BALLSTON CORPORATE CENTER - PHASE I

ARLINGTON COUNTY, VIRGINIA

Piedmont Realty Advisors
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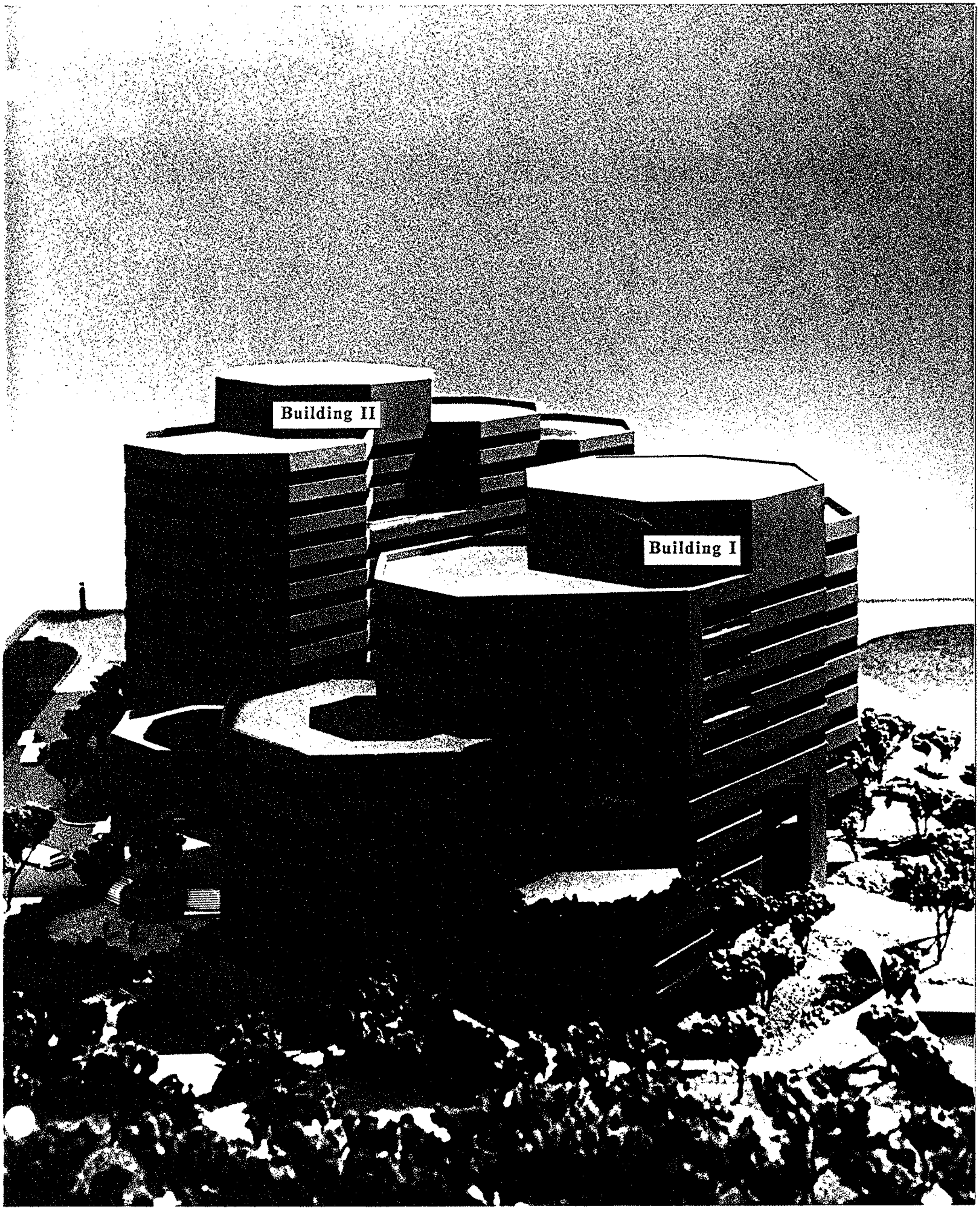

Building II
Building I

TABLE OF CONTENTS

I. INTRODUCTION

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

202-822-9000

June 17, 1986

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

Re: Ballston Corporate Center - Phase I
Arlington County, Virginia

Dear Sirs and Madam:

Enclosed for your review is an Investment Report on the Ballston Corporate Center - Phase I which is to be developed by Rouse & Associates - 11th Street North Limited Partnership and situated on 63,882 square feet of the 139,025 square foot parcel for which USF&G made a land acquisition loan on June 2, 1986. Piedmont Realty Advisors reviewed the Phase I participating mortgage with the Real Estate Investment Committee on May 20, 1986 at which time the investment was approved pending the receipt of the detailed investment analysis. This report documents the presentation and provides the detailed analysis.

The Property -- Ballston Corporate Center is a proposed two-phase 326,037 net rentable square foot office building with a 589-car parking garage which will comprise an entire city block at the northeast quadrant of the intersection of Glebe Road and Fairfax Drive in Arlington County, Virginia. Phase I will contain 137,500 square feet of rentable office space with a 395-car parking garage. The property is easily accessible. The Ballston Metro Station is two blocks east, the I-66 (West) entrance ramp is one block west on Fairfax Drive, and the I-66 (East) entrance ramp is located two blocks north of the subject (see Exhibit II-4). The timely opening of I-66 and the Ballston Metro Station together with the finalization of the Ballston Sector Plan which provides for substantial commercial/retail and mixed-use development along major thoroughfares while preserving residential neighborhoods have spurred new brisk development activity into Ballston.

The improvements for Phase I will be a multi-tiered octagonally shaped eight-story office building. Phase II will be of similar architecture and ten stories high. Exterior finishes will feature brick facing alternating with ribbon view windows framed in anodized aluminum. Interior finishes will conform with Class A office specifications. The two buildings will be connected by a retail galleria and an arboretum. The improvements of both phases will cover only 51% of the site, leaving the balance of the area for heavily landscaped plazas, courtyards, and pedestrian areas.

The Market -- The Arlington County office market has consistently outperformed other markets in the Washington Metropolitan Area. Vacancies as of October 1985 were under 6% for Arlington County, as against vacancies of over 15% for the overall market. This above-average performance is due to Arlington's convenient location in between downtown Washington, D.C. and Virginia's desirable residential areas, and its proximity to Dulles and National Airports and demand generators such as the Pentagon.

Development in Ballston has been revitalized with the completion of I-66 and the Metro system. These transit arteries converge in Ballston, making it a very logical location for office tenants, especially as an alternative to other Arlington markets that suffer from serious traffic and parking problems. Substantial new development is already underway, and significant pre-leasing has been achieved, demonstrating the market acceptance of Ballston as an office center.

Rental rates currently range from $21.00 to $24.00 per net rentable square foot full service gross. The proposed investment for this project is based on a projected income of $23.50 per foot, with additional earnout provisions allowed for gross income above $23.50 but no higher than $27.00 per foot. These base rental rates are being achieved in the market today and the consistent demand for space in Arlington should allow rates to remain firm.

The Borrower -- The Borrower is Rouse & Associates - 11th Street North Limited Partnership whose general partners are Willard G. Rouse, III, George F. Congdon, Menard Doswell, and Rouse & Associates. Rouse & Associates has developed and manages over 9,000,000 square feet of space valued in excess of $300,000,000, and employs a staff of over 335 people in 12 regional and local offices. Rouse's Partner for Northern Virginia is Menard Doswell, one of the four founding partners of Rouse & Associates. Mr. Doswell has developed over 2,000,000 square feet of office, industrial, and commercial space for the Northern Virginia area.

The Risk and Return -- The proposed investment structure has two unique features: a two-phase economic earnout and a forward commitment to purchase the land for Phase II. The first phase of the economic earnout will be realized by the developer if the gross income for the property reaches $23.50 per foot, a rate that is being achieved in the market today. The secondary earnout of $2,000,000 will be earned if gross rates reach $27.00 per foot. This gives the developer an incentive to aggressively market the property and is structured to increase the loan amount by 8% when the property's value increases by 15% thereby enhancing the Lender's yield from a base of 13.1% to 13.8%.

The forward contract to purchase Phase II land was provided to allow third party financing of the land until the appropriate time for development. While returns are difficult to quantify for this contract, as consideration the Lender will receive a 20% equity interest in Phase II if the contract is not exercised or an 80% interest in Phase I and 100% ownership of the land if the Lender must actually purchase the land.

Overall, this is a Class A property with an excellent location in a strong office market. The Developer Partner has extensive development experience and substantial net worth. The projected yield of 13.1% to 13.8% under 5% inflation assumptions does not include any return from the Phase II position, and is an attractive yield for today's financial market.

Therefore, we recommend that USF&G issue a permanent loan commitment in the amount of $27,000,000 for Phase I of the Ballston Corporate Center in Arlington County, Virginia. If you have any questions, please feel free to call me.

Sincerely,

Daniel B. Kohlhepp

Daniel B. Kohlhepp
Vice President

DBK:clg
Enclosures

Exhibit I-1

APPLICATION LETTER

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

202-822-9000

May 13, 1986

Mr. Menard Doswell
Rouse & Associates
8251 Greensboro Drive, Suite 840
McLean, Virginia 22102

Re: Ballston Corporate Center - Phase I
Arlington County, Virginia

Dear Menard:

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 terms and conditions described in this letter.

Property:	Ballston Corporate Center - Phase I A proposed eight-story office building containing at least 137,500 square feet of rentable office space, and a 395-car parking garage.
Land Area:	63,882 square feet zoned C-O-2.5, "Commercial Office Building"
Location:	Northeast Corner of the Intersection of Glebe Road and Fairfax Drive in Arlington County, Virginia.
Borrower:	A limited partnership, whose general partners will be Willard G. Rouse III, Menard Doswell, and George Congdon
Lender:	USF&G Realty Company
Loan Amount:	$27,000,000.
Interest Rate:	9-1/2%
Term:	20 Years
Amortization:	Not applicable, interest only.

Mr. Menard Doswell
May 13, 1986
Page Two

Call Option:	Lender has right to call loan anytime after the 12th year. Lender will give Borrower 12 months written notice of intent to call the loan.
Prepayment:	* No prepayment through year 7, * Prepayment fee of 5% in year 8 and declining 1% per year to 1% in year 12 and thereafter. * If Lender exercises its call option, there is no prepayment fee.
Additional Interest:	
A. Operations:	Lender receives 50% of the net cash flow. Additional interest payments are due quarterly.
B. Sale or Refinancing:	Lender receives 80% 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 80% 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. When and if the Lender's purchase contract on Phase II land is released within 48 months from the acceptance of the commitment, the Lender will reduce this additional interest in Phase I to 60%, and Lender will receive a 20% equity interest in the Phase II development or 50% of the net sales proceeds if the Phase II land is sold to an unrelated third party prior to its development.
Commitment Fee:	$540,000; $270,000 in cash which is earned upon acceptance of the commitment; $270,000 in an unconditional irrevocable letter of credit in a form acceptable to Lender which will be refunded to Borrower at closing.
Initial Funding:	Actual project costs to date not to exceed $19,928,210. If actual costs are less than $19,928,210, the difference will be added to the holdback for interest, real estate taxes, and insurance. Initial Funding will occur

How calc, audit, etc.?

holdback?

within 30 days after the earlier of (a) receipt of the certificate of occupancy or (b) the architect's statement of substantial completion. Initial Funding must occur within 24 months of the acceptance of the commitment. However, this period can be extended for six one-month periods if the Borrower is delayed in performance of its obligation under the commitment due to circumstances beyond its control and is exercising its best efforts to meet its obligations.

Holdbacks:

A. Tenant Improvements: $2,063,000; disbursed for actual costs not to exceed an average of $15 per square foot of rentable area as space is leased and tenant improvements are completed. Full disbursement will occur at 95% occupancy. ?

B. Leasing Commissions: $750,000; disbursed as commissions are paid not to exceed $5.45 per square foot of rentable area. Full disbursement will occur at 95% occupancy. Borrower, at lease execution, may earn the difference between the standard lease commission (3% for the first 5 years and 2% for the second 5 years) and the commission actually paid provided that the difference is used to reduce the second mortgage balance. Otherwise, any difference is paid when the tenant moves in.

C. Interest, Real Estate Taxes, and Insurance: $1,558,790 plus any excess funds at Initial Funding. These funds are to be disbursed for base interest payments on the first mortgage, real estate taxes due, and property insurance premiums. Full disbursement will occur at 95% occupancy.

D. Primary Economic Holdback: $700,000; disbursed at a rate of $3.00 per $1.00 of annualized gross income collected in excess of $3,151,565. Borrower has 24 months after initial funding to earn out 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 primary and secondary economic holdbacks will be disbursed using Effective Rents. 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 the effective rents. If, however, discounts exceed 10%, then there will be an effective reduction in the rental income used in the calculation of the disbursement of the economic holdbacks. Discounts which occur before the Initial Funding will be exempt from the 10% allowance. See Exhibit A for examples for the calculation of Effective Rents.

E. Secondary Economic Holdback:

$2,000,000; disbursed at a rate of $4.37 per $1.00 of annualized gross income in excess of $3,384,898. Borrower has 24 months after initial funding to earn out 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.

Secondary Financing:

Lender will not permit secondary financing on the property except for a second mortgage which is to be used to pay debt service on the first mortgage and approved operating expenses for a period not to exceed 24 months from the date of initial funding. The second mortgagee would receive the following cash flows until the second loan balance is extinguished:

1) Borrower's 50% of the net cash flows during the second mortgage term;
2) All disbursements from the economic holdback;
3) Proceeds from syndication.

The second mortgage must be for a 26 month term and be accompanied by an option held by an affiliate of USF&G Realty Company to purchase a percentage of the equity ownership in the property under the following terms and conditions:

1) Time: The option may be exercised between the end of the 24th and 26th months after initial funding if there is any outstanding balance on the second mortgage, or the option may be exercised before that time if the total indebtedness (1st and 2nd mortgages) exceeds the lessor of $27,000,000 or 90% of the market value of the property.

2) Purchase Price: The outstanding balance of the second mortgage. The purchase price will be paid directly to the second lender to extinguish the second lien.

3) Rights Acquired: A percentage interest in the equity ownership of the property. Optionor will have the right to be either a limited or general partner. The percentage interest will be determined when the option is exercised by the following formula: ionor ?

   i) Total Property Value: The total value of the property will be determined by capitalizing the annualized net operating income of the property at the time the option to purchase is exercised at 10%. Annualized net operating income shall be calculated as follows:

      a) The sum of the aggregate annual rentals from executed occupancy leases for the property less,

      b) An amount equal to the sum of the operating expenses for each lease.

ii) Percentage Interest:

a) Value of property less outstanding loan balance on USF&G's first mortgage equals owner's equity.

b) Optionor's "percentage ownership" equals the outstanding loan balance on the second mortgage divided by the owner's equity.

Purchase Contract for Phase II Land:

Simultaneously with the issuance of the Commitment, the Lender will issue a contract to purchase the Phase II land (approximately 1.65 acres) 48 months from the acceptance of the Commitment for the lessor of (a) the actual land costs (i.e. verified costs to third parties) or (b) $11,500,000. The purchase contract will be assignable as collateral security for the land acquisition loans on Phase II and will provide that the Borrower has the option to extinguish the contract from the Lender and release it as security from the land loan during the 48 month period in return for (a) a 20% equity interest in the Phase II development or (b) 50% of the net cash proceeds (sales price less land costs) if the Phase II land is sold to an unrelated third party prior to its development.

Phase II Construction:

Construction of Phase II will not begin unless Phase I is 50% leased at Initial Funding or is 70% leased thereafter.

Contingencies:

A. Plans and Specifications:

The Lender reserves the right to approve the plans and specifications and to approve any material changes, modifications or corrections to the plans during construction.

B. Leases: Lender reserves the right to approve all leases subject to agreed upon leasing standards. Agreed upon leasing standards will be part of the commitment letter.

C. 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 42 months from the acceptance of the Commitment. Lender reserves the right to approve the syndication.

D. Market Value Appraisal: Lender will receive a market value estimate and a complete narrative appraisal of the property from an MAI designated appraiser approved by the Lender which is not less than $31,800,000.

E. Master Lease: Willard G. Rouse III, Menard Doswell, and George Congdon will personally master lease the project for 24 months or breakeven occupancy, whichever occurs first. The rental rate of the master lease must be sufficient to cover operating expenses and debt service. As third party leases are signed, the master lease will be reduced correspondingly.

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

G. Tri-Party Agreement: Within 90 days after the commitment is accepted, the Lender, the Borrower, and the Construction Lender shall enter into an acceptable Tri-Party Agreement.

procedure?

H. Economic Due Diligence: The issuance of the commitment is contingent upon Piedmont Realty Advisors satisfactorily completing its economic due diligence.

not included?

I. Budget Approval: Lender reserves the right to review and approve all annual budgets.

If the terms outlined in this letter are acceptable to you, please sign below and return this letter with an application fee of $75,000 by May 14, 1986. The application fee should be wired to USF&G's 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 when the commitment is issued by the Lender in accordance with the application. The application fee will be used to reduce the cash commitment fee when the commitment is signed by the Borrower.

Sincerely,

Daniel B. Kohlhepp

Daniel B. Kohlhepp
Vice President

Menard Doswell   14 May 86
SIGNED   DATE

General Partner
TITLE

Exhibit A
EFFECTIVE RENT EXAMPLES

The allowable rent concession is 10% of the total lease payments without the rent concession. The effective rent is calculated as follows:

EXAMPLE ONE -- FLAT LEASE

Assumptions:

Contract Rate:	$12.00 PSF/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 Rental Payments w/o Concession (3 Yrs. X $12 PSF/Yr)	36.00
equals:	Rent Concession Given	16.67%
less:	Allowable Concession	10.00%
equals:	Reduction in Contract Rent	6.67%

so that,

	Contract Rent	$12.00/PSF/YR
less:	Reduction in Contract Rent (6.67% X $12.00)	.80
equals:	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	$13.00 PSF
	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	36.00
equals:	Rental Concession Given	15.28%
less:	Allowable Concession	10.00%
equals:	Reduction in Contract Rate	5.28%

so that,

	Average Contract Rate*(36/3 Yrs.)	$12.00 PSF
less:	Reduction in Contract Rents ($12 X 5.28%)	.63
equals:	Effective Rental Rate	$11.39 PSF

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

II. THE PROPERTY

II. THE PROPERTY

A. INTRODUCTION

Ballston Corporate Center - Phase I is a proposed 8-story office building containing approximately 137,500 square feet of net rentable area and a 395-space parking garage. Phase II will be a 10-story 177,500 square foot building of complementary design on an adjacent site. Construction of Phase II will not begin until Phase I is 50% leased at initial funding or 70% leased thereafter. The site for both phases comprises an entire city block, and is located at the intersection of Fairfax Drive and Glebe Road in the village of Ballston, Arlington County, Virginia, a suburb of Washington, D.C. (See Exhibit II-1.) The suburban Arlington office corridor from Rosslyn to Ballston has experienced tremendous growth over the past few years. This is a result of tenants seeking alternatives to the congestion and commuting difficulties associated with downtown office space, and because the new Metro rapid transit system has created opportunities for locations along the Metro route (such as Ballston) to become prime office locations. The well-conceived master plan for the Ballston area is creating an urban environment that will continue to attract office tenants in the long term.

B. LOCATION

1. Accessibility

The subject property benefits from excellent access to both the Metro system and Interstate 66 (see Exhibits II-2 and II-3). The Ballston Metro Station lies two blocks east of the subject. Metro riders will be able to exit the station on the north side of Fairfax Drive (the major four-lane east-west thoroughfare) allowing them to arrive at the subject without crossing several lanes of traffic. The station is on Metro's Orange Line which extends east to Rosslyn and Metro Center in Washington, D.C. (leading to Maryland) and west to Vienna in Fairfax County, Virginia. Passengers travelling east are 10 minutes from downtown Washington, or may change trains in Rosslyn and travel south to the Pentagon, Crystal City, National Airport, and Alexandria.

The subject is very conveniently accessible by car as well. The property is located on Fairfax Drive which joins both Washington Boulevard (leading to points south) and Wilson Boulevard (leading to Rosslyn). At the western terminus of Fairfax Drive (one block west of the subject) are the I-66 ramps leading to and providing access from Falls Church, Tysons Corner, Dulles Airport, and Fairfax County (see Exhibit II-4). Glebe Road is an important north-south artery which provides the project with direct convenient access to North Arlington's and McLean's residential and business communities (to the north) and South Arlington and Alexandria to the south. Glebe Road also feeds directly into the I-66 ramps heading east to downtown Washington, Rosslyn, National Airport, and Alexandria. These Glebe Road ramps are two blocks north of Ballston Corporate Center.

2. Neighborhood

The Ballston area is currently undergoing a major redevelopment effort. During the mid-1950's, Ballston was a prime retail and residential area. However, the development of new regional suburban malls in the late 1950's and the 1964 completion of the Beltway around Washington left Ballston fairly isolated and caused a steady decline in the area. By the late 60's and early 70's a suburban office market was expanding very rapidly in Rosslyn and Crystal City, but Ballston's poor access made development very difficult.

Access to Ballston improved dramatically in the early 80's as a result of the new Metro station and the completion of I-66. Ballston was suddenly at a crossroads, with excellent access to downtown and suburban office markets, better residential neighborhoods, airports, and retail centers. Exhibits II-5A, B, and C show how well the subject is now linked to other demand generators in the area.

In an effort to learn from the "overdevelopment" experienced in Rosslyn, Arlington County initiated extensive studies that resulted in the Ballston Sector Plan. This is the Master Plan for the redevelopment of Ballston that preserves neighborhoods, retains a significant residential component that will keep the area alive after office hours, and allows for substantial commercial and retail development along major thoroughfares to create a quality urban environment.

Exhibit II-6 is a map of the zoning patterns for the area. Fairfax Drive, Glebe Road, and Wilson Boulevard will be the main corridors for development, with the infill areas designated to remain single family homes. The new development will stress a mixed-use that will be coordinated among office, high-rise residential, and retail uses.

After the Sector Plan was finalized, the new accessibility and desirability of the location quickly spurred brisk development activity. Major projects for the area include the redevelopment of Parkington Shopping Center (two blocks from the subject) that will include 610,000 square feet of retail and 676,000 square feet of office space by Alan Kay Co. Ballston One, a 249,000 square foot office center one-half block from the subject to be completed in June, 1986 by the Radnor Co., and Ballston Plaza, across Glebe Road from the subject, a 1.1 million square foot mixed-use project that will include 690,000 square feet of office space, 55,000 square feet of retail space and 344 residential units by Oliver T. Carr Company. Exhibits II-7A and B enumerate the many projects planned or proposed for the area.

C. THE SITE

The land area for Phase I of Ballston Corporate Center is 63,882 square feet (1.46 acres). The Phase I building will be on the northeast half of the full site, which consists of 3.17 acres (138,085 square feet) and covers an entire block at Ballston's primary intersection (see Exhibit II-8A). The site is essentially flat and level with all utilities in place and no unusual soil conditions.

The site is zoned C-O-2.5 in accord with the Sector Plan which allows commercial office development with a floor area ratio (FAR) of 2.5. While the Sector Plan requires most projects to combine commercial and residential uses in a single development, the subject is approved for 100% office which gives the project greater consistency, economies of scale, and imparts a higher land value.

The improvements of both phases will cover only 51% of the site, which will leave 1.5 acres for heavily landscaped plazas, courtyards and pedestrian areas. The site will have two entrances to an underground garage for approximately 589 cars, a loading area, and an automobile court situated between the two buildings. Exhibit II-8B provides an aerial view of the site plan model.

D. THE IMPROVEMENTS

The proposed improvements for Phase I of Ballston Corporate Center consist of 137,500 net rentable square feet on eight floors, and a two-level parking area below grade. (Phase II will add 177,537 net rentable square feet on 10 floors for a total of 326,037 net rentable square feet). Exhibits II-9A,B, and C illustrate the improvements with building elevations provided in Exhibit II-10A.

