

INTERNATIONAL CENTRE PHASE III

MINNEAPOLIS, MINNESOTA

**Piedmont Realty Advisors
1150 Connecticut Avenue, N.W., Suite 705
Washington, D.C. 20036
(202) 822-9000**

VIEW OF INTERNATIONAL CENTRES I & II
LOOKING NORTHWEST

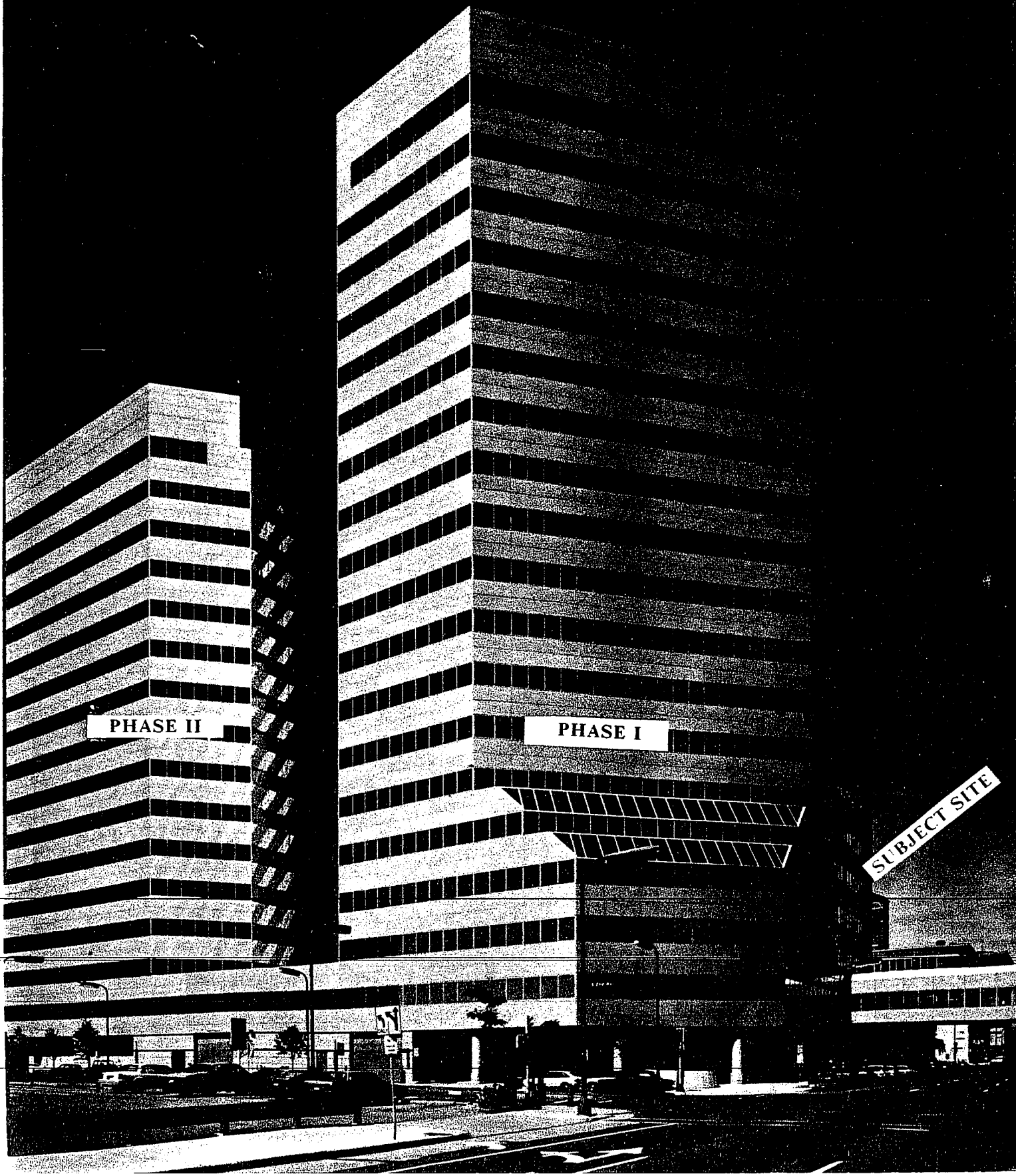


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I. INTRODUCTION

PIEDMONT REALTY ADVISORS

1150 CONNECTICUT AVENUE, N. W.

SUITE 705

WASHINGTON, D. C. 20036

202-822-9000

December 8, 1986

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

Re: International Centre III Office Building
Minneapolis, Minnesota

Dear Sirs and Madam:

Enclosed for your review is an investment report on a proposed joint venture with Ryan Properties, Inc. to develop one parcel of land which represents the third and final phase of International Centre in Minneapolis, Minnesota. Piedmont Realty Advisors reviewed this project with the Real Estate Investment Committee on November 19, 1986. This report documents the presentation and provides a detailed analysis. A summary of the proposed joint venture is presented in Exhibit I-1.

