002,912	2,051,413	2,142,906	2,212,791	2,256,474	2,467,212	2,577,552
VACANCY EXPENSES		(569,750)	(71,999)	(73,108)	(80,116)	(82,057)	(85,716)	(88,512)	(90,259)	(98,688)	(103,102)
			(577,549)	(585,737)	(622,480)	(631,508)	(668,615)	(687,692)	(698,143)	(750,231)	(772,315)
NET OPERATING INCOME		479,563	1,150,436	1,168,855	1,300,316	1,337,849	1,388,574	1,436,587	1,468,071	1,618,293	1,702,135
TOTAL REFIT EXPENSES		(0)	(0)	(0)	(191,159)	(213,929)	(76,577)	(117,928)	(247,650)	(113,956)	(136,517)
CASH FLOW AFTER REFIT		479,563	1,150,436	1,168,855	1,109,158	1,123,920	1,311,998	1,318,659	1,220,422	1,504,337	1,565,618

Exhibit V-8A
INVESTOR'S YIELD SUMMARY
MEADOW BROOK 1 AND 2

Year	Annual Debt Service	Additional Interest- Operations	Additional Interest- Sale (1)	Loan Balance	Total
1	\$1,997,500	\$14,997			\$2,012,497
2	\$1,997,500	\$14,997			\$2,012,497
3	\$1,997,500	\$14,997			\$2,012,497
4	\$1,997,500	\$14,997			\$2,012,497
5	\$1,997,500	\$14,997			\$2,012,497
6	\$1,997,500	\$441,187			\$2,438,687
7	\$1,997,500	\$441,187			\$2,438,687
8	\$1,997,500	\$441,187			\$2,438,687
9	\$1,997,500	\$441,187			\$2,438,687
10	\$1,997,500	\$441,187	\$7,313,935	\$23,500,000	\$33,252,622

Estimated Yield: 11.24% (2)

(1) See Exhibit V-7A for calculation of additional interest at sale.

(2) Internal Rate of Return calculated on initial investment of \$23,265,000 which is net of additional 1 point fee.

Exhibit V-8B
INVESTOR'S YIELD SUMMARY
MEADOW BROOK 3

Year	Annual Debt Service	Additional Interest- Operations	Additional Interest- Sale (1)	Loan Balance	Total
.....
1	\$998,750	\$0			\$998,750
2	\$998,750	\$75,843			\$1,074,593
3	\$998,750	\$85,052			\$1,083,802
4	\$998,750	\$55,204			\$1,053,954
5	\$998,750	\$62,585			\$1,061,335
6	\$998,750	\$156,624			\$1,155,374
7	\$998,750	\$159,954			\$1,158,704
8	\$998,750	\$110,836			\$1,109,586
9	\$998,750	\$252,793			\$1,251,543
10	\$998,750	\$283,434	\$3,985,022	\$11,750,000	\$17,017,206

Estimated Yield: 11.53% (2)

(1) See Exhibit V-7B for calculation of additional interest at sale.

(2) Internal Rate of Return calculated on initial investment of \$11,632,500 which is net of additional 1 point fee.

Exhibit V-9A
SENSITIVITY ANALYSIS
MEADOW BROOK 1 & 2

Cap Rates	Market Rent	-----Inflation-----		
		3%	5%	7%
9.5	\$15.00	10.03	10.76	11.57
	\$15.50	10.23	10.99	11.83
	\$16.00	10.42	11.21	12.07
9.0	\$15.00	10.25	11.01	11.85
	\$15.50	10.45	11.24	12.11
	\$16.00	10.66	11.47	12.37
8.5	\$15.00	10.49	11.28	12.16
	\$15.50	10.70	11.52	12.43
	\$16.00	10.91	11.76	12.69

Exhibit V-9B
SENSITIVITY ANALYSIS
MEADOW BROOK 3

Cap Rates	Market Rent	-----Inflation-----		
		3%	5%	7%
9.5	\$15.00	10.08	11.00	11.78
	\$15.50	10.38	11.28	12.09
	\$16.00	10.69	11.56	12.39
9.0	\$15.00	10.29	11.23	12.02
	\$15.50	10.60	11.52	12.34
	\$16.00	10.91	11.80	12.64
8.5	\$15.00	10.52	11.48	12.29
	\$15.50	10.84	11.78	12.61
	\$16.00	11.15	12.06	12.92

Exhibit V-10
COST-BENEFIT ANALYSIS OF THE GIVE-BACK CLAUSE

ASSUMPTIONS: A Worst-Case Scenario -- At Initial Funding RUST gives notice that it will "give-back" 75,000 square feet in Building 2 in 12 months.

	75,000	Square Feet Given Back
X	<u>1.05</u>	Conversion from Usable to Rentable Square Feet
	78,750	Net Rentable Square Feet
	\$15.50	Current Market Rent
	<u>1.05</u>	1 Year's Inflation During Notice Period
	\$16.28	Future Market Rent
	\$ 5.00	Current Expenses
X	<u>1.05</u>	Inflation
	\$ 5.25	Future Expenses

MARGINAL BENEFIT OF RELEASING:

	<u>Market Rental Income</u>	
	78,750 S.F. X \$16.28 =	\$1,282,050
Less:	78,750 S.F. X \$ 5.25 =	<u>413,437</u>
Equals:	Market NOI	\$ 868,613
	<u>Rust Income</u>	
	75,000 S.F. X \$10.70 =	\$ 802,500
Less:	75,000 S.F. X \$ 2.17 =	<u>162,750</u>
Equals:	Rust NOI	\$ 639,750
	Market NOI	\$ 868,613
Less:	<u>Rust NOI</u>	<u>639,750</u>
Equals:	Marginal Increase	\$ 228,863

MARGINAL COST TO RELEASE:

Demolition @ \$1.00/S.F.	\$ 78,406
New Tenant Improvements @ \$10/S.F.	\$ 784,060
Unamortized Rent Concessions Repayment	(548,179)
Commissions @ 4%	250,899
9 Months Carry @ 8.50%	<u>796,380</u>
Total Costs to Release:	\$1,361,566

ANALYSIS:

<u>Marginal Benefit</u>	=	\$ 228,863	=	17%
Marginal Cost		\$1,361,566		

CONCLUSION: Exercising the "Give-Back" clause is beneficial to the Borrower and Lender.