Below grade will be two parking levels that will cover virtually the entire site, with spaces for 589 cars. This will yield 1.8 spaces per 1,000 square feet of net rentable area for the total project. This ratio is quite generous in light of the project's excellent access to Metro and is more than double the parking ratio offered in Rosslyn. Both levels of parking will have direct elevator access to all of the building's office floors. Parking level floor plans are presented in Exhibits II-10B and 10C.

At grade level the site will be extensively landscaped. The two main towers will have office space at this level that will be connected by a 5,500 square foot retail galleria and arboretum. Each tower will have two main entrances, one at the galleria connection, and another on the opposing side of the building lobby. Each building will have four geared traction elevators which will serve all floors. Exhibit II-10D provides the grade level floor plan.

Floor Plans for the remaining floors are shown in Exhibits II-10E, F, and G. The octagonal base of the floor plans provides a high ratio of perimeter window offices at all levels, and gives the building an attractive appearance from all angles, rather than having a "front and back". Floors 1 through 5 will contain 19,529 net rentable square feet, and floors 6 and 8 will contain 14,593 square feet. Column spacing will be 28' X 28' which is adequate for efficient space planning. The core area provides the elevator bank, and two safety stairwells.

Ballston Corporate Center will be constructed of post-tensioned concrete, with pre-cast exterior panels. The exterior skin will consist of alternating bands of brick facing and tinted ribbon windows trimmed with anodized aluminum. Interior tenant improvements will include solid core doors, stainless steel hardware, painted drywall partitions, acoustical ceilings and tiled restrooms.

E. PROJECT BUDGET

The project budget is presented in Exhibits II-11A and B. The land cost of $5,758,700 includes certain transaction, carry, and predevelopment costs. This land cost represents $41.88 per buildable square foot, a price that reflects the superior location and zoning of the site. The building shell will cost $69.03 per gross square foot. Base tenant improvements are budgeted at $15.00 per net rentable square foot, with an additional $7.00 per square foot included for above standard tenant finish or leasing concessions. The total project cost is $27,000,000 or $196.36 per gross square foot. These costs are reasonable and competitive for the suburban Arlington office market, and allow for adequate construction and lease-up interest reserves.

Exhibit II-12 presents the calculations used for determining the land contract purchase price for Phase II land. (The security arrangement and the return to USF&G for this contract will be discussed in Chapter V). Essentially, this budget calculates the cost of owning Phase II land, interest carry, and taxes for 48 months to be approximately $11,500,000.

F. CONCLUSION

The Ballston area is rapidly developing as a prime location in the suburban Washington area. The recently completed Metro line and Interstate 66 have improved access to the area dramatically, and have opened up new development possibilities. Many major projects by quality developers have already been completed or are currently underway, providing the Ballston core area with a critical mass of new vitality. The Ballston Sector Plan emphasizes a balance of development in the area that will provide long term continuity.

Within this growing area, Ballston Corporate Center will be located on a full block that serves as a "Gateway" to Ballston Center. This is a prime location with high visibility and excellent Metro and highway access. The improvements create a multi-tiered effect (both within and between the towers) that works well on the site and within the Sector Plan. The amenities such as ample parking, extensive landscaping, galleria, arboretum, and generous perimeter window areas on every floor create the quality environment that suburban office tenants desire.

Exhibit II-1
REGIONAL LOCATION MAP

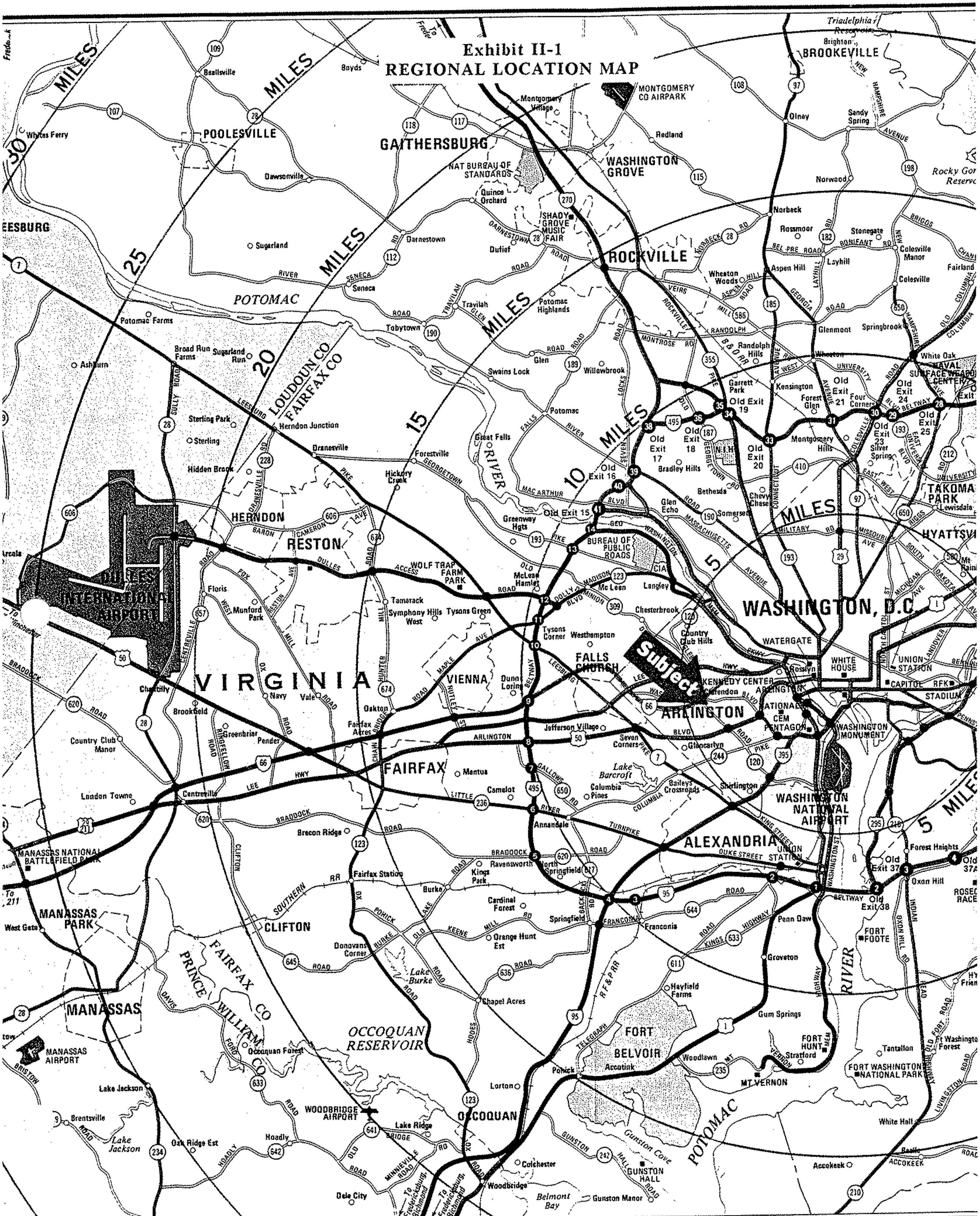


Exhibit II-2
METRO RAIL SYSTEM MAP

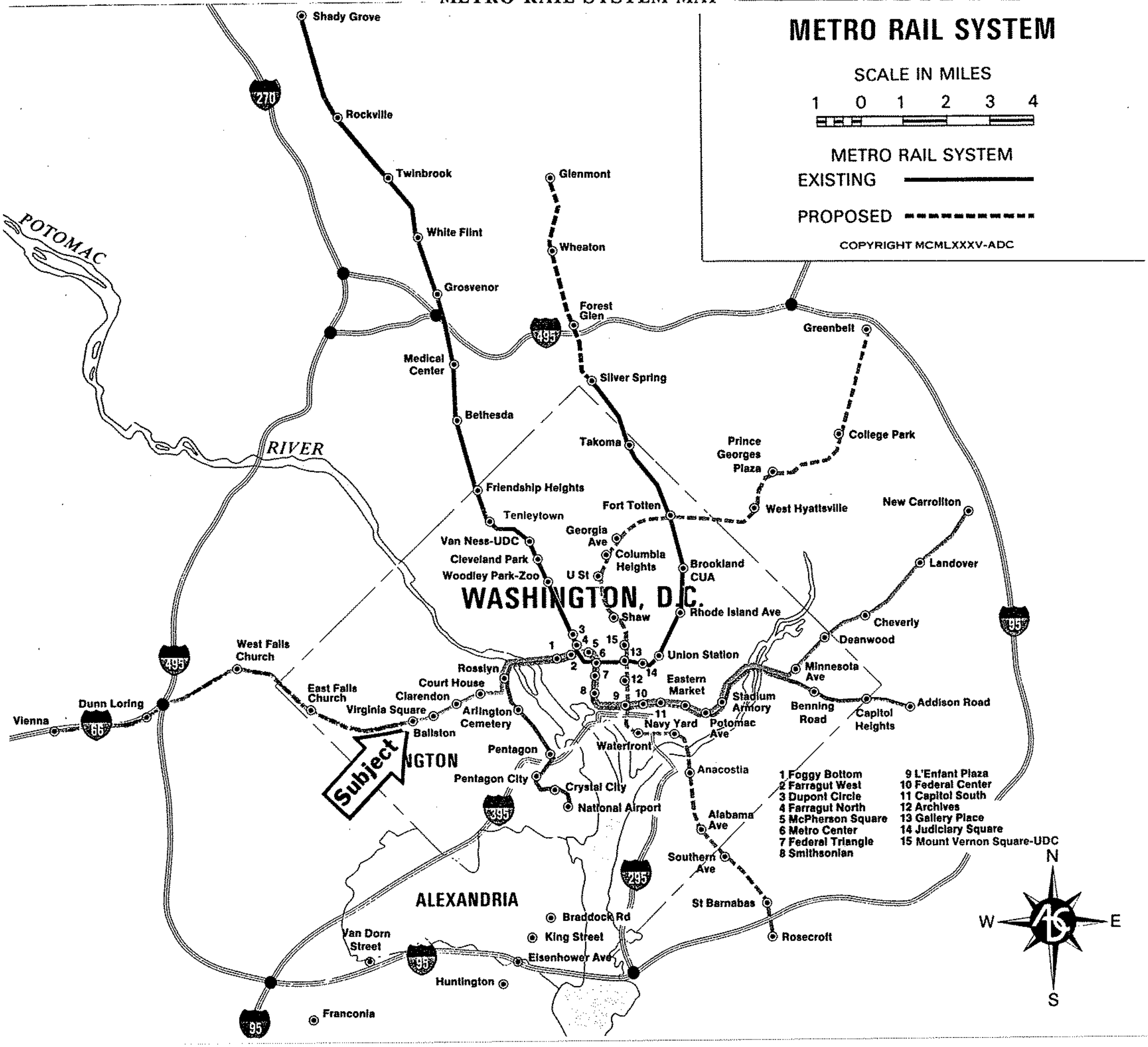


Exhibit II-3
SITE VICINITY MAP

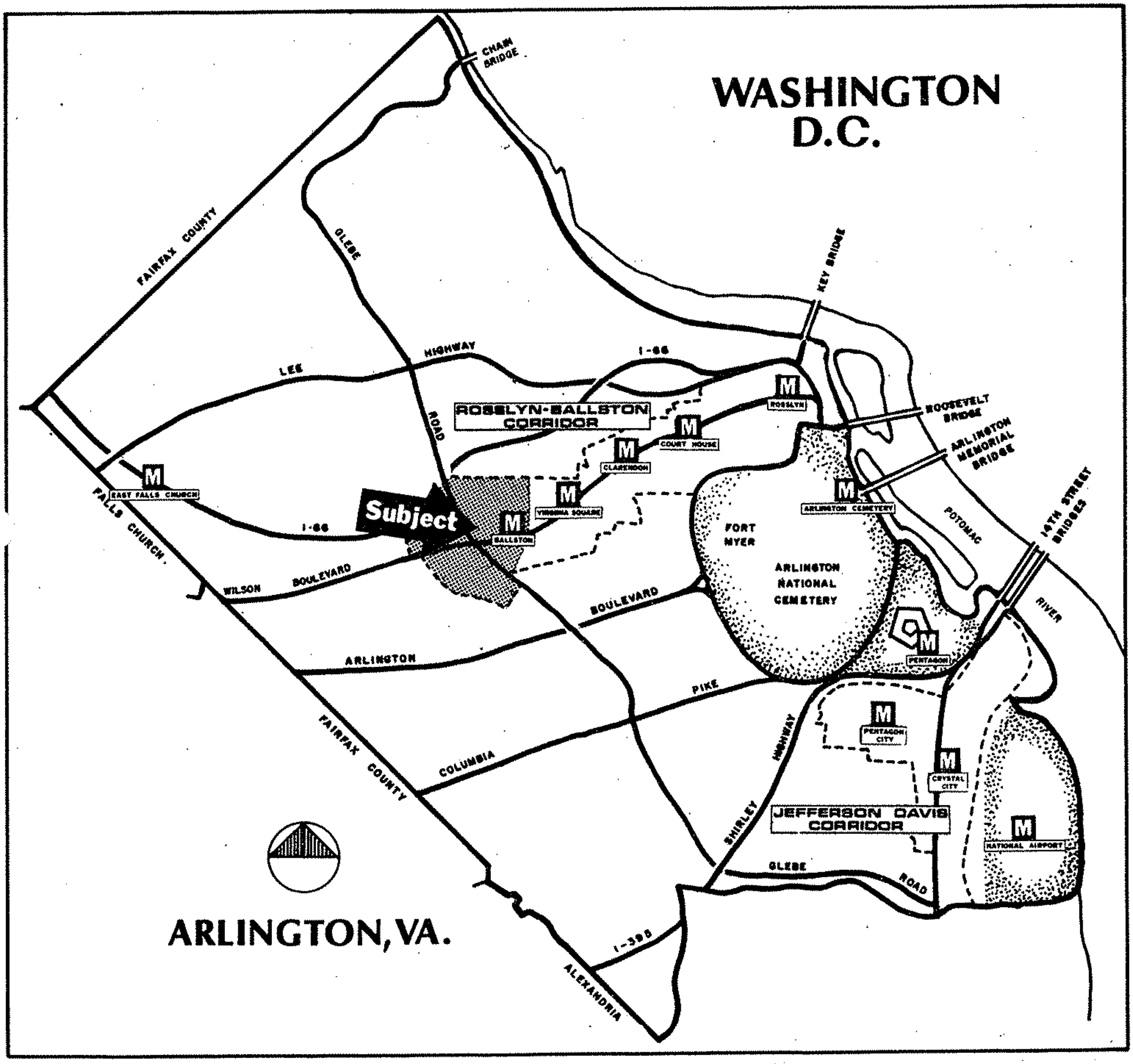


Exhibit 4
SITE ACCESS MAP

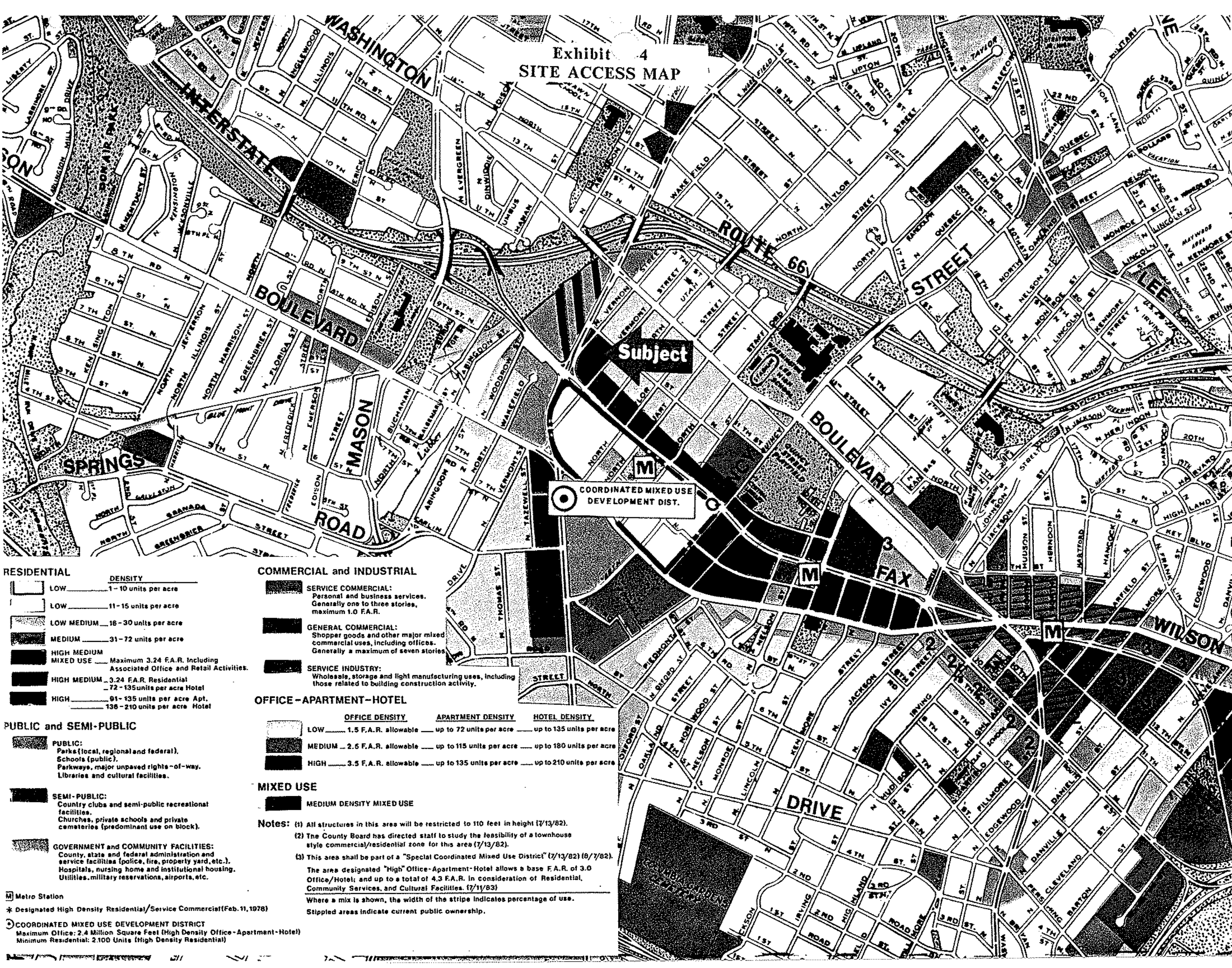
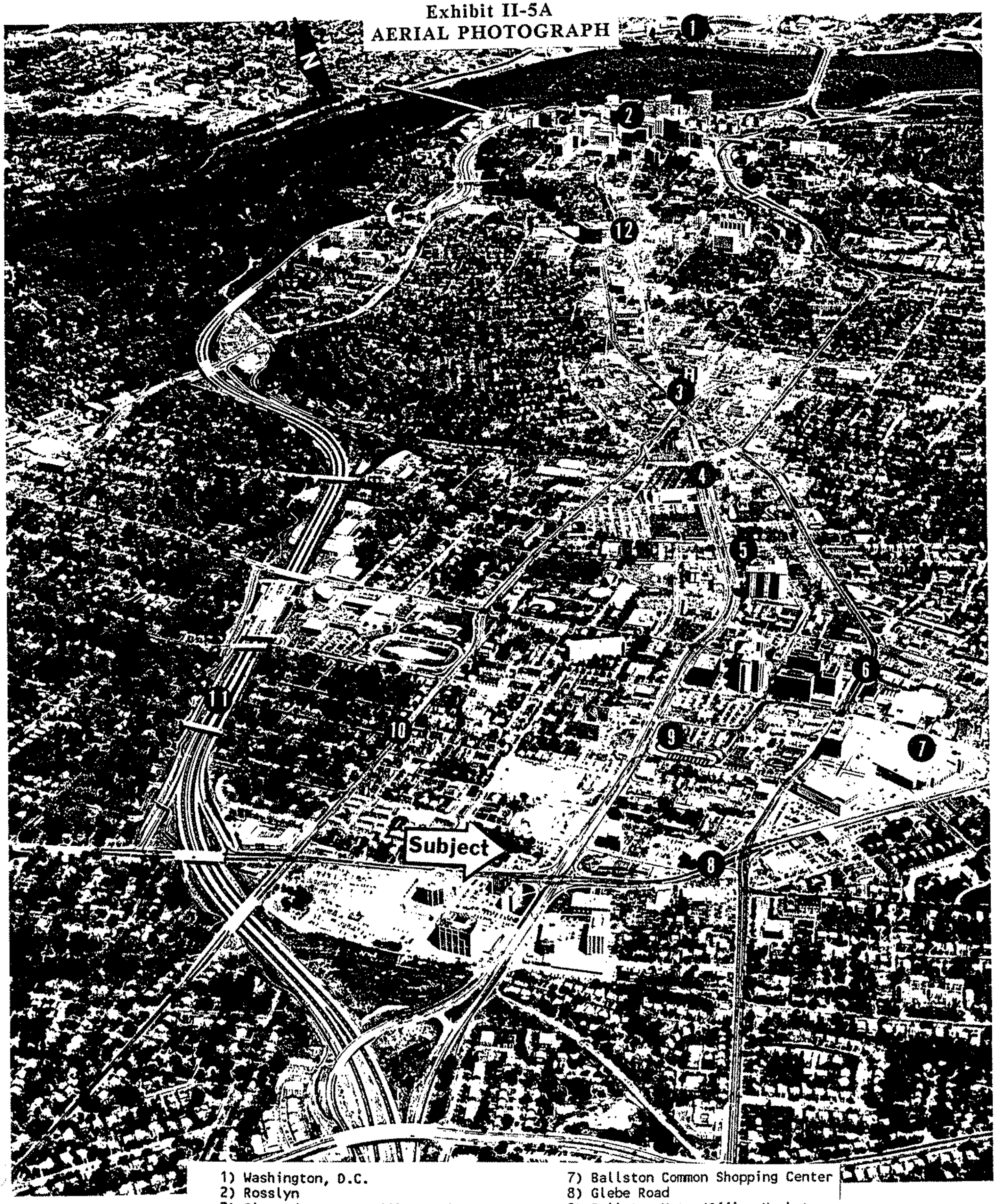


Exhibit II-5A
AERIAL PHOTOGRAPH



1) Washington, D.C.
2) Rosslyn
3) Clarendon Metro/Office Market
4) Fairfax Drive
5) Virginia Square Metro/Office Market
6) Wilson Boulevard
7) Ballston Common Shopping Center
8) Glebe Road
9) Ballston Metro/Office Market
10) Washington Boulevard
11) I-66
12) Clarendon Metro/Office Market