The Property -- The subject property consists of a 21,477 square foot parcel of land at the intersection of Marquette Avenue and Ninth Street South in downtown Minneapolis, Minnesota. This parcel of land is presently divided into three lots which contain the following buildings: The 901 Marquette Building, The Chester E. Groth Building, and the Ninth Street Saloon Building. Tenants in these buildings have short term leases and provisions have been made to vacate the premises upon short notice.

The purpose of the proposed joint venture is to acquire the unimproved properties, to hold the unimproved properties, and to develop a single office building of at least 300,000 net rentable square feet. The commencement date of the construction will depend on current market conditions, leasing performances for Phase II, and a commitment from a large user or group of users to occupy at least 33% of the proposed building. However, according to the terms and conditions of this letter, construction must begin within five years.

The majority of the land development budget of \$3.2 million is in the land acquisition cost of \$2.4 million or \$111.75 per square foot of land.

The remainder of the budget consists of general and administrative costs of \$90,000, a real estate tax and cash flow deficit contingency of

Real Estate Investment Committee Members
USF&G
December 8, 1986
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\$260,000, a demolition contingency of \$250,000, and a leasehold interest acquisition contingency of \$200,000 for the Ninth Street Saloon.

The Market-- The Minneapolis office market is strong and viable and has experienced consistent growth with good absorption over the past five years. The downtown office market is currently overbuilt with an estimated two years supply of Class A, multi-tenant office space, assuming the market will continue to absorb nearly one million square feet annually as it has since 1980.

The period from 1980 to 1985 showed the largest increase in Class A office space as it increased from 1.9 million square feet to over 7.2 million square feet, an increase of about 400%. During this period, twenty-one new buildings, seven building renovations and three conversions were the cause for this dramatic increase in Class A office space. Currently new construction starts have slowed, rental rates remain firm, and the CBD's population and employment bases continue to expand, thus giving Minneapolis a favorable outlook over the next five years as demand catches up with supply.

The market rental rates for Class A office space in Minneapolis range from \$13.50 with nine month rent concessions to \$23.00 with zero to six-month rent concessions based on five-year leases. A closer look at International Centre Phases I and II is further evidence that the Minneapolis market is stabilizing. International Centre I was completed in 1984 and is currently 98% leased at average rental rates between \$15.00 and \$16.00 per square foot and rental concessions of twelve months. International Centre II, which was just recently completed, is 42% committed at rental rates between \$16.00 and \$17.00 per square foot and rental concessions of six months. International Centre III should be able to capture its share of the market given the success of Phases I and II, the current absorption trends and the projected commencement date of Phase III construction.

The Joint Venture Partner/Developer -- Ryan Properties, Inc. is the joint venture partner and the developer for this project. Ryan Properties, Inc. and its wholly owned subsidiary Ryan Construction Company are successor corporations to Ryan Lumber and Coal which has conducted business in northern Minnesota since the early 1900's. Ryan Properties, Inc. currently manages in excess of 2.5 million square feet of office, retail, and industrial space and the company's net worth is presently \$11.31 million, up from \$5.73 million in 1981.

Ryan was named developer of the year by the Minneapolis Chapter of the ~~National Association of Industrial and Office Parks (NAIOP)~~ for its International Centre project, its first downtown office development. The company has been active and successful in all aspects of development, and this family-operated corporation currently employs over 130 persons who

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USF&G
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generate over \$45 million of construction annually.

The Risk and Return-- In the proposed joint venture, USF&G will be a 25% limited partner and will have a maximum financial exposure of \$3.2 million. All invested capital receives a 10% annual priority return which accrues but does not compound. In the event the unimproved property is sold to a third party, USF&G first receives the sum of the total invested capital and the accumulated and unpaid priority returns (referred to as the Development Release Price) and then the sale proceeds are split 50/50 with the developer. If Ryan develops the office building as expected, USF&G first receives the Development Release Price from the construction loan and then 25% of the project's annual cash flow and cash proceeds from the eventual sale of the property. In addition, any permanent mortgage "overborrow" will be split 75/25 between Ryan Properties, Inc. and USF&G.