Exhibit II-5B
AERIAL PHOTOGRAPH

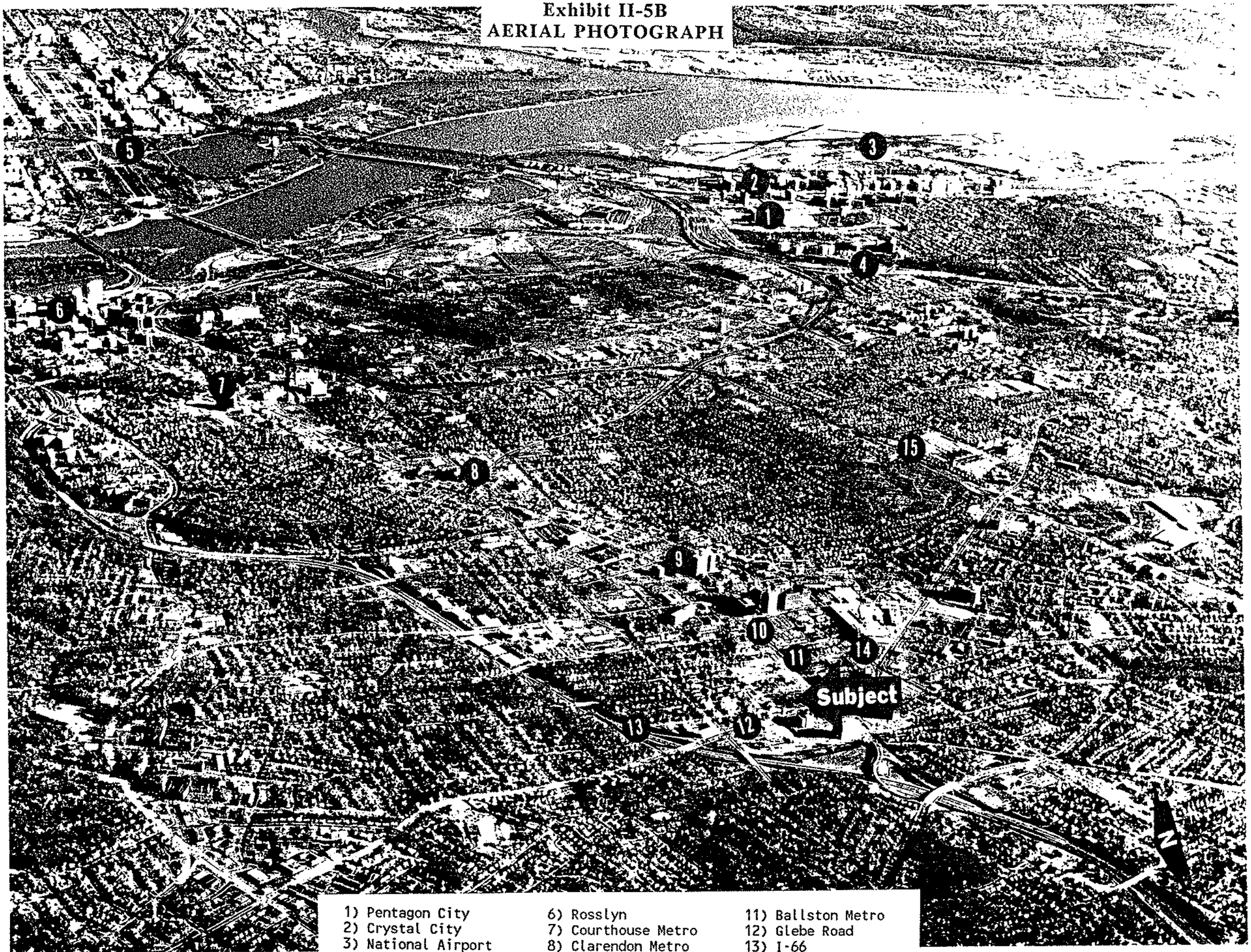
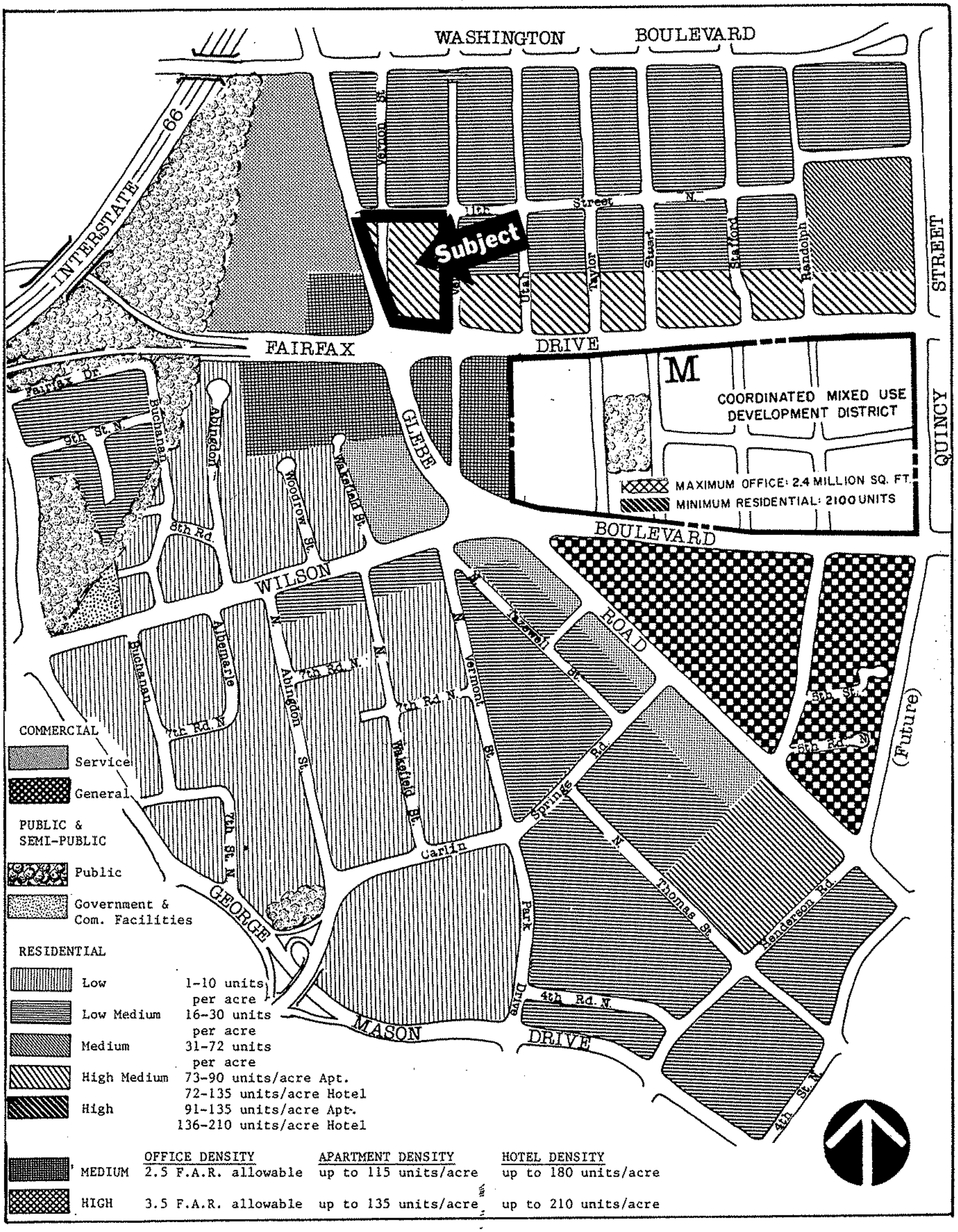


Exhibit II-5C
AERIAL PHOTOGRAPH

1) Tysons Corner
2) Dulles Access Toll Road
3) I-495
4) I-66
5) Glebe Road
6) Fairfax Drive
7) Ballston Metro/Office Market
8) Wilson Boulevard
9) Virginia Square Metro/Office Market
10) Ballston Common Shopping Center

Exhibit II-6
ZONING PATTERNS



Source: Arlington County Department of Community Affairs
Planning Division

Exhibit II-7A

EXISTING, UNDER CONSTRUCTION AND PLANNED DEVELOPMENT IN BALLSTON

Map No.	Developer	Project Type/Size	Commencement	Rents
1.	1000 N. Glebe Road	150,000 S.F. Office	Existing	
2.	Chamber of Commerce Building	150,000 S.F. Office	Existing	
3.	Sovran Bank Building	150,000 S.F. Office	Existing	
4.	Webb Building	100,000 S.F. Office	Existing	
5.	Ballston Towers	550,000 S.F. Office	Existing	
6.	Hyde Park	High Rise Residential Condominiums	Existing	
7.	Towers Villas	High Rise Residential Condominiums		
8.	Ballston One Building Radnor/Buchanan Co.	238,182 S.F. Office	U/C July 1986	$21.50-23.50 50% Leased
9.	Ballston Plaza - Bldg. I Oliver T. Carr Co.	141,000 S.F. Office	U/C August 1986	$22.00-24.50
10.	Comfort Inn Misner Co.	126 Rooms	Existing	
11.	Holiday Inn Donohoe Company	227 Rooms	U/C	
12.	Arlington Financial Center Dominion Federal S&L	60,000 S.F. Office Rehab.	Existing	$17.00-18.00
13.	Summerwalk Ray Simms Company	Residential Mid-Rise Condominiums	Existing	N/A
14.	Ballston Commons Office Center Alan I. Kay Co.	170,000 S.F. Office	U/C Feb. 1987	$22.00-25.50
15.	Ballston Common Shopping Center Ballston Common Assoc. LP (Forest City Ent.(Cleveland)-GP/May Co.-LP)	125 Stores-220,000 S.F.& 150,000 S.F. Hechts 125,000 S.F. Penneys	U/C 10/22/86	N/A
16.	Dittmar Company	High Rise Residential Tower 528 Units		
17.	Olmstead Building 3100 Clarendon Blvd.	208,105 S.F. Office	U/C July 1986	$21.00-24.00

Exhibit II-7A (Continued)

EXISTING, UNDER CONSTRUCTION AND PLANNED DEVELOPMENT IN BALLSTON

Map No.	Developer	Project Type/Size	Commencement	Rents
18.	Clarendon Square Office Bldg. Frank S. Phillips, Inc.	175,000 S.F. Office	U/C	TBD
19.	Ballston Plaza - Building II Oliver T. Carr Co.	240,000 S.F. Office	Future Development	TBD
20.	Arlington Plaza Washington Coporation	135,000 S.F. Office	Future Development	TBD
21.	Radnor-Buchanan To Be Named	Mixed Use	Future Development	TBD
22.	Oliver T. Carr Co. To Be Named	Mixed Use	Future Development	TBD
23.	Alan I. Kay	Office Complex	Future Development	TBD
24.	Stafford Development	Office/Apartment	Future Development	TBD
25.	Stafford Development	Office/Apartment	Future Development	TBD
26.	Ballston Commons Phase II Alan I. Kay Co.	Office	Future Development	TBD
27.	Washington Corporation 600 N. Glebe Road	Office	Future Development	TBD
28.	Virginia Square Beatty-Morgan	Office	Future Development	TBD
29.	Site of FDIC Corporate Training Center	Office, Computer Ctr. & Training Facilities	Future Development	
30.	Rose Associates of New York	Mixed Use	Future Development	TBD
31.	Ballston Plaza BLdg. III Oliver T. Carr Co.	200,000 S.F. Office	Future Development	TBD
32.	National Development Group	Mid-Rise Residential Condominiums 135-Units	U/C	N/A
33.	Brock Brothers	Mixed Use 248,000 S.F. Office 190,000 S.F. Residential	Future Development	TBD

Exhibit II-7A (Continued)

EXISTING, UNDER CONSTRUCTION AND PLANNED DEVELOPMENT IN BALLSTON

Map No.	Developer	Project Type/Size	Commencement	Rents
34.	Ballston Centre International Developers, Inc.	Mixed Use- Office/Hotel Residential	Future Development	TBD
35.	Stafford Place Stafford Development Company	180,000 S.F. Office	Future Development	TBD
36.	Virginia Square Phase I Beatty-Morgan	144,000 S.F. Office	Future Development	TBD
37.	Unknown	40,000 S.F. Building	U/C	TBD
38.	Warren Montouri, et. al.	Office-size unknown	Future Development	TBD
39.	Reed Wills	50,000 S.F. Office	U/C	TBD
40.	Site Recently Assembled			
41.	Site controlled by single owner.			
42.	Social Security Administration Building		Existing	
43.	Garden Apartments		Existing	
44.	Virginia Executive Center	23,300 S.F. Office	Existing	$21.50
45.	Site Assemblage Evans Company	Office Site	Future Development	
46.	I-66			
47.	Glebe Road			
48.	Fairfax Drive			
49.	Wilson Boulevard			
50.	Washington Boulevard			

Exhibit II-7B

EXISTING, UNDER CONSTRUCTION, AND PLANNED DEVELOPMENT IN BALLSTON

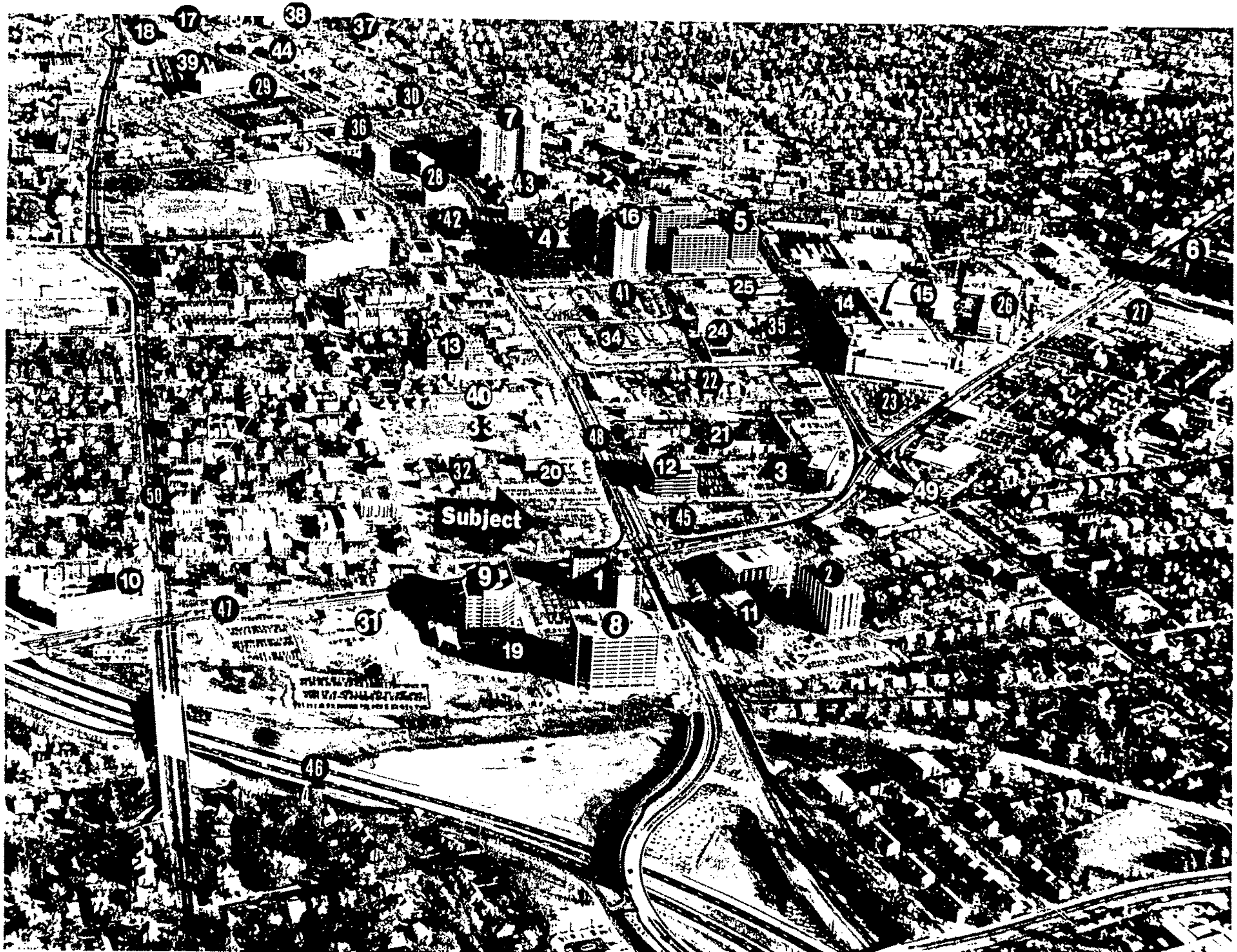
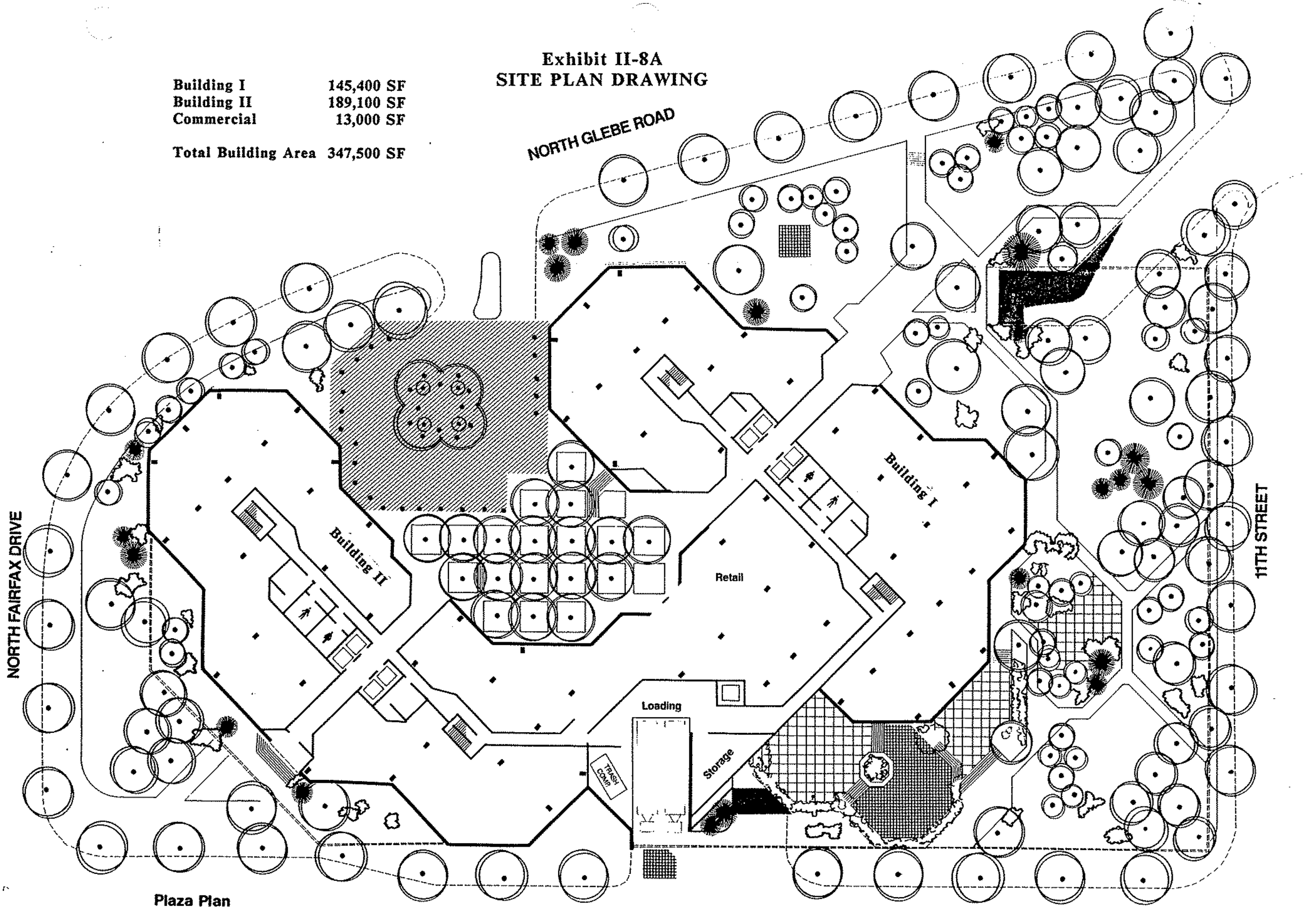


Exhibit II-8A
SITE PLAN DRAWING

Building I	145,400 SF
Building II	189,100 SF
Commercial	13,000 SF
Total Building Area	**347,500 SF**



Plaza Plan

Area Building I	=	20,889 SF
Area Building II	=	19,152 SF
Area Bldg. I + II	=	40,041 SF
Area Retail	=	5,500 SF

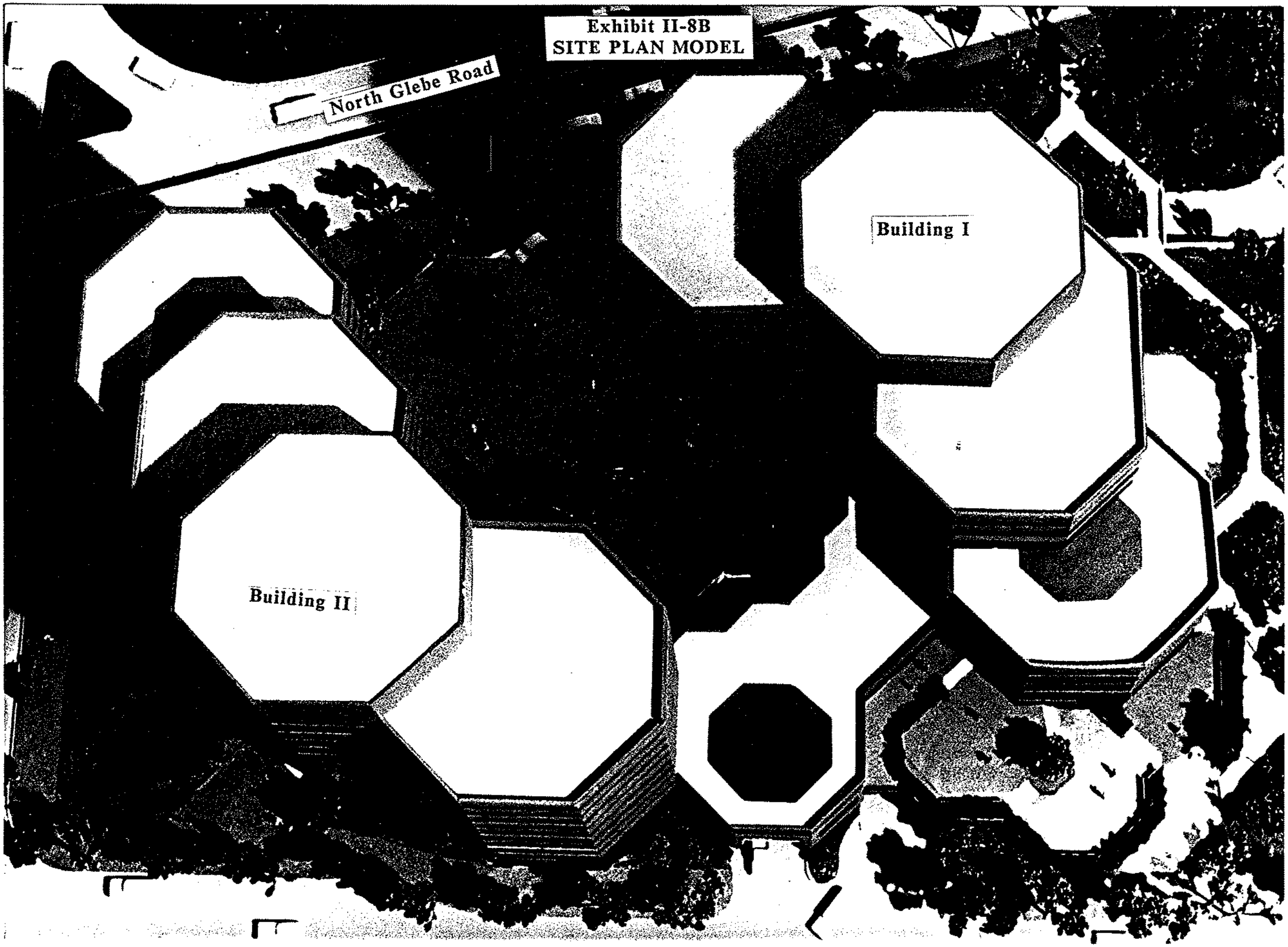


Exhibit II-8B
SITE PLAN MODEL
North Glebe Road
Building I
Building II

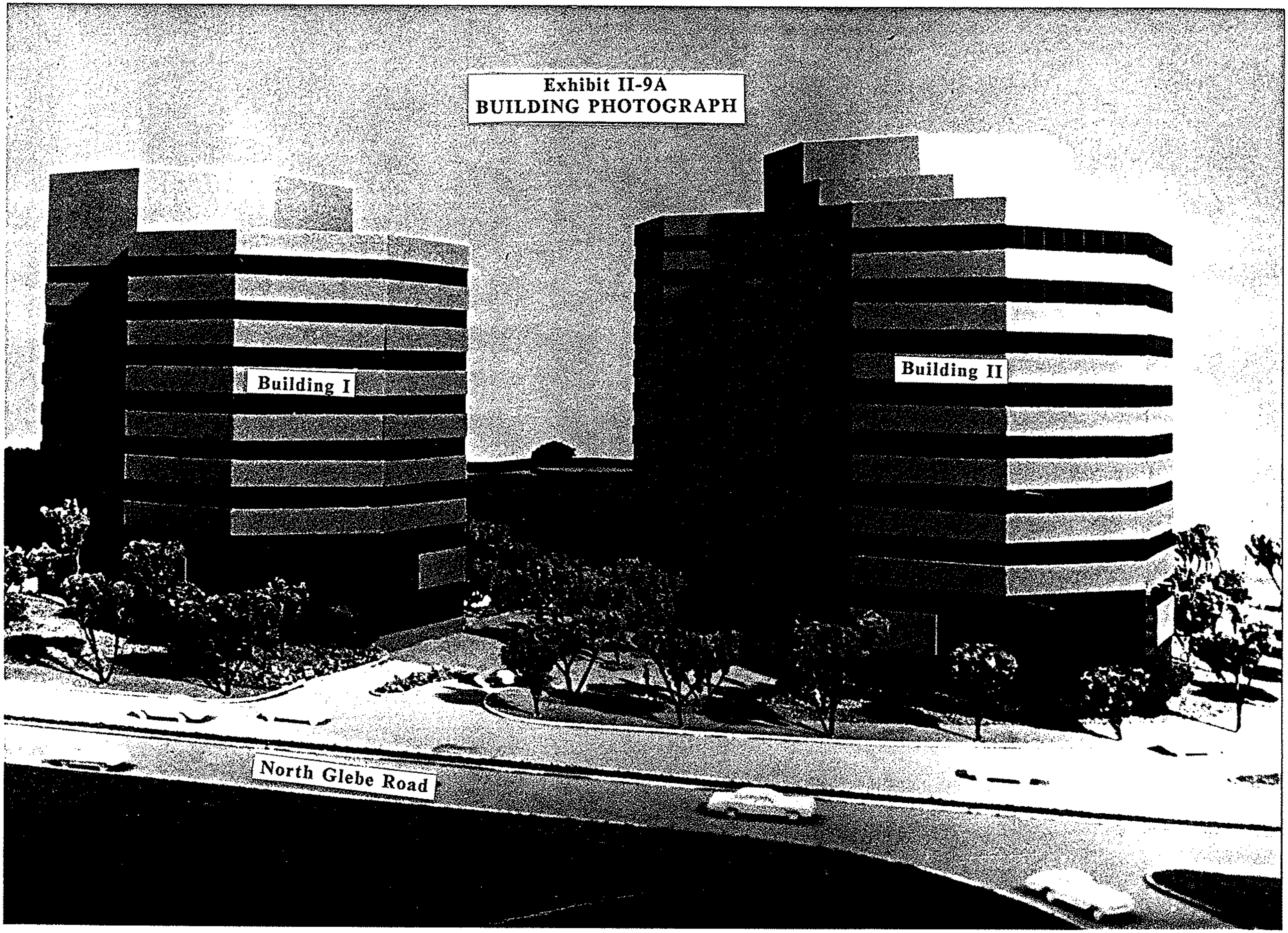


Exhibit II-9A
BUILDING PHOTOGRAPH
Building I
Building II
North Glebe Road

Exhibit II-9B
BUILDING PHOTOGRAPH

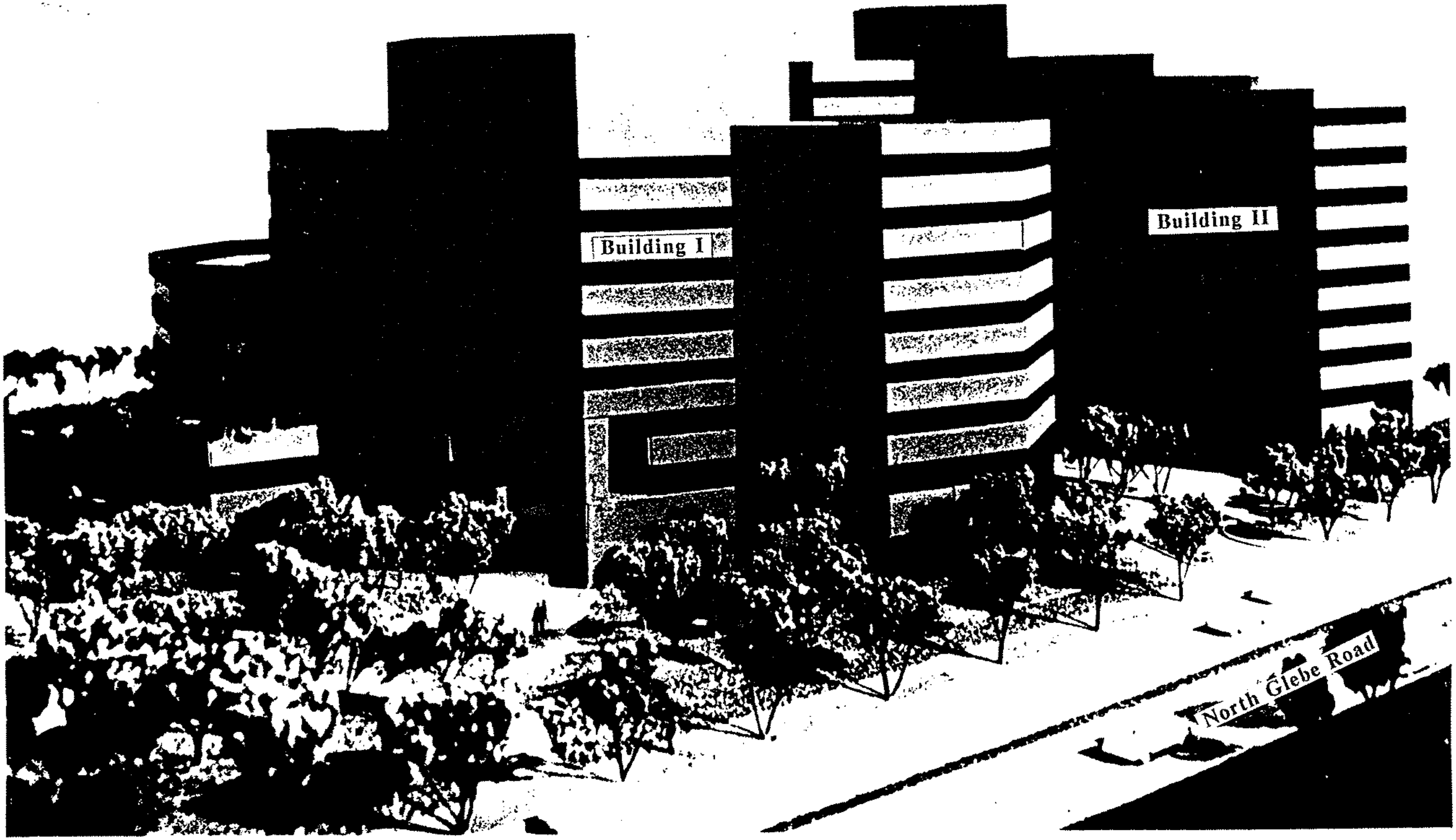


Exhibit II-9C
BUILDING PHOTOGRAPH

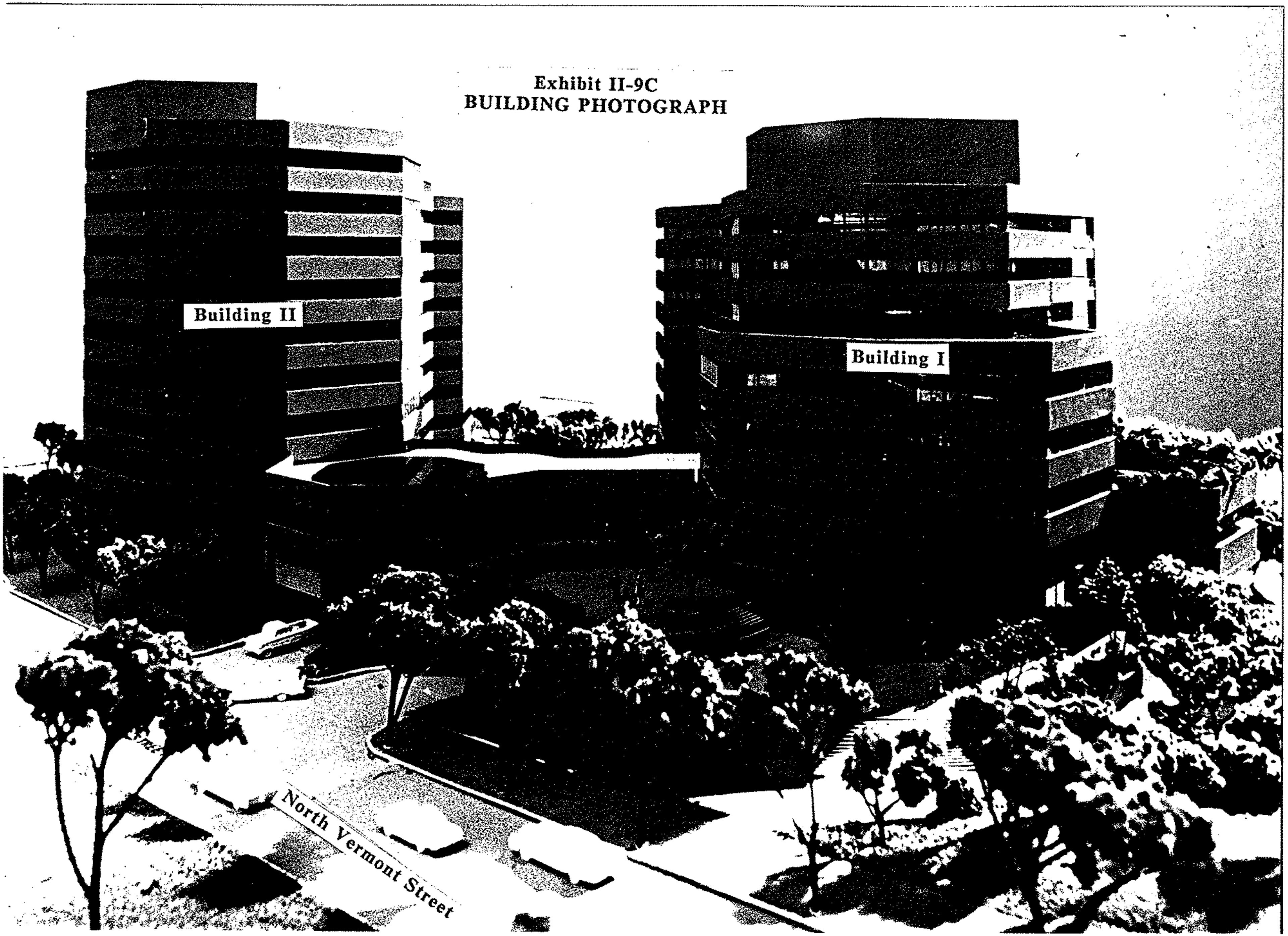
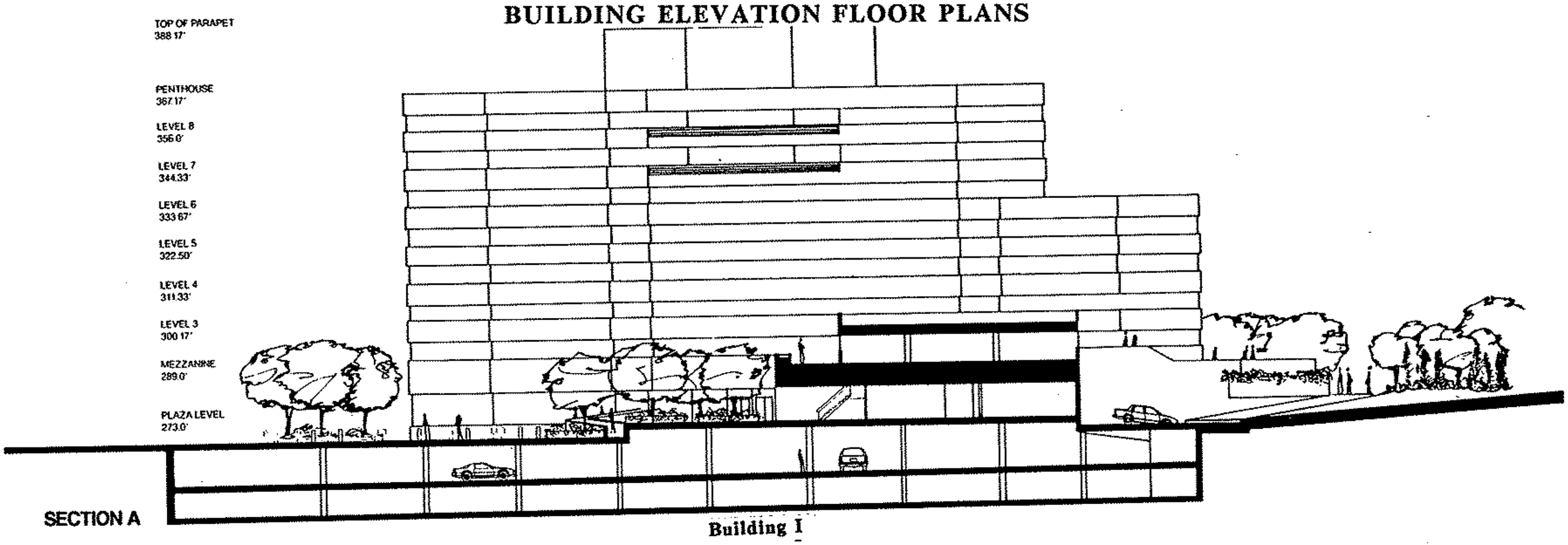
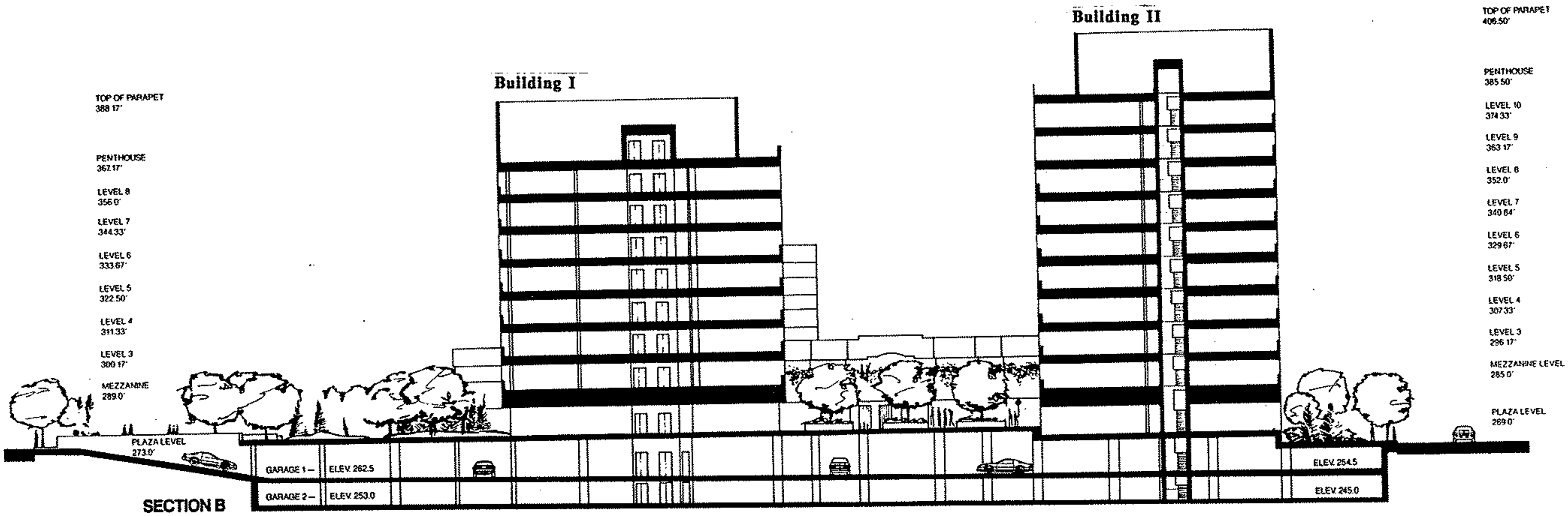


Exhibit II-10A
BUILDING ELEVATION FLOOR PLANS





Building Sections

Exhibit II-10B
BUILDING ELEVATION FLOOR PLANS

2nd Level Parking

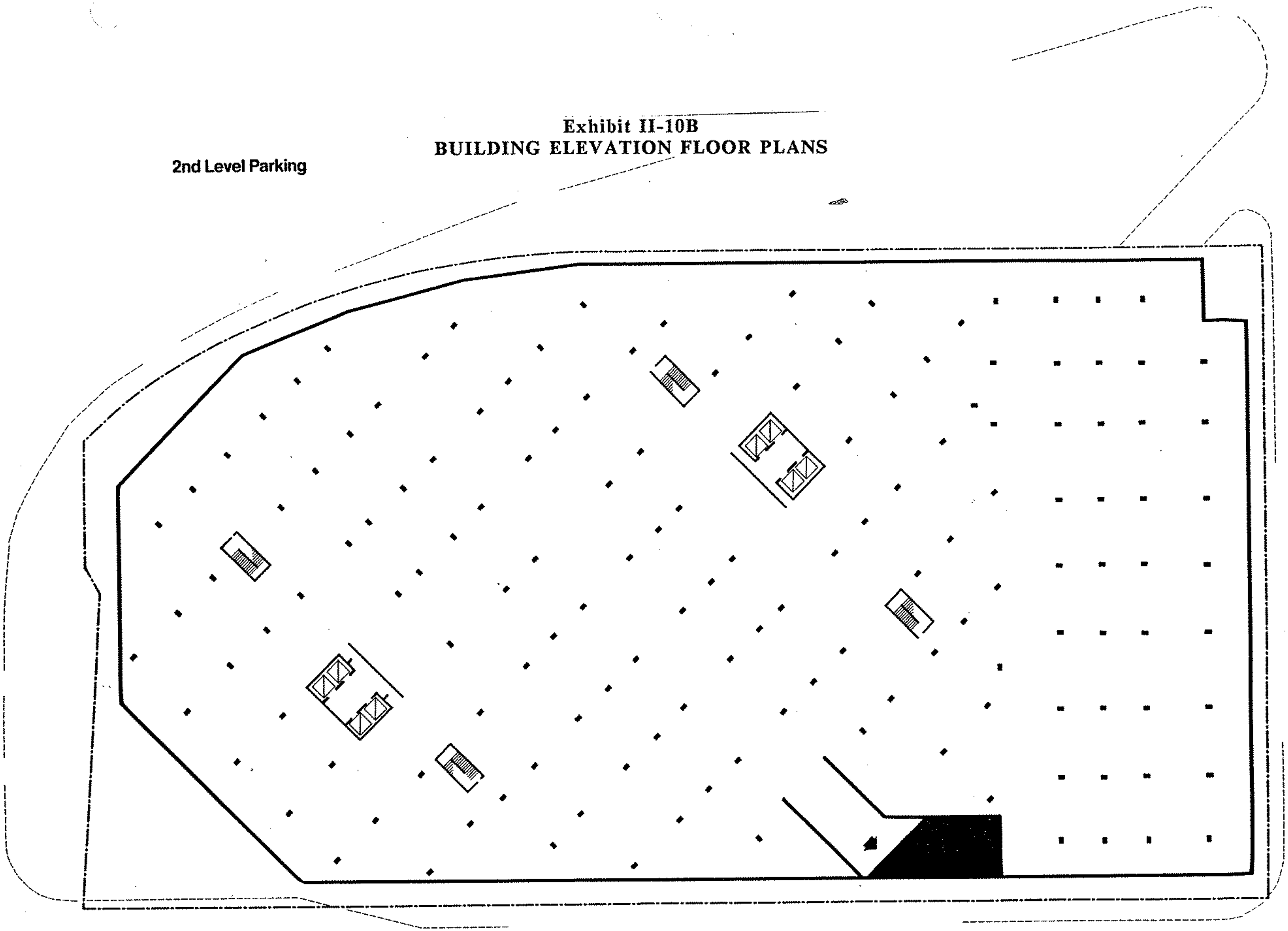


Exhibit II-10C
BUILDING ELEVATION FLOOR PLANS

1st Level Parking

SIZE OF PARKING	NO. OF SPACES
FULL SIZE	277
COMPACT SIZE	300
HANDICAPPED PARKING	12
TOTAL	589

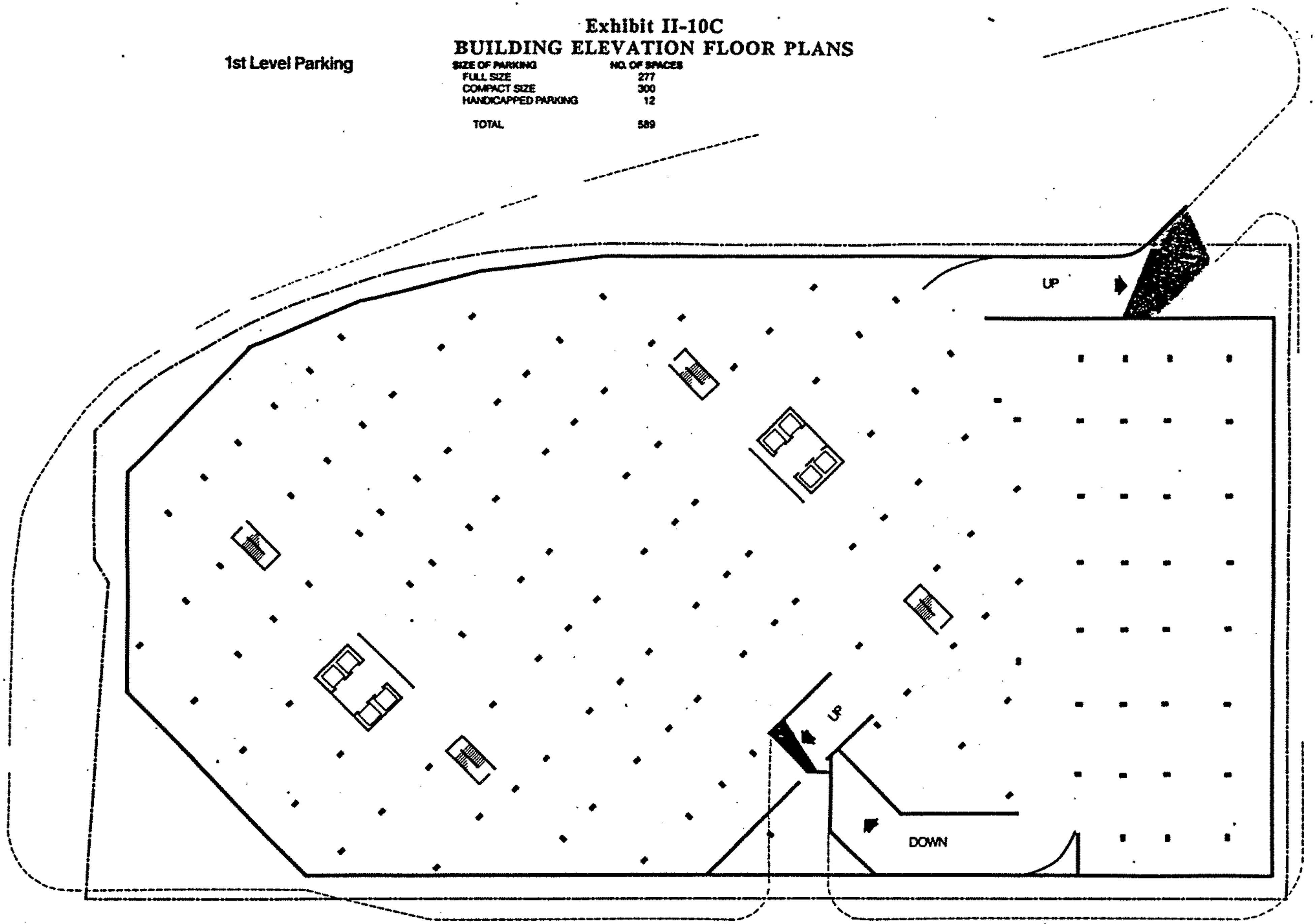
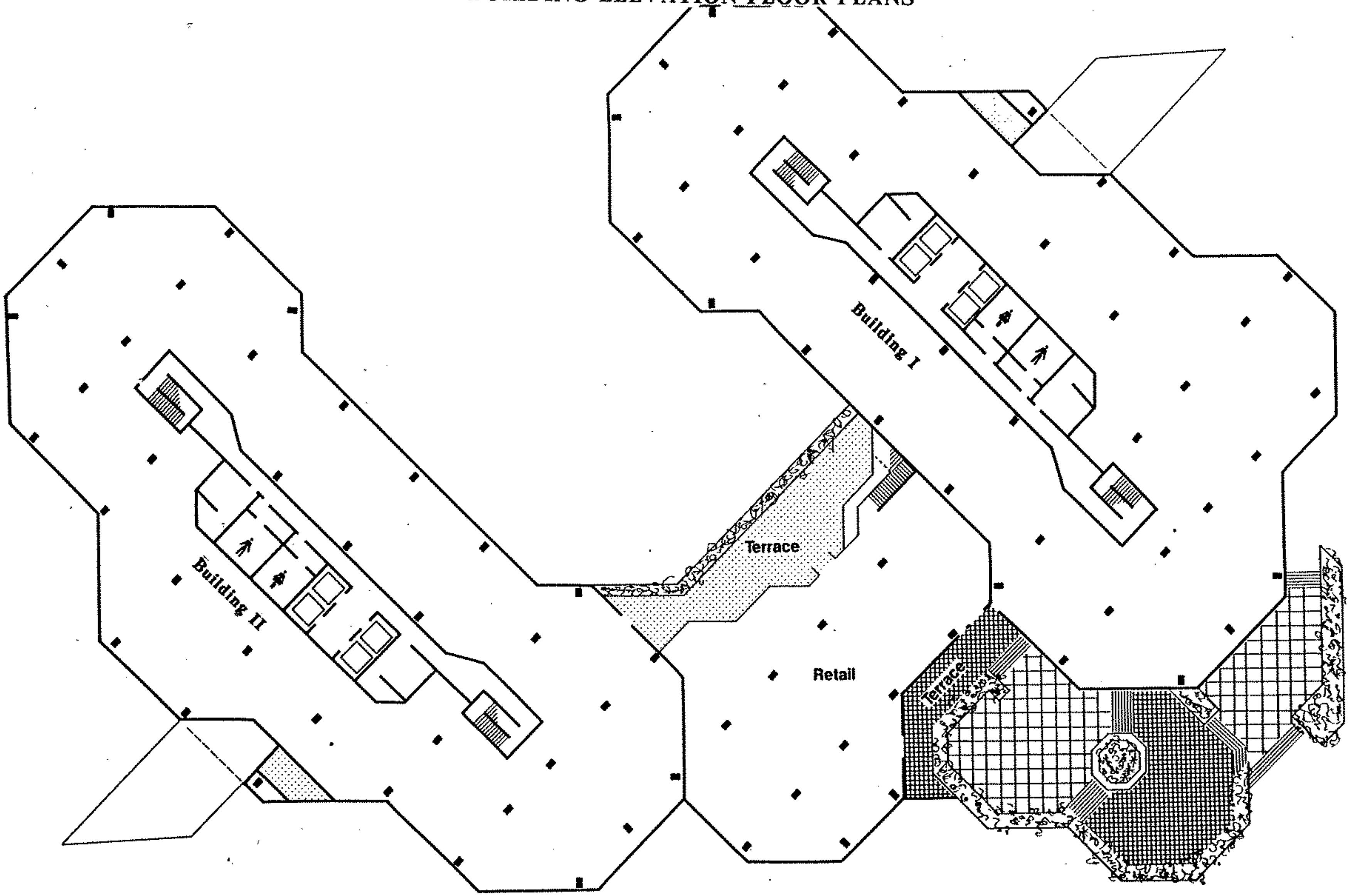