The general deal structure provides the following safeguards that reduce USF&G's risk in the proposed joint venture: USF&G will always be a limited partner, the required capital contributions each have maximum dollar amounts, no liens are allowed on the land, USF&G has no liability exposure on either the construction loan or the permanent mortgage and all equity capital and priority returns must be repaid within five years. The market risk is the most significant risk of this project since the major profitability determinant is the date of construction commencement, which is also when USF&G will receive its Development Release Price. However, the market risks are minimized because of the proven market acceptance of the earlier phases, the track record and the experience of the development team, and the low land cost of the subject property. The operational and default risks for this project are minimal due to Ryan's extensive experience in the market, the closely monitored management agreement (which will be made a part of the partnership agreement), the stipulation that no liens or encumbrances can be placed on the property, and adequate reserves for real estate taxes and cash flow deficiencies. The most probable yield, which assumes construction will begin in the third year and the building will be between 300,000 and 420,000 square feet, is estimated to range between 27% and 34%. This is sufficient return for the risks associated with this joint venture.

Therefore, we recommend that USF&G accept the joint venture proposal under the terms and conditions outlined in this report. If you have any questions, please call me.

Sincerely,



Daniel B. Kohlhepp
Vice President

DBK:clg

Exhibit I-1
LETTER OF APPLICATION

November 14, 1986

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

Re: International Centre Phase III
Minneapolis, MN

Dear Dan:

Enclosed please find one (1) original and one (1) copy of your investment memorandum dated November 13, 1986 along with the Application Fee in the amount of \$20,000.

The enclosed memorandum is executed with the clarification that any funds remaining after the demolition of the Property and the termination of the Ninth Street Saloon lease, may be utilized for real estate taxes and operating deficits as described in Paragraph 2 - U.S. F. & G Responsibilities. I trust that this clarification will meet with your approval.

Very truly yours,

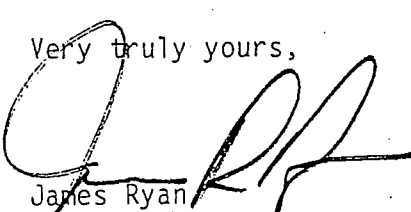

James Ryan

Exhibit I-1
LETTER OF APPLICATION
PIEDMONT REALTY ADVISORS
1150 CONNECTICUT AVENUE, N. W.
SUITE 705
WASHINGTON, D. C. 20036
202-822-9000

November 13, 1986

Mr. James Ryan
Vice President
Ryan Properties, Inc.
700 International Centre
900 Second Avenue South
Minneapolis, Minnesota 55402

Re: International Centre Phase III
Minneapolis, Minnesota

Dear Jim:

Piedmont Realty Advisors is prepared to recommend to its client's Investment Committee that it enter into a joint venture with your firm to develop the above captioned property under the following terms and conditions:

Property: International Centre Phase III - A 21,477 square foot parcel of land located on the southeast corner of Marquette Avenue and Ninth Street South as identified on the attached Plat Map (Exhibit A).

Location: The subject property is situated in downtown Minneapolis, Minnesota. The Property is bounded to the north by Ninth Street with approximately 130 feet of frontage, and to the west by Marquette Avenue, on which the Property has 165 feet of frontage.

Development Plan: The above land is to be developed in general accordance with the development plan attached hereto as Exhibit B. The development will consist of one (1) building which will contain not less than 300,000 square feet of net rentable area. The development will commence not later than five (5) years from the date of closing this joint venture.

Parties: An affiliate of the United States Fidelity and Guaranty Company (USF&G) as Limited Partner and a limited partnership formed by Ryan Properties, Inc. as General Partner.

Maximum Amount: \$3,200,000

Mr. James Ryan
November 13, 1986
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**Ownership
Structure:**

The Property will be owned by a limited partnership ("Partnership"). The General Partner ("Ryan") will be a limited partnership in which Ryan Properties, Inc. will be a general partner and the limited partners will consist of executive employees or subsidiary companies of Ryan Properties, Inc. and "non-Ryan individuals." Non-Ryan individuals cannot own more than 7.5% of the Partnership. USF&G will be a limited partner. Ryan will have a 75% interest in the Partnership, and USF&G will have a 25% interest.

Priority Returns: USF&G will receive a priority return of 10% per annum on the Outstanding Special Capital which will accrue on a 360-day year.

**Development
Release Price:**

At the time construction commences on the Property, USF&G shall be paid the Development Release Price. This shall be equal to the sum of (i) Outstanding Special Capital and (ii) accrued and unpaid Priority Returns.

**Basic
Responsibilities:** Ryan

- 1) Contribute land with acceptable title.
- 2) Ryan will contribute \$75 of initial capital to the Partnership.
- 3) Ryan Properties, Inc. will develop the Property as indicated in the Development Plan and will receive a development fee equal to 3% of the direct building costs.
- 4) Ryan Properties, Inc. will manage the development and marketing of the Property in a timely fashion in response to market opportunities.
- 5) Ryan Properties, Inc. will receive a property management fee equal to 4% of gross receipts for the multi-tenant office building. This fee will be passed through to tenants as a reimbursable operating expense.
- 6) Ryan Properties, Inc. will make quarterly reports to inform USF&G of the business

Mr. James Ryan
November 13, 1986
Page Three

activity of the Partnership and of current market conditions.