Exhibit II-10D
BUILDING ELEVATION FLOOR PLANS

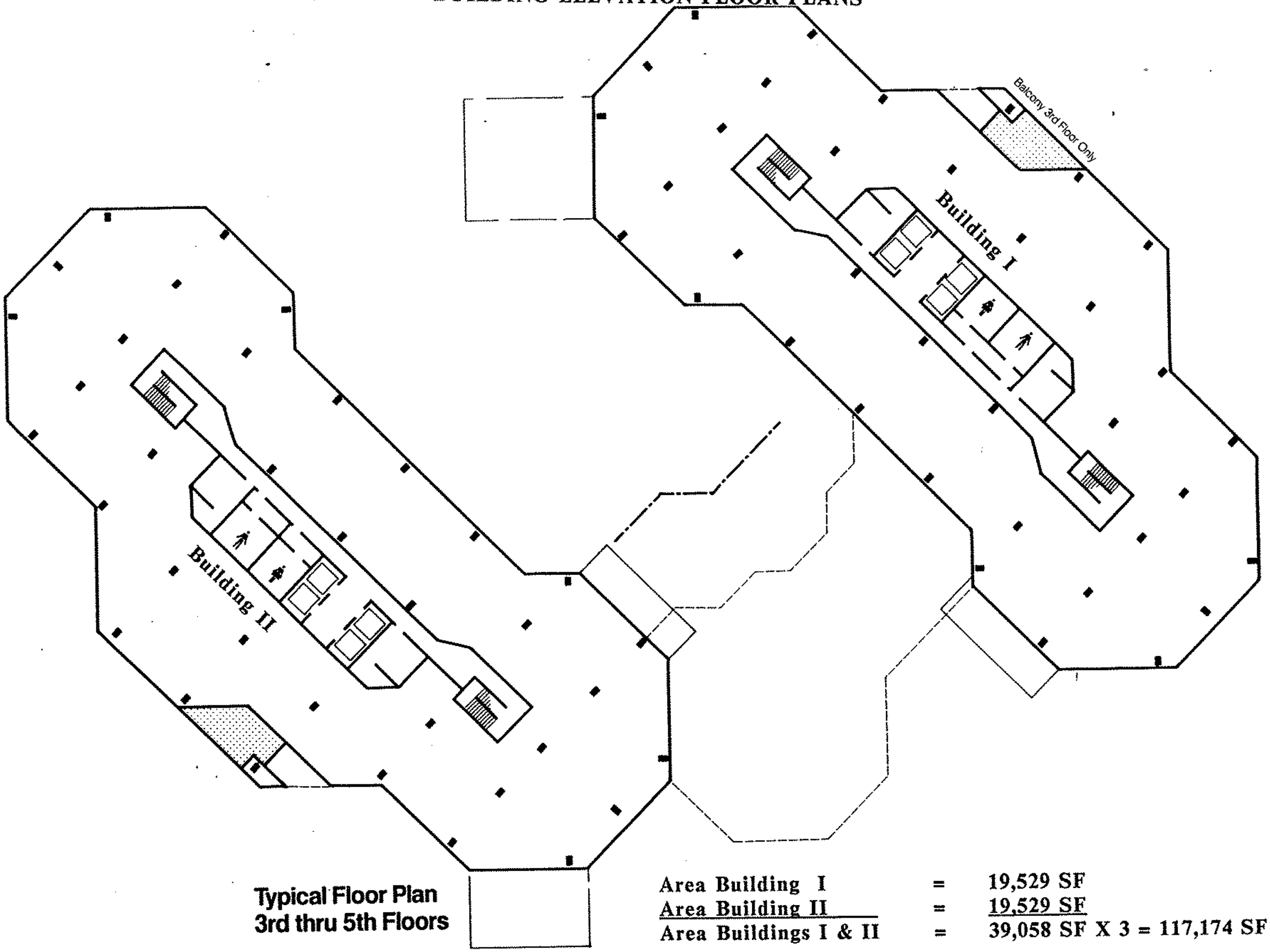


Mezzanine Plan

Area Building I	=	22,153 SF
Area Building II	=	19,345 SF
Area Buildings I & II	=	41,498 SF
Area Retail	=	7,500 SF

Exhibit II-10E

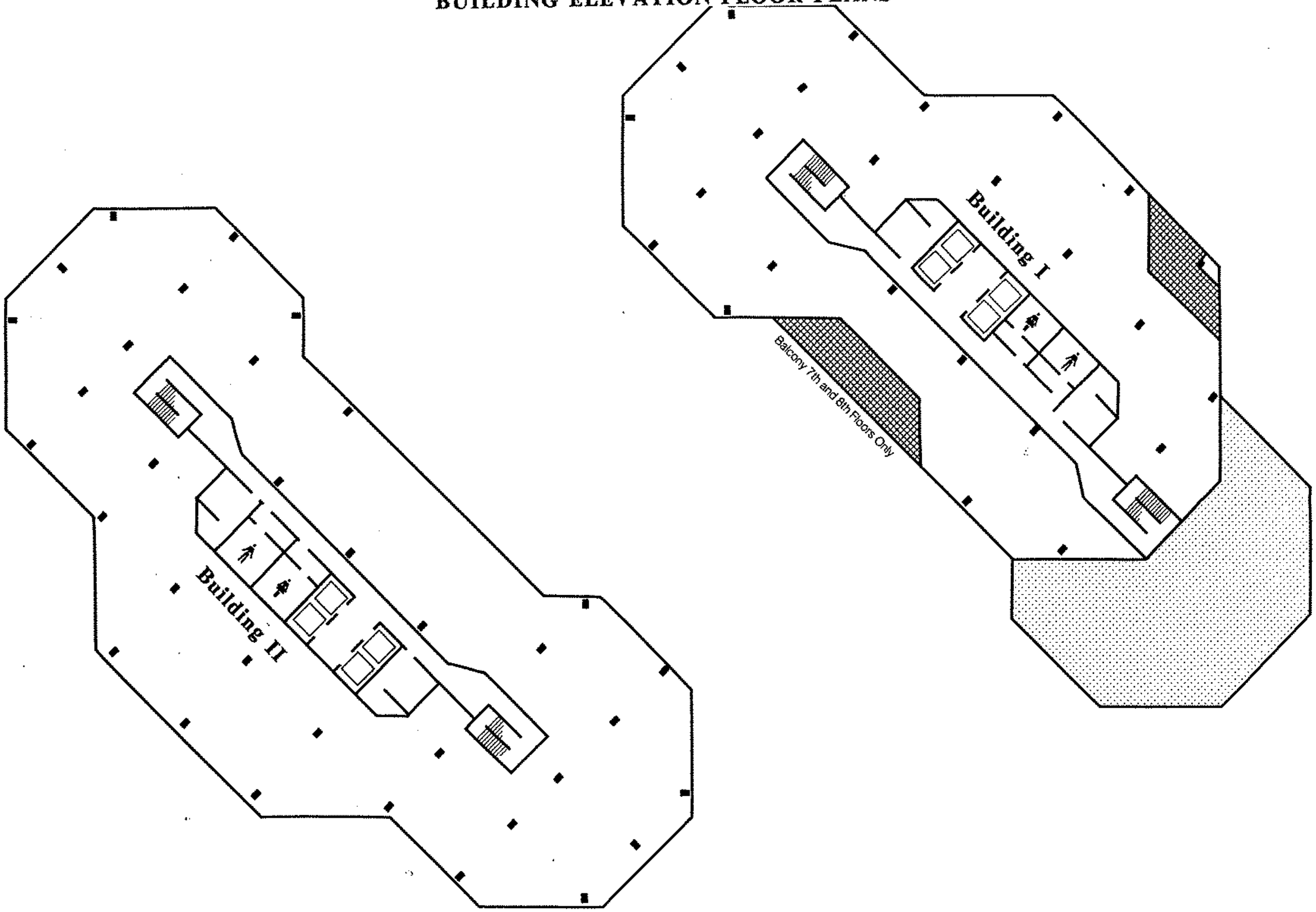
BUILDING ELEVATION FLOOR PLANS



Typical Floor Plan
3rd thru 5th Floors

Area Building I	=	19,529 SF
Area Building II	=	19,529 SF
Area Buildings I & II	=	39,058 SF X 3 = 117,174 SF

Exhibit II-10F
BUILDING ELEVATION FLOOR PLANS

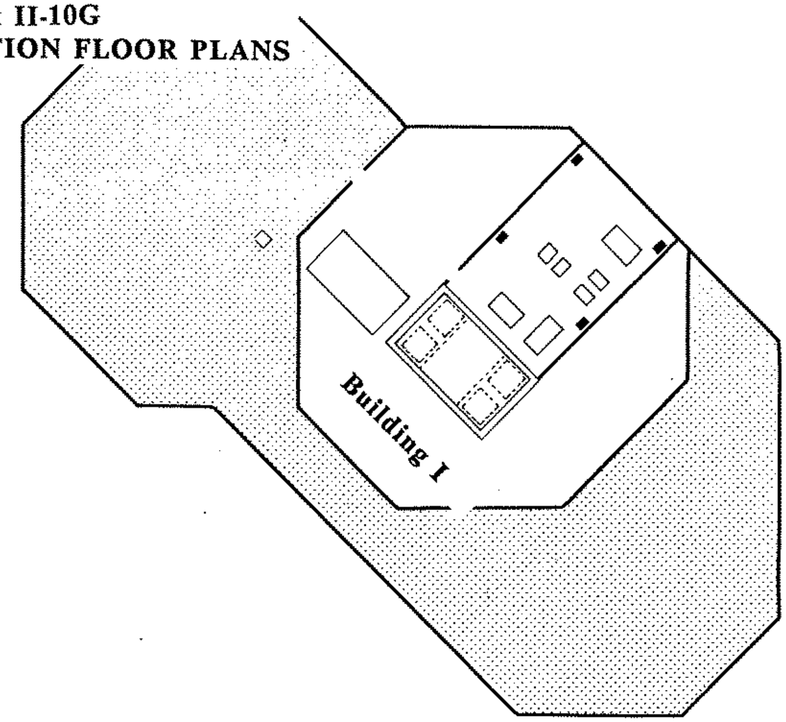


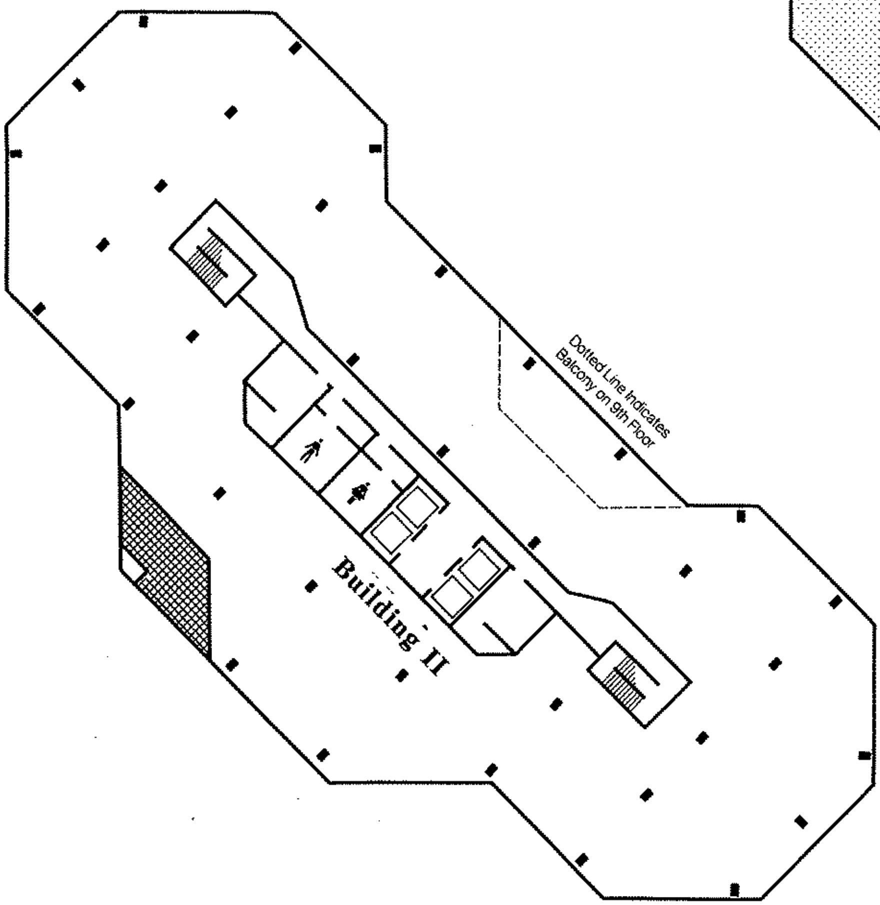
6th thru 8th Floor Plan
(Building I)

6th and 7th Floor Plan
(Building II)

Area Building I = 14,593 SF X 3 Floors = 43,779 SF
Area Building II = 19,529 SF X 2 Floors = 39,058 SF

Exhibit II-10G
BUILDING ELEVATION FLOOR PLANS



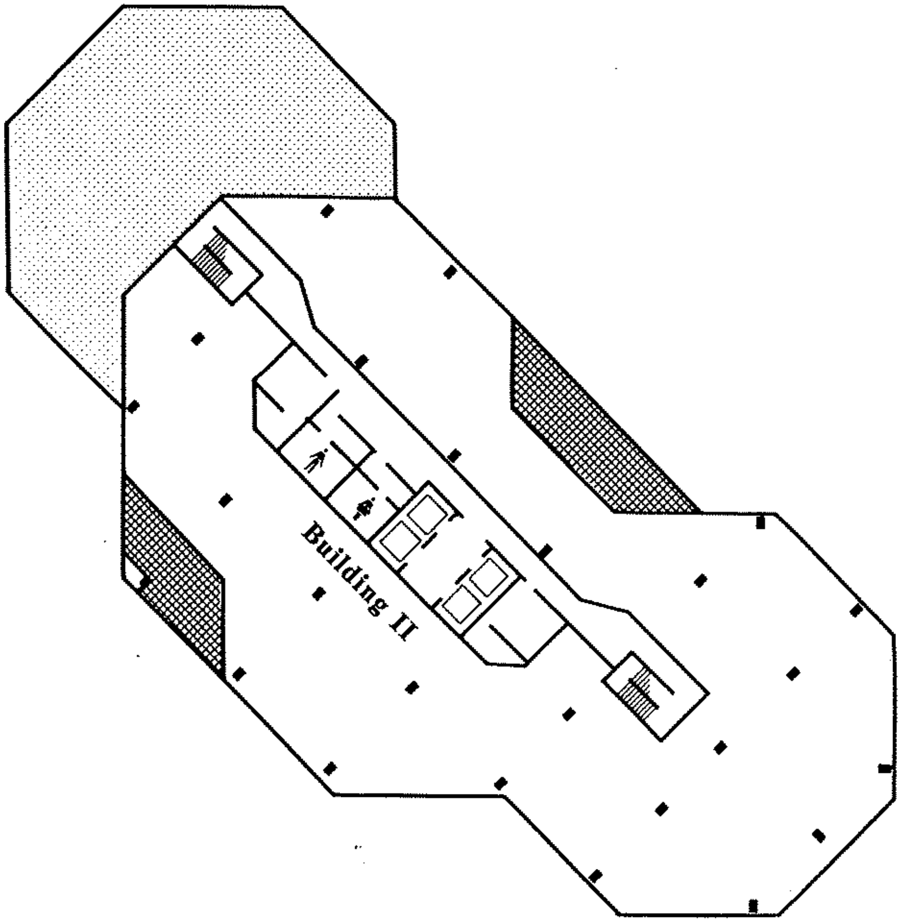


Penthouse
(Building I)

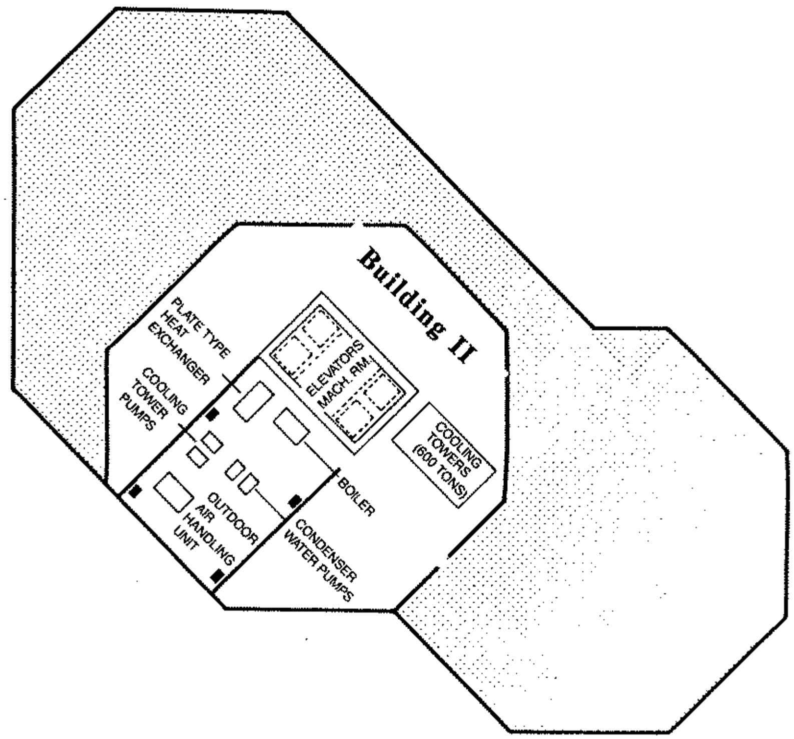
8th and 9th Floor Plan
(Building II)

Area Building I	**=**	**5,740 SF (Penthouse)**
Area Building II	**=**	**19,199 SF X 2 = 38,398 SF**

Exhibit II-10H
BUILDING ELEVATION FLOOR PLANS



10th Floor Plan and Penthouse (Building II)



Area Building	**= 14,552 SF**
Area Penthouse Bldg.	**= 5,740 SF**

Exhibit II-11A

PROJECT BUDGET

	Before Initial Funding	After Initial Funding	Total Project Costs	PSF
Costs To Construction				
Land Purchase -- See Exhibit II-11B	5,451,617			
Construction Loan	219,333			
Predevelopment Cost	87,750			
Total	5,758,700		5,758,700	41.88
Archetectural and Engineering	378,000		378,000	2.75
Site Improvements	1,008,000		1,008,000	7.33
Building Shell	9,492,000		9,492,000	69.03
Tenant Finish 137,500 Sq Ft @ $15/PSF		2,062,500	2,062,500	15.00
Indirect Costs				
Permits and Fees	108,000			
Pre-Operational Expenses	20,000			
Insurance and Bonds	25,000			
Testing and Inspections	79,000			
Miscellaneous	135,260			
Total	367,260		367,260	2.67
Marketing	154,250	154,250	308,500	2.24
Leasing Commissions		750,000	750,000	5.45
Construction Interest	2,370,000		2,370,000	17.24
Contingency	400,000		400,000	2.91
Operating Deficit During Lease-up				
Interest		1,893,178		
Operating Expenses		742,500		
Total		2,635,678	2,635,678	19.17
Above Standard Tenant Finish 137,500 Sq Ft @ $ 7.00 PSF		962,500	962,500	7.00
General & Administrative (Developer's Fee)		506,862	506,862	3.69
TOTALS	19,928,210	7,071,790	27,000,000	196.36

Exhibit II-11B
LAND COST BREAKDOWN

PHASE I LAND PURCHASE

Purchase Price	$5,070,683
Deed of Trust Recordation Tax	10,900
Deed of Trust Title Insurance	4,250
Deed Recordation Tax	10,139
Lender Points	13,625
Letters of Credit Expense	3,000
Owner Legal	5,500
Lender Legal	5,500
Seller Carry (May 1 - June 1)	37,520
Permanent Loan Fee	270,000
Closing Adjustments (R/E Taxes)	10,500
Miscellaneous	10,000
Total Phase I Land Purchase	$5,451,617

PHASE II LAND PURCHASE

Purchase Price	$7,091,817
Deed of Trust Recordation Tax	14,400
Deed of Trust Title Insurance	5,615
Deed Recordation Tax	14,181
Lender Points	18,049
Letters of Credit Expense	3,000
Owner Legal	7,500
Lender Legal	7,500
Seller Carry (May 1 - June 1)	52,480
Closing Adjustments (R/E Taxes)	14,500
Pre-Development Costs	140,000
Total Phase 2 Land Purchase	$7,369,042

TOTAL LAND PURCHASE - PHASE 1 AND 2 $12,820,659

Exhibit II-12
PHASE II LAND PURCHASE CONTRACT

Calculation of $11,500,000 Contract of Sale Amount

Based on the land cost breakdown (Exhibit II-11B), the construction lender will advance funds in the approximate amount of $7,369,042 on or about June 1, 1986 for the acquisition of the Phase II land. On or about July 1, the long term lender, USF&G, will execute a Contract of Sale to purchase the Phase II land 48 months from July 1, 1986 for the purchase price of $11,500,000. This purchase price is arrived at by estimating the interest carry on the $7,369,042 acquisition loan at 10.75% compounded monthly on an accrual basis ($11,306,000), and estimating the real estate taxes on the Phase II parcel at an average of $40,000 per year, plus interest carry, as shown below:

(1) Present cost of Phase II land, $7,369,042, @ 10.75% interest compounded monthly @ 48-month term

Future Value equals $11,306,447

(2) Additional Real Estate Tax Cost

(a) Assume:
- $7,000,000 tax assessment for project
- $.95/$100 average tax rate
- Taxes increase @ 6% annually
- Taxes are paid semi-annually
- Interest carry of taxes is computed @ 10.75% compounded monthly

(b) Calculations:

- 1st Year:	$38,570	@ 10.75% @ 3-1/2 yrs	= $56,095
- 2nd Year:	$40,884	@ 10.75% @ 2-1/2 yrs	= $53,426
- 3rd Year:	$43,337	@ 10.75% @ 1-1/2 yrs	= $50,884
- 4th Year:	$45,937	@ 10.75% @ 1/2 yr	= $48,462

$ 208,867

(3) TOTAL (1) + (2) equals $11,515,314 $11,500,000

III. THE MARKET

III. THE MARKET OVERVIEW

A. INTRODUCTION

Prior to 1960, Downtown Washington, D.C. was the only Class A office market in the Metropolitan Washington area. Suburban office space was limited to government-developed single use buildings, and a small amount of privately developed office space. During the 1960's a suburban office market emerged around Washington as a result of the expanding federal bureaucracy, the completion of the Interstate beltway, and the relatively low price of land.

The Arlington County Board opened the doors to development in 1961 by rezoning large areas of underutilized land for high density development, most notably in Rosslyn and Crystal City. By 1970 these markets were established and the advent of the Metro system served to extend and broaden these suburban markets (see Exhibit III-2).

The metropolitan Washington area currently has almost 120 million square feet of multi-tenant office space (See Exhibit III-1). The District of Columbia contains about 40% of this total. Arlington County has traditionally enjoyed a lower vacancy rate than surrounding markets due to its convenient access to downtown, Dulles and National Airports, and desirable Virginia residential communities. Demand is generated by the major presence of defense department personnel and subcontractors, and a variety of national headquarters types of tenants (MCI, USA Today, Mutual Brodcasting, etc.)

B. THE ROSSLYN-BALLSTON CORRIDOR

The Rosslyn-Ballston Corridor is roughly three miles long and three-quarters of a mile wide, and is defined by the five Metro stops made by the Orange Line as it passes through Northern Arlington County. The following is a brief review of the individual markets within this corridor.

1. Rosslyn

Rosslyn was one of the earliest and is one of the most successful suburban office centers in metropolitan Washington. From a zero base in 1960, Rosslyn had 2.7 million square feet of office space by 1970, and by 1985 had an inventory of 6.3 million square feet, making it the predominant office area in the Corridor (see Exhibit III-2). Projects in Rosslyn area are primarily large mid to high rise buildings with recent projects averaging almost 300,000 square feet each. Tenants are typically national companies with large space requirements, and rates for available new space range from $25.00 to $28.00 per net rentable square foot on a full service gross basis.

Development activity is expected to decline in Rosslyn for two reasons: (1) the area is essentially built out and few development sites remain, and (2) office/commercial development is increasing significantly around the other Metro stops in the corridor, creating competition for the Rosslyn market.

2. Court House

The Court House area has traditionally been the government center for Arlington County. While 330,000 square feet were developed in the 1960's to serve primarily governmental, bank, and legal tenants, the area remained in Rosslyn's shadow from 1969-1981 when no new space was added. In 1982 and 1983 two projects totalling 414,000 square feet were completed, and 558,000 square feet is currently under construction.

The Court House Area Sector Plan allows for high density office development that will create an urban core around the courthouse, while the balance of the area will be devoted to mid to high density residential projects. The Court House area will have a primarily residential orientation, and commercial development has not been aggressively pursued. The Court House area will ultimately be a significant office market, but will be built out after Ballston.

3. Clarendon

Clarendon is mainly residential and retail in nature, with a minimal emphasis on office space. Clarendon's sector Plan was approved in 1984, several years after surrounding areas, and the plan calls for the retention of the residential orientation. While several redevelopment efforts are underway that will revitalize the area, and two office projects totalling 428,000 square feet are being built, Clarendon will not be a significant office market.

3. Virginia Square

Like Clarendon, Virginia Square has a primarily residential character, and this has been preserved in the Virginia Square Sector Plan. This will not be a significant office market.

4. Ballston

Ballston, site of the subject property, is a rapidly emerging office market. While Ballston is a distant second to Rosslyn in terms of current office space inventory, Ballston's development activity is accelerating while Rosslyn's is declining. Ballston has an important advantage over other markets in the area in that I-66 and the Metro coverge at this point, giving Ballston superior access to a wider population base. This gives Ballston the potential to become a regional office/retail market, whereas other markets in the corridor will be more local in nature.

Exhibits III-3 presents delivery and absorption data for Arlington County for the past four years. As these numbers show, supply and demand have remained well balanced over the years, traditionally giving Arlington the highest occupancy rate (94% in October 1985) in the metropolitan area. The strength of the market is highlighted by 1984's performance where demand outpaced supply, resulting in substantial pre-leasing. This strength continued into 1985 when over 500,000 square feet was pre-leased. This pre-leasing activity is a very favorable indication of market activity especially when compared to other national markets where overbuilding has almost completely eliminated pre-leasing.

Exhibit III-4 presents projected office space deliveries through 1988 for the surrounding Virginia submarkets. These projections indicate strong growth in this area, particularly in markets west of the subject as office development makes its way firmly into what were formerly effectively residential suburbs. This expansion of the corridor will benefit Ballston since it will continue to have superior access to both downtown and these new suburban markets.

Exhibit III-5 provides information on past and projected rental rates for these same Virginia markets. Two factors are affecting these rates. At the low end of the market continuing demand and inflation are raising minimum rents by a small but consistent amount until 1987 when most of the existing, low basis projects have been absorbed and minimum rents will increase significantly. At the top of the market rates are increasing much faster as a result of prime locations being built out and increasing in value, and a better quality of space being offered. This higher quality space is important in that it demonstrates suburban Virginia is becoming a true Class A office center in its own right rather that merely a secondary alternative to downtown.

C. COMPETITIVE OFFICE SPACE

Piedmont's survey of competitive properties located in the Rosslyn-Ballston Corridor is presented in Exhibit III-6 with a map provided in Exhibit III-7. Rosslyn represents the top of the market due to its established and close-in location. Rents range from $18.00 to $30.00 full service gross on a net rentable basis, with most leases being signed in the $24.00 to $28.00 range. Almost 400,000 square feet is currently under construction with little pre-leasing and asking rents of $25.00 to $28.00 per foot. Leasing standards throughout the corridor include escalations of 30% of CPI, and expense and tax pass throughs above a base year (currently about $4.75 per foot).

In the Court House and Clarendon markets existing space rents for $20.00 to $23.00 per net rentable foot full service. Newer space such as Colonial Place which opened two months ago is asking $21.00 to $24.00 per foot, while space currently under construction (Courthouse Plaza) is quoting rates of $23.00 to $26.00 per foot, full service gross.

Within the immediate Ballston area competition will come from several projects that are under construction or planned to start in the near future. The Ballston Common Office Center is currently under construction, and is part of the office component for the Parkington Shopping Center rehabilitation two blocks away from the subject. This first phase will contain 170,000 square feet (the final project will have 610,000 square feet in three phases), and has been substantially pre-leased as a headquarters office for Hecht's Department Store. The remaining speculative space is being offered at $22.00 to $25.50 per net rentable square foot, full service gross.

Two projects that are scheduled for completion in the summer of 1986 are Ballston One and Ballston Plaza I. Ballston One will have 238,000 square feet, and has pre-leased 50% of this space. The developer is asking $21.00 to $23.00 per net rentable square foot for the remaining space. Ballston Plaza I is the first of three phases in a major mixed-use project being developed by Oliver T. Carr Company. Located across Glebe Road from the subject, Phase I contains 126,000 square feet of office and 15,000 square feet of retail. This project has pre-leased 4,000 square feet to William Lowry & Associates for $22.00 per square foot and is quoting rental rates of $22.00 to $24.00 per square foot for the remaining space.

Two other sites are currently being prepared for development immediately east of the subject. Arlington Plaza and Ballston Square are both major mixed-use developments that will occupy entire blocks. These projects will develop their residential components first, and then proceed with the office development. This means that the subject property will be completed well before these projects near completion.

D. CONCLUSION

The Ballston area is experiencing rapid development of quality projects. Significant pre-leasing activity demonstrates tenant's acceptance of Ballston as a desirable Class A office location with its ample parking ratios and excellent transit access. Ballston is particularly attractive when compared to alternative markets like Rosslyn and Tysons Corner which suffer from extreme traffic congestion and lack the integrated benefits provided by Ballston's Sector Plan.

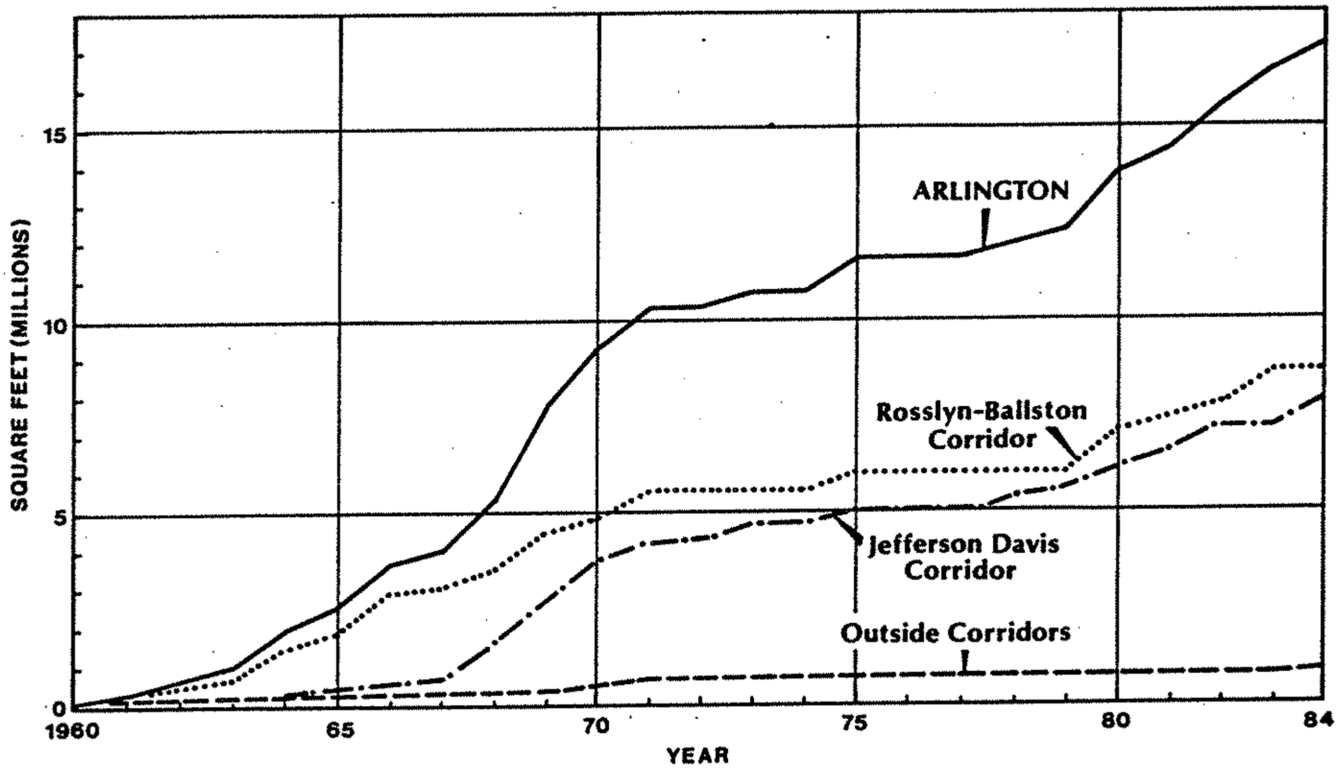
Rents in the Ballston area range from $21.00 to $25.50 per net rentable square foot, and overall contract rates have remained firm. Concessions of one month's free rent for each year of a lease are available, but in light of the low vacancy rates throughout Arlington County and very good pre-leasing activity, Ballston is and will continue to be a strong office market.

Exhibit III-1
MULTI-TENANT OFFICE SUMMARY
WASHINGTON, D.C. METROPOLITAN AREA

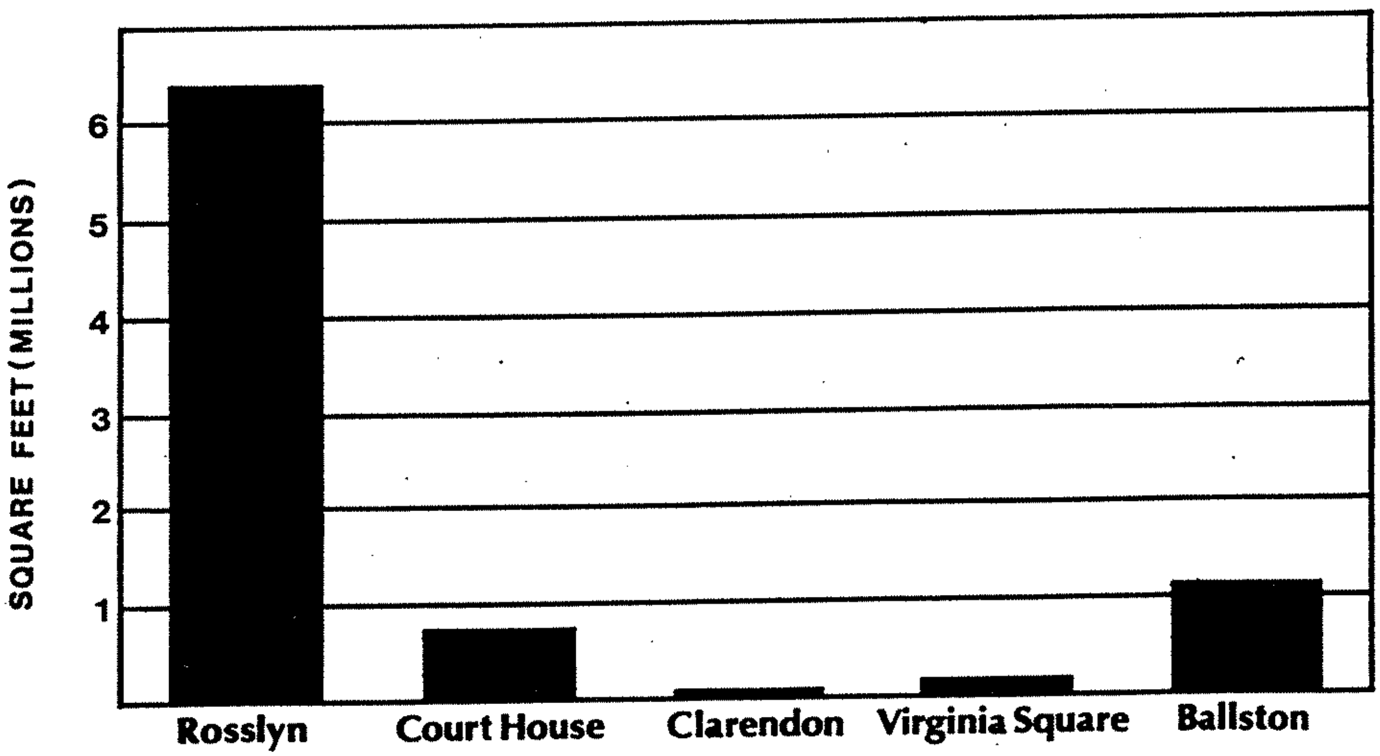
AREA	DATE	NEW AND EXISTING (SQUARE FEET)	VACANCY (SQUARE FEET)	OCCUPIED (SQUARE FEET)	PERCENT OCCUPIED	SQUARE FEET ABSORBED
DISTRICT OF COLUMBIA	6/83	43,533,856	5,203,904	38,329,952	88.046%	
	6/84	47,109,852	7,091,442	40,018,410	84.947%	1,688,458
	10/85	46,967,062	5,090,926	41,876,136	89.161%	1,857,726
MARYLAND						
Montgomery County	6/83	15,419,503	2,168,112	13,251,391	85.939%	
	6/84	18,427,255	2,741,480	15,685,775	85.123%	2,434,384
	10/85	20,134,606	3,169,590	16,965,016	84.258%	1,279,241
Prince George's County	6/83	7,726,181	1,920,238	5,805,943	75.146%	
	6/84	8,887,566	2,111,022	6,776,544	76.247%	970,601
	10/85	9,481,886	2,088,400	7,393,486	77.975%	616,942
VIRGINIA						
Alexandria City	6/83	3,146,600	565,646	2,580,954	82.024%	
	6/84	3,159,935	648,169	2,511,766	79.488%	(69,188)
	10/85	4,815,815	880,739	3,935,076	81.712%	1,423,310
Arlington County	6/80	6,845,197	187,160	6,658,037	97.266%	
	6/81	6,886,299	354,525	6,531,774	94.852%	(126,263)
	6/82	8,592,934	664,808	7,928,126	92.263%	1,396,352
	6/83	9,550,473	844,756	8,705,717	91.155%	777,591
	6/84	9,355,812	335,448	9,020,364	96.415%	314,647
	10/85	9,935,059	593,907	9,341,152	94.022%	320,788
Fairfax County	6/83	16,179,301	1,836,692	14,342,609	88.648%	
	6/84	19,955,165	2,991,300	16,963,865	85.010%	2,621,256
	10/85	28,079,635	6,273,911	21,805,724	77.657%	4,841,859
TOTAL	6/83	95,555,914	12,539,348	83,016,566	86.877%	
	6/84	106,895,585	15,918,861	90,976,724	85.108%	7,960,158
	10/85	119,414,063	18,097,473	101,316,590	84.845%	10,339,866

Source: Black's Research Service Development and Availability Report
Piedmont Realty Advisors

Exhibit III-2
ARLINGTON, VIRGINIA OFFICE BUILDING CONSTRUCTION
1960 - 1984



Rosslyn-Ballston Corridor Station Areas



Source: Arlington County Department of Community Affairs
Planning, Housing, and Community Development Division

Exhibit III-3

ARLINGTON COUNTY OFFICE SPACE ABSORPTION
JANUARY 1986

Year	Building	G.F.A. Delivered		Leased	
1982	Nat'l. Milk Producers	46,000		20,300	
	Crystal Gateway II	256,000		86,000	
	Airport Plaza I	135,800		135,000	
	Crystal Gateway I	325,000		325,000	
	MCI I	253,500		253,500	
			1,016,300		816,600
1983	Park Place	157,000		107,000	
	Crystal Gateway II			168,000	
	Court House Sq(Bell Atlantic)	360,000		360,000	
	1550 Wilson Blvd	126,000		60,900	
	Milk Producers			25,700	
	745 - 23rd St	9,600		8,400	
	Crystal Gateway III	326,000		203,000	
	MCI II	310,000		310,000	
			1,288,600		1,243,000
1984	Air Force Assn.	83,000		42,000	
	Airport Plaza II	210,000		210,000	
	1550 Wilson Blvd			33,000	
	Park Place			50,000	
	Crystal Gateway III			123,000	
	Arlington Plaza			92,000	
	Crystal Park I			239,000	
	1100 Wilson Blvd			307,000	
			293,000		1,096,000
1985	1100 Wilson Blvd	457,000		42,000	
	1550 Wilson Blvd			30,200	
	Air Force Assn			20,000	
	Arlington Plaza	195,000		97,200	
	Colonial Place			8,000	
	2500 Wilson Blvd.			49,500	
	Virginia Office Centre			4,000	
	Quincy (SPC Research Complex)	71,000		71,000	
	Ballston Common (Hecht Co.)	132,000		132,000	
	Arlington Financial Center	47,000		47,000	
	400 Army Navy Drive			222,000	
	Crystal Park I	406,000		167,000	
	Crystal Park II			367,000	
	Crystal Gateway IV			180,000	
	Totals		1,308,000		1,436,900
	Annual Mean		976,475		1,148,125

Source: Arlington County Economic Development Association

Exhibit III-4

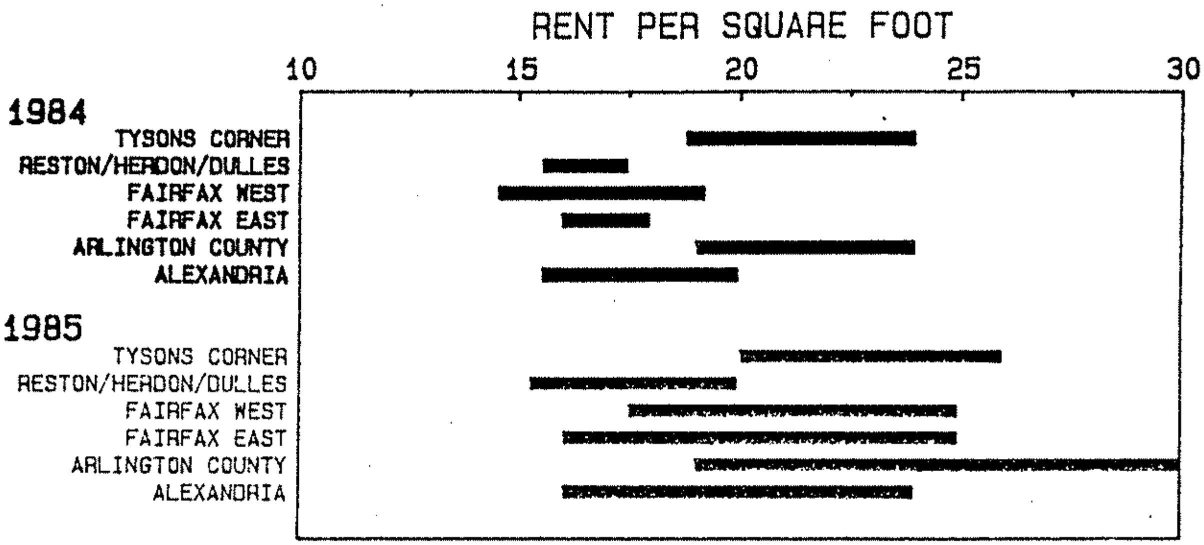
PROJECTED OFFICE SPACE DELIVERY IN NORTHERN VIRGINIA

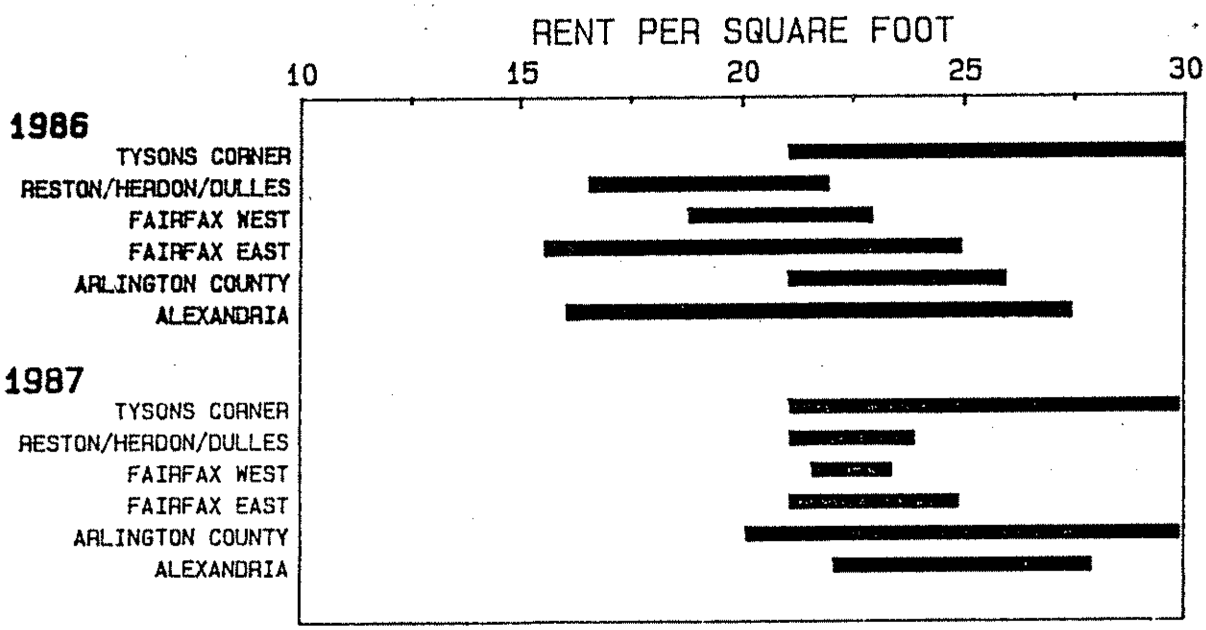
	1984	1985	1986	1987	1988
Tysons Corner:					
Total Square Feet	1,493,546	1,852,209	1,963,925	2,385,324	6,790,312
S.F. Occupied	1,268,510	1,084,311	268,273	50,000	0
S.F. Available	225,036	767,898	1,695,652	2,335,324	6,790,312
Percent Available	15.07%	41.46%	86.34%	97.90%	100.00%
Reston/Herndon/Dulles:					
Total Square Feet	873,932	1,878,407	1,731,244	1,558,000	3,500,000
S.F. Occupied	804,407	1,142,436	301,000	0	0
S.F. Available	69,525	735,971	1,430,244	1,558,000	3,500,000
Percent Available	7.96%	39.18%	82.61%	100.00%	100.00%
Fairfax West:					
Total Square Feet	628,881	992,880	1,461,000	7,039,500	4,930,000
S.F. Occupied	556,239	456,610	212,500	0	0
S.F. Available	72,642	536,270	1,248,500	7,039,500	4,930,000
Percent Available	11.55%	54.01%	85.46%	100.00%	100.00%
Fairfax East:					
Total Square Feet	534,641	1,321,300	905,280	1,902,500	0
S.F. Occupied	427,211	686,679	228,500	0	0
S.F. Available	107,430	634,621	676,780	1,902,500	0
Percent Available	20.09%	48.03%	74.76%	100.00%	0.00%
Arlington County:					
Total Square Feet	597,848	1,286,651	2,446,270	3,098,160	1,650,000
S.F. Occupied	574,948	1,115,358	549,410	0	0
S.F. Available	22,900	171,293	1,896,860	3,098,160	1,650,000
Percent Available	3.83%	13.31%	77.54%	100.00%	100.00%
Alexandria:					
Total Square Feet	611,256	1,068,263	1,231,947	1,528,000	1,430,000
S.F. Occupied	524,006	5,168,222	463,297	0	0
S.F. Available	87,250	551,441	768,650	1,528,000	1,430,000
Percent Available	14.27%	51.62%	62.39%	100.00%	100.00%

Source: Cushman & Wakefield, Inc.
Piedmont Realty Advisors

Exhibit III-5

NORTHERN VIRGINIA OFFICE MARKET
RENTAL RANGES, 1984 - 1987





CUSHMAN & WAKEFIELD, INC.
SUBURBAN OFFICE

Exhibit III-6

COMPETITIVE PROPERTY SURVEY

Map No.	Building Name and Location	Year Completed	Total Rentable (Gross SF)	Available Office Space (Gross SF)	Available Retail Space (Gross SF)	Rental Rate	Escalations	Comments/Contacts
	ROSSLYN							
1.	1300 N. 17th Street	1980	356,793	10,813	0	$24.00	q30% CPI plus pass thrus	La Salle Partners 522-1141
2.	Park Place 1655 N. Ft. Myer Drive	1983	170,355	0	0	$20.00	30% CPI plus pass thrus	
3.	USA Today Twin Tower I 1000 Wilson Blvd.	1981	457,000	0	0	$26.00-$30.00	30% CPI, Op. Exp., RE Tax	Jason Corporation 638-5996
4.	USA Today Twin Tower II 1100 Wilson Blvd.	1984	457,000	0	0	$24.00-$30.00	30% CPI, Op. Exp., RE Tax	Jason Corporation 638-5996
5.	1550 Wilson Blvd.	1983	120,125	0	8,790	$21.00	33% CPI, Op. Exp., RE Tax	Julien Studley 442-9000
6.	Air Force Assocation 1501 Lee Highway	1984	70,000	13,000	0	$18.00-$24.00	100% CPI and taxes	Weissberg Corporation 525-4100
7.	1560 Wilson Blvd.	U/C Aug. 1986	123,805	118,924	4,881	$25.00	35% CPI, Op. Exp.& RE Taxes	Julien Studley 442-9000
8.	1525 Wilson Blvd.	U/C June 1987	254,635	254,635	0	$26.00-$28.00	TBD	Cushman and Wakefield 448-1200
9.	1101 N. 19th Street	Start June 1986	252,200	252,200	TBD	TBD	TBD	Julien Studley 442-9000

Exhibit III-6
COMPETITIVE PROPERTY SURVEY

Map No.	Building Name and Location	Year Completed	Total Rentable (Gross SF)	Available Office Space (Gross SF)	Available Retail Space (Gross SF)	Rental Rate	Escalations	Comments/Contacts
	COURT HOUSE							
10.	Arlington Plaza 2000 15th St., N.	1985	174,587	13,930	0	$20.50	30% CPI,RE Tax & pass thrus	Charles H. Smith 920-8508
11.	2500 Wilson Blvd.	U/C Oct. 1986	95,000	46,000	6,000	$22.50	CPI & RE Tax	Weissberg Corporation 525-4100
12.	Courthouse Place 2000 14th St., N.	U/C Oct. 1986	115,000	115,000	0	$22.50- $24.00	30% CPI & pass thrus	Cassidy & Pinkard 463-2100
13A.	Colonial Place Phase I 2111 Wilson Blvd.	April 1986	248,000	60,000	18,000	$21.00- $24.00	30% CPI & pass thrus	Coldwell Banker 457-5700
13B.	Colonial Place Phase II 2121 Wilson Blvd.	Start Summer 1986	248,000	234,000	14,000	TBD	30% CPI & pass thrus	
14.	Courthouse Plaza	Start June 1986	300,000	140,000	0	$23.00- $26.00	30% CPI & pass thrus & Op. Exp.	Charles H. Smith 920-8500 Phase I of II
	CLARENDON							
15.	Olmstead Building 3100 Clarendon Blvd.	U/C Oct. 1986	242,920	208,105	34,815	$20.00- $23.00	30% CPI & pass thrus	Leggat, McCall & Werner 842-3030
16.	Clarendon Square 3033 Wilson Blvd.	U/C Feb. 1987	160,000	140,000	20,000	$22.00- $24.00	30% CPI & pass thrus	Cassidy & Pinkard 463-2100

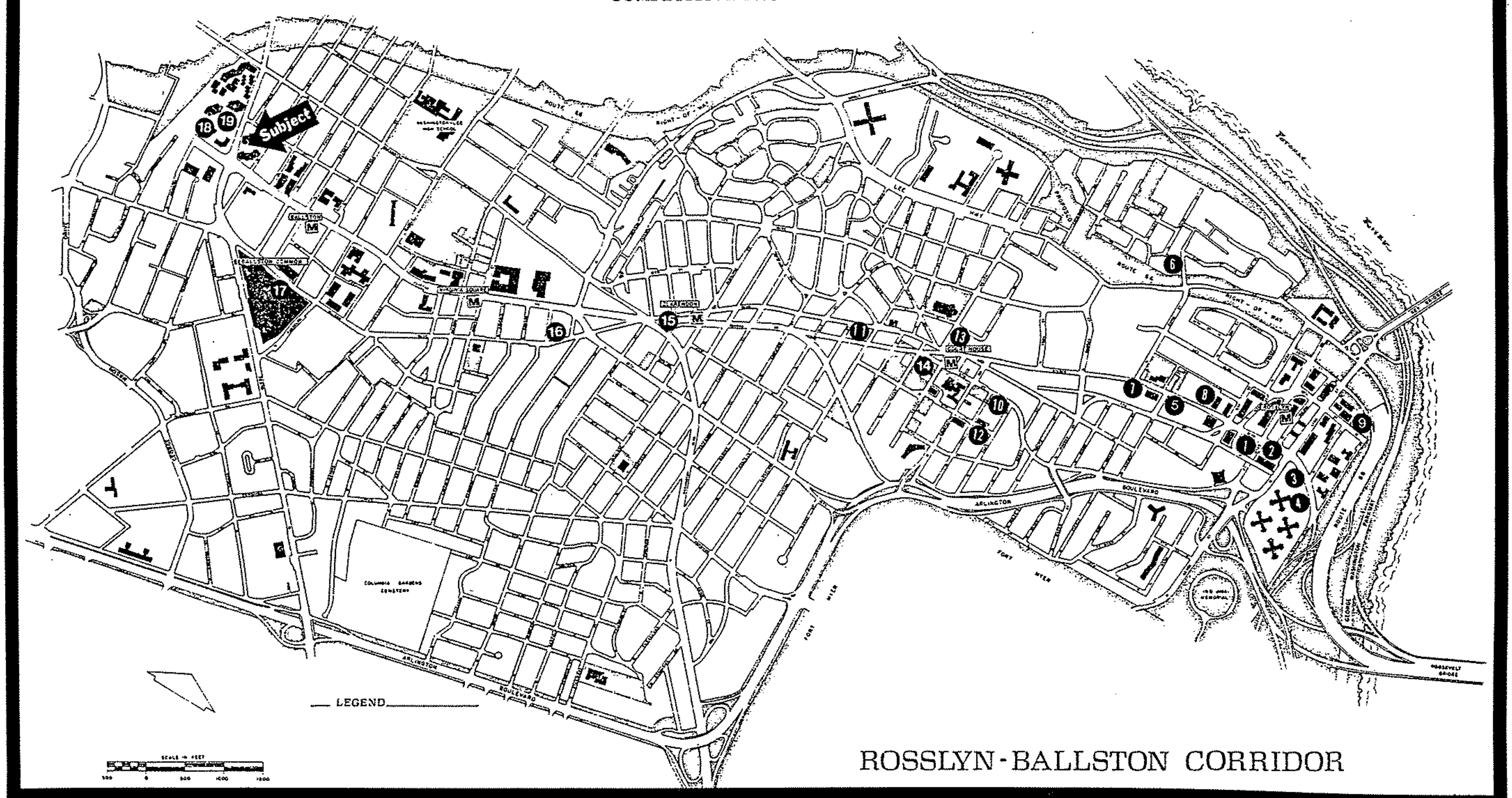
Exhibit III-6

COMPETITIVE PROPERTY SURVEY

Map No.	Building Name and Location	Year Completed	Total Rentable (Gross SF)	Available Office Space (Gross SF)	Available Retail Space (Gross SF)	Rental Rate	Escalations	Comments/Contacts
	BALLSTON							
17.	Ballston Commons Office Ctr.	U/C Feb. 1987	170,000	170,000	TBD	$22.00-$25.50	33% CPI & pass thrus	Cassidy & Pinkard 463-2100 Phase I of III
18.	Ballston One 4601 N. Fairfax Dr.	U/C July 1986	238,182	113,182	TBD	$21.00-$23.00	30% CPI & pass thrus	Leggat, McCall & Werner 842-3030
19.	Ballston Plaza I Glebe Rd. & Washington Blvd.	U/C Aug. 1986	141,000	126,000	15,000	$22.00-$24.00	30% CPI & pass thrus	Oliver T. Carr Co. 624-1700 Phase I of III
	Total Office Space - Existing		2,053,860	97,743	4.76% Vacancy			
	Total Office Space - Under Construction		1,540,542	1,291,846	83.86% Vacancy			

Source: Piedmont Realty Advisors

Exhibit III-7
COMPETITIVE PROPERTY MAP



PREPARED BY ARLINGTON COUNTY DEPARTMENT OF COMMUNITY AFFAIRS PLANNING DIVISION

IV. THE BORROWER/DEVELOPER

IV. THE BORROWER/DEVELOPER

A. INTRODUCTION

The Borrower will be Rouse & Associates - 11th Street North Limited Partnership, a Pennsylvania limited partnership, whose general partners are Willard G. Rouse, III, George F. Congdon, Menard Doswell and Rouse & Associates, Inc., a Pennsylvania corporation, and whose managing general partner is Willard G. Rouse, III. As of December 31, 1984 the stated net worth of Willard Rouse, Menard Doswell, and George Congdon was $8,696,000, $5,997,000, and $5,536,000 respectively. Their accountant, Fegley and Associates, has provided Piedmont with a statement that there has been no adverse change in their financial position in 1985. The Borrowers will submit 1985 financial statements to Piedmont as soon as they are available.

B. ROUSE AND ASSOCIATES

Rouse & Associates was formed in 1972 with Willard Rouse, Menard Doswell, Dave Hammers, and George Congdon as the four founding partners. All four remain active in the company on a full-time basis, serving as the executive committee and overseeing all of the development activity of Rouse & Associates. Initially focused on industrial and business park development in the Philadelphia area, Rouse & Associates has expanded to twelve offices in six states and the District of Columbia. The Company's headquarters are located in Malvern, Pennsylvania with local offices as follows:

California -	San Francisco
Florida -	Jacksonville
	St. Petersburg
Maryland -	Landover
	Columbia
New Jersey -	Cherry Hill
Pennsylvania -	Allentown
	King of Prussia
	Philadelphia
	Fairfax
Virginia -	Fairfax
	Tysons Corner
Washington, D.C.	

Rouse & Associates currently has over 335 employees in these various offices, managing real estate valued in excess of $300 million. Additionally, Rouse has formed affiliations with major regional contractors and architects to create an effective real estate team that is knowledgeable and responsive on the local level.

During the past decade Rouse & Associates has completed over 120 projects with over 9,000,000 square feet predominantly on the east coast of the United States. The company has developed a number of major corporate office parks, including:

- Great Valley Corporate Center - Malvern, Pennsylvania
- Executive Center and Corporate Plaza at Deerwood - Jacksonville, Florida
- West Bay Corporate Center - St. Petersburg, Florida
- Metro East Business Community - Landover, Maryland
- Fairfax Executive Park - Fairfax, Virginia
- Rivers Technology Park - Columbia, Maryland

Projects developed in the Philadelphia/Southern New Jersey area include the Philadelphia Stock Exchange Building at 1900 Market Street, a 365,000 square foot building completed in 1981.

Rouse & Associates projects currently under development in the Washington/Baltimore region include:

8280 Greensboro Drive - Tysons Corner, Virginia - This 197,500 square foot, nine-story office building was completed in August 1985 and is already over 80% leased. Construction of a second building of similar size, 1660 International Drive, is scheduled to begin in late 1986.

Rivers Technology Park - Columbia, Maryland - A research and development project with seven buildings totalling 136,860 square feet. Phase I, completed in mid-1984 is fully leased. Phase II with 51,225 square feet was completed in mid-1985.

Metro Business Center - Landover, Maryland -- This group of six office buildings totalling over 500,000 square feet has been developed since 1977. Metro Executive Terrace, the final phase of this center, was completed in the summer of 1985. This 148,000 square foot, five-story building is already 70% leased.

Ammendale Technology Park - Beltsville, Maryland -- Construction commenced in March 1985 on Phase I, a three-building, office/warehouse complex totalling 167,000 square feet. The project was 50% leased at shell completion in September 1985 and 80% leased by March 1986. Construction of Phase III, three office/warehouse buildings totalling 133,000 square feet commenced in May 1986. Arbitron Company has already pre-leased 25% of Phase II. A third phase containing 180,000 square feet is also planned.

Fair Oaks Corporate Center - Fairfax, Virginia -- Phase I with 160,000 square feet in six single-story office buildings was completed in mid-1985 and is almost fully leased. Phase II, two single-story structures will be constructed in 1986.

One ~~Two~~ additional Philadelphia projects is ~~are~~ under development ~~- The 365-room Sheraton Society Hill and~~ One Liberty Place, with 1,200,000 square feet of office space, a 350-room hotel, 6 stories of residential condominiums, and a two-level shopping mall. Construction of the first phase commenced in 1985 with completion scheduled for 1987.

In Jacksonville, Florida, Rouse & Associates is developing the Southeast Bank Building - a 200,000 square foot 10-story office building.

2. Rouse & Associates - Tysons Corner

The managing general partner of the Borrower will be Willard G. Rouse, III, and the managing local partner will be Menard Doswell, both founding partners of Rouse & Associates. Mr. Doswell graduated from Episcopal High School in Alexandria, Virginia in 1962 and from the University of Virginia with a B.A. in Economics in 1966. He was then associated with Bethlehem Steel prior to the formation of Rouse & Associates in 1972.

Mr. Doswell was involved with Philadelphia-based development activity until 1974 when he moved to Maryland to start the Baltimore office. Mr. Doswell returned to his native Virginia in 1982 and has financed, developed, leased, and currently manages over 2,000,000 square feet of office and R&D space, with an additional 500,000 square feet under development in the Northern Virginia market.

Other members of the Tysons Corner office are Reed M. Fawell, III and J. Kenneth Schwartz. After graduating from the University of Virginia (1967) and Maryland Law School (1970), Mr. Fawell spent 15 years with the law firm of Glassie, Pewett, Dudley, Beebe & Shanks. Mr. Fawell specialized in real estate law involving acquisitions, financing and joint ventures for a variety of institutional and developer clients. Having joined the firm as an associate in 1970, Mr. Fawell was named President of the firm in 1982. He joined Rouse & Associates in 1984.

J. Kenneth Schwartz is responsible for overseeing the design and construction activities for Rouse & Associates in the Northern Virginia region. Mr. Schwartz has over 40 years of experience in the construction field, having served as President of Morris Handler Company in Chicago, and an Executive Vice President of Centrex Homes, Inc.

C. THE DEVELOPMENT TEAM

The members of the de\ it IV-1. The
development, leasing, and & Associates
or affiliated companies. d of leasing
projects in the Virginia base of over
2,000,000 square feet. N Prop Property
Management (an affiliat se's extensive
experience in managing feet) in a
variety of market locatioı

D. CONCLUSION

Rouse & Associates h successfully
developing, leasing, and ton Corporate
Center. The Tysons Cc in place, and
Rouse has a good presen ant base from
which to draw. The the financial
risks to the organizatio are addressed
by the extensive use of the joint venture formats. Rouse & Associates has the personnel, experience, financial resources, and development team to make Ballston Corporate Center a successful project.

Exhibit IV-1
BALLSTON CORPORATE CENTER PROJECT TEAM

DEVELOPER

Rouse & Associates
8251 Greensboro Drive, Suite 840
McLean, Virginia 22102

Menard Doswell, Regional Partner
Reed M. Fawell, III, Project Manager

ARCHITECTS

Davis & Carter, P.C.
Suite 530
8260 Greensboro, Drive
McLean, Virginia 22102-3887
Telephone: (703) 556-9275

ENGINEERS AND SITE PLANNERS

William H. Gordon Associates, Inc.
1806 Robert Fulton Drive
Reston, Virginia 22091
Telephone: (703) 860-3600

CONTRACTORS

Either:

(1) Omni Construction, Inc.
7500 Old Georgetown Road
Bethesda, Maryland 20814
Telephone (301) 657-6800

(2) McCarthy Brothers
1655 North Fort Myer Drive, Sui
Arlington, Virginia 22209
Telephone: (703) 243-1100

or

(3) McDevitt & Street
General Contractors
Charlotte, North Carolina

Exhibit IV-1 (Continued)
BALLSTON CORPORATE CENTER PROJECT TEAM

LEASING:

Rouse & Associates
8251 Greensboro Drive, Suite 840
McLean, Virginia 22102
Telephone: (703) 556-9275

Menard Doswell, Regional Partner

MANAGEMENT:

Realprop Property Management
(Affiliated Company)
8251 Greensboro Drive, Suite 840
McLean, Virginia 22102
Telephone: (703) 556-9275

V. THE RISK AND RETURN

V. THE 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 for Phase I of the Ballston Corporate Center will be fully collateralized by a first lien on the land and improvements. As additional security the general partners of the borrowing entity will master lease the project for 24 months or breakeven occupancy whichever occurs first. The rental rate of the master lease will be sufficient to cover operating expenses and debt service. As third party leases are signed, the master lease will be reduced correspondingly.

There are two features in this application which are different from the others presented to the Investment Committee. First, the economic holdback has been divided into a primary economic holdback and a secondary economic holdback. The primary economic holdback and its disbursement rate provide that the loan amount will be $25,000,000 when the property is 95% leased at an average rental rate of $23.50. The secondary economic holdback provides that the loan amount will increased to $27,000,000 if the property is 95% leased at an average rental rate of $27.00 per square foot. This two-stage economic disbursement addresses the uncertain nature of the Ballston office market during the next 48 months. The Lender can be comfortable that the participating mortgage at $25,000,000 is justified and supported at today's market rental rates while the Borrower has the incentive to aggressively develop and lease the property in anticipation of a very strong and expanding office market. If the Borrower is correct in anticipating a strong office market, then it can earn an additional $2,000,000 of loan proceeds.

The other unique feature of this application is the land purchase contract on the Phase II land. The purpose of this land contract is to provide the developer with the means to finance the Phase II land by a third party lender during the construction and lease-up of the Phase I property. For providing the forward commitment to purchase the land which will be pledged as additional collateral to the land loan, the Lender will receive a 20% equity interest in the Phase II development when the land contract is released. Until the purchase contract is released, the Lender will receive as additional interest ,80% of the net proceeds from sale or refinancing. Consequently, if the Lender must purchase the land at the end of 48 months it will continue to receive as additional interest 80% of the sales proceeds in Phase I, and it will have to buy the land at today's acquisition cost plus carrying charges. The Lender will own 100% of the land at that time and will be able to either sell the land, or to develop it itself.

B. VALUATION

1. Proforma Income and Expenses

The proforma income and expenses are presented in Exhibit V-1. The proforma has been done using the $23.50 rental rate and the $25,000,000 loan amount as well as a $27.00 rental rate and a $27,000,000 loan. In both cases the parking income was estimated at $70 per space per month. A vacancy allowance of 5% was allowed and the operating expenses are expected to be $5.40 per square foot. In the $23.50 rental rate case the net operating income is $2,642,398 and the base debt payment is $2,375,000 which provides additional interest of $133,699 since the cash flow is split 50-50 with the Lender. This indicates a debt coverage ratio of 1.11. In a $27.00 per square foot case the net operating income is $3,099,585 and the base debt payment is $2,565,000 which means that the additional interest from a 50-50 split of cash flows will be $267,293. Thus, the indicated debt coverage ratio would be 1.21. The higher debt coverage ratio for the $27,000,000 loan amount indicates that the secondary economic holdback is funded in such a way that the higher rents will provide higher yields to the Lender with less risk.

2. Valuation Methodology

The forward commitment aspect of the participating mortgage enables the Lender to invest at a wholesale level, i.e. cost of development, and to immediately participate in 60% of the spread between the cost and value when the building is built and leased. The estimation of value is therefore an important part of the investment consideration. Using the three approaches to value accepted by the American Institute of Real Estate Appraisers Piedmont evaluated Phase I of the Ballston Business Center. These value estimates are based on $23.50 rental rates and are presented in Exhibit V-2. Correlating the three value estimates, Piedmont conservatively estimates the market value of the project to be $29,200,000 when it is built and leased. This value represents a loan to value ratio of 85%. Piedmont has received a letter appraisal by Kenneth Peltzer, Ph.D., MAI which estimates the value of Phase I property to be $31,800,000. This letter appraisal is included as Appendix A.

C. RETURN

Projected income from the property is presented in Exhibits V-3A and V-3B. Exhibit V-3A presents the estimated cash flows with a $23.50 rental rate while Exhibit V-3B contains the estimated cash flows for a $27.00 rental rate. In both cases the following assumptions were made:

1. There is a 5% vacancy rate;

2. The operating expense stop is $5.40;

3. All of the office leases are flat for five years then adjusted to market;

4. The income from parking increases at the inflation rate;

5. The market rental rate is expected to increase at the rate of inflation;

6. The sales price of the property in the 12th loan year is based on capitalizing the net operating income in year 1 at 9% and then increasing that value annually at the rate of inflation. In the base case, the annual inflation is 5%.

The cash flows which contribute to the loan's yield are base debt service, additional interest from operations, and additional interest due at sale or refinancing.

These figures are presented in Exhibit V-4A for the $23.50 base case, and in Exhibit V-5A for the $27.00 rental rate case.

1. Base Debt Service

The base debt service is 9-1/2% of the outstanding loan balance. Consequently, a $25,000,000 loan would have a base debt payment of $2,375,000 and a $27,000,000 would have a base debt payment of $2,565,000.

2. Additional Interest from Operations

The additional interest from operations, due quarterly, is 50% of the annual net cash flow. If the initial average rents are $23.50 the additional interest in the first year would be $133,699 and this would gradually increase over the 12 year call period to $1,108,337. If the average rental rates are $27.00, the additional interest would be $267,292 in the first loan year and increase to $1,385,692 over 12 years.

By participating in the net cash flow instead of the increases over the effective gross income, the additional interest will be paid as soon as the property achieves breakeven occupancy. Consequently, the additional interest will be recognized earlier which will enhance the Lender's yield. However, by participating in the net cash flow the Lender bears some of the management and operational risk of the property. The Lender will review and approve annual operating budgets which will provide for expected operating expenses as well as adequate reserves for the replacement of wasting parts, and tenant improvements and leasing commissions for second and subsequent generation tenants.

3. Additional Interest from Sale or Refinancing

This portion of the return assumes that the property will be sold or refinanced after a 12-year holding period, and that the property's value at that time will be based on a 9% capitalization rate. The Lender's 60% participation in net sales proceeds is projected at $14,225,430 under conservative $23.50 initial rate assumptions, and $18,082,013 under the more optimistic $27.00 initial rate assumptions.

4. Equity Interest in Phase II

As consideration to the Lender for providing a forward commitment to purchase Phase II land, the Lender will receive a 20% equity interest in the Phase II development. Exhibit V-5 presents the projected return from this equity interest using the same assumptions as Phase I, only inflating both revenues and expenses for an additional 48 months. The net present value of these participations discounted at 13% is approximately $2,993,000 under base case assumptions, or $3,526,000 under more optimistic assumptions.

Overall, the returns from this investment exclusive of the 20% interest in Phase II are projected as 13.1% for the base case, and 13.8% for the optimistic case.

5. Yield Analysis

The expected nominal yield on the participating mortgage under a 5% inflation assumptionis 13.1% under the conservative case of $23.50 per square foot initial gross rents, and 13.8% under the optimistic case of $27.00 per square foot initial gross rents.

Exhibit V-5 presents a sensitivity analysis for this investment which provides the expected yield under varying levels of inflation, capitalization rates, initial rental rates and loan funding. Since the additional interest provisions of the mortgage are based on increases in future rental rates, the nominal and inflation adjusted yields vary with the inflationary environment. Additionally, the sensitivity analysis also demonstrates the inverse relationship between capitalization rates and overall yield in that as capitalization rates go down the property's residual value increases, thereby enhancing the overall yield.

The anticipated nominal yields range from 11.9% given a 9.5% capitalization rate, 3% inflation and initial rents of $23.50 per square foot to 15.3% given an 8.5% capitalization rate, 7% inflation, and $27.00 per square foot initial rents. Adjusted for inflation these yields range from 8.9% to 8.3% respectively. This fairly narrow range for inflation adjusted yields is due to the loan's disbursement provisions that match the loan amount to the property's performance. This provides the developer with proper incentives, and preserves the Lender's inflation adjusted yield.

D. RISKS

The risk exposure from this investment can be divided into four categories: market, operations, default, and interest rate risks. The market risk is if the property cannot achieve its proforma rental rates during the 24-month lease-up period. This could be caused by either decreased demand or an oversupply of office space in the Arlington market. However, the projected rental rates for the base case ($23.50) are already being achieved in Ballston, and substantial pre-leasing and low overall vacancy rates demonstrate the strength of the market.

The operational risk that the property will not be efficiently managed or marketed is addressed by the developer's extensive experience in real estate management. RealProp, an affiliated company of Rouse & Associates, currently manages over 9 million square feet of office, commercial, and industrial space in a variety of markets.

The risk of default is addressed by a personal master lease for 24 months by the principals of Rouse & Associates, and collateralization of the loan by a well located, well designed property in a very strong office market. The loan to value ratio is 85% in the base case, and approximately 80% under the more optimistic assumptions. Additionally, the debt coverage ratio is 1.11/1, calculcated using rents that are currently being achieved in the marketplace.

The interest rate risk occurs due to the forward commitment nature of the loan. This risk is addressed by the participating nature of the loan which allows the nominal yield to increase as inflation (and therefore interest rates) increase. In the event interest rates decline, the Borrower will be locked in through a Tri-Party Agreement with the Construction Lender and the real return to the Lender will increase accordingly.

One additional risk is present in this transaction due to the forward commitment to purchase Phase II land. The forward price of the land is calculated as the present price plus carrying costs for 48 months. A risk arises if the market value of the land is less than the forward price at the time the contract comes due. While the ultimate risk is the total contract price, the actual risk is very difficult to quantify. However, in a worst case scenario, the downside would be $11,500,000 while the net present value of the benefits received in consideration for the contract total of approximately $3,000,000.

E. CONCLUSIONS

The proposed Ballston Corporate Center Phase I represents an excellent investment opportunity. The project has a superior location with excellent access to both I-66 and the Metro system in an established and growing suburban office market. The Arlington office market has traditionally out-performed other suburban Washington markets, with absorption trends and current pre-leasing indicating that this strength should continue.

Rouse & Associates has extensive development and property management experience, and the principals are financially capable. The investment has been structured to allow for a great deal of flexibility that will provide the developer with adequate incentives while preserving and enhancing the Lender's yield.

We therefore recommend that the Real Estate Investment Committee of the United State Fidelity and Guaranty Company approve the issuance of the commitment for a first mortgage in the amount of $27,000,000 for the Ballston Corporate Center Phase I as outlined in this report.

Exhibit V - 1

PRO FORMA INCOME AND EXPENSES

	Rental Rate		$23.50	$27.00
	Loan Amount		25,000,000	27,000,000
	Office Rental Income -- 137,500 sq ft		3,231,250	3,712,500
plus:	Parking Income -- 395 spaces @ $ 70 per month		331,800	331,800
equals:	GROSS POTENTIAL INCOME		3,563,050	4,044,300
less:	Vacancy Allowance @ 5 %		178,153	202,215
equals:	EFFECTIVE GROSS INCOME		3,384,898	3,842,085
less:	Operating Expenses			
	Real Estate Taxes	$1.40		
	Insurance	$0.11		
	Maintenance	$0.60		
	Utilities	$1.52		
	Cleaning	$0.85		
	Security	$0.06		
	Business Tax	$0.06		
	Management	$0.80		
	Total	$5.40 PSF	742,500	742,500
equals:	NET OPERATING INCOME		2,642,398	3,099,585
less:	Base Debt Payment		2,375,000	2,565,000
equals:	CASH FLOW TO SPLIT 50/50 WITH LENDER		267,398	534,585
less:	Additional Interest		133,699	267,293
equals:	CASH FLOW TO BORROWER		133,699	267,293
	Indicated Debt Coverage Ratio		1.11	1.21

Exhibit V-2A
VALUATION ANALYSIS

Cost Approach

	Improvements Cost (Exhibit II-2)	$21,911,000
+	Land Value @ $35 per FAR foot (Exhibit V-2B)	5,089,000
±	Developer Profit @ 10%	2,191,000
	Estimated Value	$29,191,000
	Rounded to	$29,200,000

Direct Sales Comparison Approach

Unit Sales Price Method (Exhibit V-2C) 137,500 S.F. @ $215.00 PSF	$29,562,500
Direct Conversion Method (Net Operating Income/Overall Capitalization Rate) $2,642,398/.09	$29,359,977
Estimated Value	$29,500,000

Capitalized Income Approach

	Present Value of Cash Flows @ 13%	$ 2,050,003
+	Present Value of Equity Reversion @ 13%	2,187,927
	Estimated Equity Value	4,237,930
+	Original Loan Amount	25,000,000
	Estimated Value	$29,237,000
	Rounded to	$29,200,000

Correlation of Value Estimates

The three approaches to value indicate a range of values from $29,200,000 to $29,500,000. 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 and direct conversion ratios. 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 12 years. Therefore, the value of the subject property when it is built and leased is estimated to be:

$29,400,000

Indicated Loan to Value Ratio: 85%

Exhibit V-2B

LAND COMPARABLES

Map No.	Location	Grantor	Sale Date	Sale Price	Size (S.F.)	Price P.S.F.	Zoning	Price per FAR
1.	Wilson Blvd. N. Taylor St. & Fairfax Dr. (Ballston)	Radnor/Ballston	9/84-6/85 (Assemblage)	$13,359,331	213,204	$ 62.65	C-O-A	N/A
2.	N. Stuart St., N. 9th St., & N. Stafford St. (Ballston)	Ballston Square Assoc. II	12/85-1/86	$ 6,497,400	83,482	$ 77.83	N/A (Being Rezoned)	N/A
3.	N. Glebe Rd & N. Fairfax Dr. (Ballston)	Rouse & Assoc.	11/85 (Contract)	$12,162,000	139,025	$ 87.48	CO-2.5	$35.00
4.	N. Stuart St., N. Taylor St. & Fairfax Dr. (Ballston)	Carr	11/85-3/86 (Assemblage)	$ 6,886,590	72,869	$ 94.51	C-O-A	N/A
5.	1525 Wilson Blvd. (Rosslyn)	1525 Wilson Blvd. Assoc.	2/85	$ 7,000,000	74,569	$107.28	C-O	$24.90
6.	Army-Navy Drive (Pentagon)	Lincoln Place	9/85	$25,000,000	205,824	$121.35	CO-2.5	$48.54
					MEAN	$ 91.85		

The value of the subject land is conservatively estimated at its contracted sales price since this price was determined in an open market between independent parties and since this price is supported by other recent land sales.

Source: Piedmont Realty Advisors
Kenneth E. Peltzer, Ph.D., M.A.I.

Exhibit V - 3A

Conservative Financial Projections

SUMMARY OF CASH FLOWS

CRITICAL ASSUMPTIONS:

Average Contract Rental Rate	$23.50	PSF
Initial Operating Expense Stop	$5.40	PSF
Projected Inflation Rate	5.00%	
Initial Property Value based on	9.00%	Cap Rate

Future Property Values based on Inital Value increasing at the Projected Inflation Rate

LOAN YEAR	1	2	3	4	5	6	7	8	9	10	11	12
Gross Potential Income	3,563,050	3,579,640	3,597,060	3,615,350	3,634,555	4,547,455	4,568,629	4,590,861	4,614,205	4,638,716	5,803,833	5,830,856
Less: Vacancy	178,153	178,982	179,853	180,767	181,728	227,373	228,431	229,543	230,710	231,936	290,192	291,543
Effective Gross Income	3,384,898	3,400,658	3,417,207	3,434,582	3,452,827	4,320,082	4,340,197	4,361,318	4,383,494	4,406,780	5,513,641	5,539,314
Less: Operating Expenses	742,500	779,625	818,606	859,537	902,513	947,639	995,021	1,044,772	1,097,011	1,151,861	1,209,454	1,269,927
Plus: Expense Reimbursement	0	37,125	76,106	117,037	160,013	0	47,382	97,133	149,372	204,222	261,815	322,288
Net Operating Income	2,642,398	2,658,158	2,674,707	2,692,082	2,710,327	3,372,443	3,392,558	3,413,679	3,435,855	3,459,141	4,566,002	4,591,674
Less: Base Debt Payment	2,375,000	2,375,000	2,375,000	2,375,000	2,375,000	2,375,000	2,375,000	2,375,000	2,375,000	2,375,000	2,375,000	2,375,000
Less: Additional Interest	133,699	141,579	149,853	158,541	167,664	498,722	508,779	519,339	530,428	542,070	1,095,501	1,108,337
Borrower's Cash Flow	133,699	141,579	149,853	158,541	167,664	498,722	508,779	519,339	530,428	542,070	1,095,501	1,108,337

Summary of Sales Proceeds In Loan Year 12

Sales Price	50,215,516
Less: Selling Expenses	1,506,465
Less: Outstanding Mortgage Balance	25,000,000
Less: Additional Interest at Sale	14,225,430
Borrower's Cash Proceeds at Sale	9,483,620

Exhibit V - 3B

Optimistic Financial Projection

SUMMARY OF CASH FLOWS

CRITICAL ASSUMPTIONS:

Average Contract Rental Rate	$27.00	PSF
Initial Operating Expense Stop	$5.40	PSF
Projected Inflation Rate	5.00%	
Initial Property Value based on	9.00%	Cap Rate

Future Property Values based on Initial Value increasing at the Projected Inflation Rate

LOAN YEAR	1	2	3	4	5	6	7	8	9	10	11	12
Gross Potential Income	4,044,300	4,060,890	4,078,310	4,096,600	4,115,805	5,161,666	5,182,839	5,205,071	5,228,415	5,252,926	6,587,739	6,614,762
Less: Vacancy	202,215	203,045	203,915	204,830	205,790	258,083	259,142	260,254	261,421	262,646	329,387	330,738
Effective Gross Income	3,842,085	3,857,846	3,874,394	3,891,770	3,910,015	4,903,582	4,923,697	4,944,818	4,966,994	4,990,280	6,258,352	6,284,024
Less: Operating Expenses	742,500	779,625	818,606	859,537	902,513	947,639	995,021	1,044,772	1,097,011	1,151,861	1,209,454	1,269,927
Plus: Expense Reimbursement	0	37,125	76,106	117,037	160,013	0	47,382	97,133	149,372	204,222	261,815	322,288
Net Operating Income	3,099,585	3,115,346	3,131,894	3,149,270	3,167,515	3,955,943	3,976,058	3,997,179	4,019,355	4,042,641	5,310,713	5,336,385
Less: Base Debt Payment	2,565,000	2,565,000	2,565,000	2,565,000	2,565,000	2,565,000	2,565,000	2,565,000	2,565,000	2,565,000	2,565,000	2,565,000
Less: Additional Interest	267,292	275,173	283,447	292,135	301,257	695,472	705,529	716,089	727,178	738,820	1,372,856	1,385,692
Borrower's Cash Flow	267,292	275,173	283,447	292,135	301,257	695,472	705,529	716,089	727,178	738,820	1,372,856	1,385,692

Summary of Sales Proceeds In Loan Year 12

Sales Price	58,903,802
Less: Selling Expenses	1,767,114
Less: Outstanding Mortgage Balance	27,000,000
Less: Additional Interest at Sale	18,082,013
Borrower's Cash Proceeds at Sale	12,054,675

Exhibit V - 4A

INVESTOR'S YIELD SUMMARY

Conservative Financial Projection

Year	Annual Debt Service	Additional Interest - Operations	Loan Balance	Additional Interest - Sale (1)	Total
1	$2,375,000	$133,699			$2,508,699
2	$2,375,000	141,579			2,516,579
3	$2,375,000	149,853			2,524,853
4	$2,375,000	158,541			2,533,541
5	$2,375,000	167,664			2,542,664
6	$2,375,000	498,722			2,873,722
7	$2,375,000	508,779			2,883,779
8	$2,375,000	519,339			2,894,339
9	$2,375,000	530,428			2,905,428
10	$2,375,000	542,070			2,917,070
11	$2,375,000	1,095,501			3,470,501
12	$2,375,000	$1,108,337	$25,000,000	$14,225,430	$42,708,768

Estimated Yield: 13.1% (2)

(1) Sales Price of $50,215,516 less selling expenses of $1,506,465 and an outstanding mortgage balance of $25,000,000 equals a residual of $48,709,051, of which the lender receives 60% as Additional Interest.

(2) Internal Rate of Return calculated using an initial investment of $25,000,000.

Exhibit V - 4B

INVESTOR'S YIELD SUMMARY

Optimistic Financial Projection

Year	Annual Debt Service	Additional Interest - Operations	Loan Balance	Additional Interest - Sale (1)	Total
1	$2,565,000	$267,292			$2,832,293
2	2,565,000	275,173			2,840,173
3	2,565,000	283,447			2,848,447
4	2,565,000	292,135			2,857,135
5	2,565,000	301,257			2,866,257
6	2,565,000	695,472			3,260,472
7	2,565,000	705,529			3,270,529
8	2,565,000	716,089			3,281,089
9	2,565,000	727,178			3,292,178
10	2,565,000	738,820			3,303,820
11	2,565,000	1,372,856			3,937,856
12	$2,565,000	$1,385,692	$27,000,000	$18,082,013	$49,032,705

Estimated Yield: 13.8% (2)

(1) Sales Price of $58,903,802 less selling expenses of $1,767,114 and an outstanding mortgage balance of $27,000,000 equals a residual of $57,136,688 , of which the lender receives 60% as Additional Interest.

(2) Internal Rate of Return calculated using an initial investment of $27,000,000.

Exhibit V - 5

SENSITIVITY ANALYSIS

Conservative Case

Rental Rate: $23.50
Loan Amount: 25,000,000
Debt Coverage Ratio 1.11

Overall Cap Rate	Inflation Rate 3.0%	Inflation Rate 5.0%	Inflation Rate 7.0%
9.50%	11.9%	12.9%	14.0%
9.00%	12.0%	13.1%	14.3%
8.50%	12.2%	13.3%	14.5%

Most Likely Case

Rental Rate: $25.25
Loan Amount: 25,998,951
Debt Coverage Ratio 1.16

Overall Cap Rate	Inflation Rate 3.0%	Inflation Rate 5.0%	Inflation Rate 7.0%
9.50%	12.2%	13.3%	14.5%
9.00%	12.4%	13.5%	14.7%
8.50%	12.6%	13.7%	14.9%

Optimistic Case

Rental Rate: $27.00
Loan Amount: 27,000,000
Debt Coverage Ratio 1.21

Overall Cap Rate	Inflation Rate 3.0%	Inflation Rate 5.0%	Inflation Rate 7.0%
9.50%	12.5%	13.6%	14.8%
9.00%	12.7%	13.8%	15.1%
8.50%	12.9%	14.1%	15.3%

Exhibit V-6

NET PRESENT VALUE OF 20% INTEREST IN PHASE II

	@ $23.50 Per S.F./1986 5% Inflation $35,146 Loan Amount $70,678 Residual Value		@ $27.00 Per S.F./1986 5% Inflation $41,942 Loan Amount $84,345 Residual Value	
Year	Additional Interest In Cash Flow	Additional Interest Residual	Additional Interest In Cash Flow	Additional Interest Residual
1	$110,694		$125,797	
2	$112,323		$127,426	
3	$114,035		$129,137	
4	$115,831		$130,934	
5	$117,718		$132,820	
6	$335,481		$392,309	
7	$337,561		$394,389	
8	$339,744		$396,573	
9	$342,037		$398,866	
10	$344,445		$401,274	
11	$622,372		$732,455	
12	$625,027	$7,106,400	$735,109	$8,480,000
Net Present Value @ 13%		$2,993,578		$3,526,176

Appendix A

LETTER APPRAISAL

O P I N I O N
O F T H E
M A R K E T V A L U E
O F T H E
B A L L S T O N C O R P O R A T E C E N T E R
A R L I N G T O N C O U N T Y , V I R G I N I A

M A Y 1 9 8 6

P R E P A R E D F O R :

MR. DAN KOHLHEPP
PIEDMONT REALTY ADVISORS
1150 CONNECTICUT AVENUE N.W.
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KENNETH E. PELTZER Ph.D.,M.A.I.

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METRO 631-8088
(703) 368-3524

May 27, 1986

Mr. Dan Kohlhepp
Piedmont Realty Advisors
1150 Connecticut Avenue N.W.
Suite 705
Washington, D.C. 20036

Re: Ballston Corporate Center
Ballston
Arlington County, Virginia

Dear Dan:

Pursuant to your request, I am herein rendering two opinions of the market value of the above captioned property. The market value opinions rendered herein are for the land and the Phase I building.

The subject site encompasses an entire block in the Ballston area and is bounded by the following streets.

West	Glebe Road
North	11th Street North
East	North Vermont St.
South	Fairfax Drive

This site is two blocks west of the Ballston metro station on Fairfax Drive. It is also only one block east of the ramp to I-66, which leads to all points west in Northern Virginia. It is also only 1½ blocks north on Glebe Road to the I-66 ramp, which leads to Rosslyn, D.C. and other points east of the subject property. In my opinion, this is one of the premier sites in the Ballston Corridor.

The subject site encompasses 3.1016 acres (139,025 square feet) of land, which is zoned C-O 2.5. This zoning allows for an FAR of 2.5. It should be noted that the achieved FAR is 2.5 (347,500 square feet of gross building area). This includes both the Phase I and Phase II buildings. The land area was derived from a site plan by William H. Gordon Associates Inc., dated 2/22/84. The builing areas were derived from plans by Davis and Carter P. C., dated 2/08/85.

The Phase I building will contain 145,400 gross square feet and 137,514 net rentable square feet of area. The Phase II building will contain 202,100 gross square feet and 192,326 net rentable square feet of area. I am assuming 1,190 underground parking spaces without valet parking, and 940 parking spaces with partial valet parking.

There are a number of major developers planning projects in the Ballston area, resulting in increasing land values over the past six months. Most of these projects are mixed-use, but the subject property is only one of two that will be 100% commercial.

With the site plan approval and building plans in place, it is my opinion that, if offered for sale, the subject land would sell for $35 per FAR of building area. Thus, the market value of the underlying land is estimated to be

($12,160,000)

TWELVE MILLION ONE HUNDRED AND SIXTY THOUSAND DOLLARS.

Arlington County has the lowest vacancy rate in the D.C. Metropolitan area, at less than 3%. Rosslyn and Crystal City have vacancy rates of 1.5% and 0.3%, respectively. Rosslyn is essentially built out, and the small amount of quality new space available is being leased in the range of $25 to $30 per square foot. Offering rates on relet space in quality five year old buildings in Rosslyn is being offered for in excess of $25 per square foot. Crystal City is also maturing rapidly, with new space in the $24 to $25 per square foot range. Ballston is an excellent alternative, in my opinion, due to the combination of both metro influence and I-66 influence. The Court House metro area and Clarendon metro area are alternatives that lack the I-66 immediate access. Some major developers are bypassing the Court

House and Clarendon areas to secure strongholds in the Ballston Metro area.

The market value of Phase I is predicated upon today's rental rates and expense stops prevalent in the market place. It is also assumed that the quality of the subject building will be comparable to the Rouse Building at 8280 Greensboro Drive in Tyson's Corner, Virginia.

The Ballston area is just emerging. As a result, there is no lease data available on a building of comparable quality in the Ballston Metro corridor. Extrapolations have been made from Rosslyn, Crystal City and Tyson's Corner. It is my opinion that a typical building in Ballston would achieve a face rental rate of at least $22.50 to $23.00 per square foot, today, with a $5.25 per square foot expense stop. Assuming a subject building quality comparable to 8280 Greensboro Drive, it is my opinion that the subject building would achieve a face rental rate of $24 per square foot with a $5.25 per square foot expense stop.

The subject building will have some first floor retail space, but the precise floor area for this use is unknown at this time. This space will lease at a higher rate than $24 per square foot. I have also assumed that 510 parking spaces would be apportioned to the Phase I building.

It is my opinion that the market value of the Phase I building under a stabilized occupancy premise, as of May 27, 1986, is

($31,800,000)

THIRTY-ONE MILLION EIGHT HUNDRED THOUSAND DOLLARS.

Respectfully submitted,

Kenneth E. Peltzer

Kenneth E. Peltzer Ph,D., M.A.I.

KEP/ed