- 7) Ryan Properties, Inc. will make at least quarterly distributions of all distributable cash proceeds.
- 8) Ryan Properties, Inc. or a third party agent (e.g. Coldwell Banker) shall receive leasing fees equal to 150% of the market rate in the event that a full commission is paid to an outside broker in which Ryan Properties, Inc. or a third party agent has no financial interest. In the event no outside broker is involved, then only a market rate leasing commission will be paid. A market rate leasing commission will be mutually agreed upon by the Partners prior to the commencement of construction.
- 9) Ryan Construction, a subsidiary of Ryan Properties, Inc., will be the general contractor for the improved Property.

USF&G Responsibilities

USF&G will make an initial capital contribution of \$25. USF&G will make "Special Capital Contributions" to the Partnership as indicated below:

- 1) The land acquisition cost of approximately \$2,400,000. This figure will be subject to a final adjustment based on the actual closing statement.
- 2) Real estate taxes and operating deficits not to exceed \$260,000 net of those taxes and expenses not paid by Tenants as indicated on Exhibit C.
- 3) Reasonable closing and administration costs which are not to exceed \$90,000. These costs will include a \$32,000 brokerage fee to be paid to Northland Financial Company, a \$32,000 commitment fee to be paid to USF&G, and reasonable attorney's fees. These costs shall be paid at closing.

- 4) A demolition contingency of \$250,000 which may only be spent with the approval of both Ryan and USF&G.
- 5) A contingency fund not to exceed \$200,000 to be used to terminate the Ninth Street Saloon lease as presented in Exhibit D.

The funds in 4) and 5) above will be disbursed only with the joint approval of USF&G and Ryan if it is determined that more revenue could be generated from the unimproved Property as a parking lot versus its current multi-tenant status.

Once construction has commenced and the Development Release Price has been funded to USF&G, USF&G will not be asked to make additional capital contributions until the later of (i) 95% occupancy or (ii) completion of construction. In addition, USF&G will be under no obligation to make additional contributions after that time. If USF&G declines to make the additional capital contributions, then the Partnership may borrow the required funds and said funds shall be repaid from cash flow. However, in no event will USF&G's percentage interest be diluted for failure to contribute additional capital.

Cash Distributions:

- 1) Proceeds from a sale of the undeveloped Property to an unrelated third party will be used (i) to pay the Development Release Price to USF&G and (ii) to split the remaining proceeds 50/50.
 - (2) Sales proceeds received from the sale of the improved Property will be used (i) to repay the outstanding balance for any third party debt, (ii) to pay the outstanding balance of any operating deficit loans and (iii) to split 75% to Ryan and 25% to USF&G.
-
-

Mr. James Ryan
November 13, 1986
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- (3) "Overborrow" from the permanent mortgage on the Property will be split 75% to Ryan and 25% to USF&G.

"Overborrow" are funds available from the permanent mortgage after the improved Property is 90% leased with tenants in occupancy and paying rent and mutually agreed upon reserves are established for remaining operating deficits, if any, and first generation tenant improvements and leasing commissions.

- (4) The cash flow from operations generated after the building is constructed will be distributed 75% to Ryan and 25% to USF&G. If a participating mortgage loan or a joint venture is entered into, USF&G's interest will not be diluted below 15%.

Income From Existing Leases: At this time, the Property is subject to existing leases as indicated on Exhibit C attached. The cash flow generated by these leases after the payment of all operating expenses, real estate taxes and maintenance shall be used to fund a Deficit Cash Flow Reserve for future deficit cash flows of the unimproved Property. When construction commences, the outstanding balance in this reserve will be used to pay the Development Release Price to USF&G.

Repayment of Special Capital: In the event that construction has not commenced at the end of the 5th year of the Partnership and Special Capital remains outstanding, then at Ryan's option, one of the following must occur:

-
- 1) Ryan can contribute capital to pay USF&G the Development Release Price and the Partnership continues;
or,
-

- 2) The Property may be sold to a third party and the proceeds will be distributed according to paragraph (1) under Cash Distribution and the Partnership terminates; or,
- 3) If the proceeds from (2) above are not sufficient to pay the Development Release Price, USF&G, at its option, may acquire the Property for the amount of the Development Release Price and the Partnership terminates.

Contingencies:

A. Plans and Specifications:

USF&G reserves the right to approve the plans and specifications for all improvements, to approve all major changes, modifications, or corrections to the building plans or development plans during the construction period. USF&G has 15 business days to approve or disapprove the plans and specifications after receipt of the "Front End" report from the inspecting engineer, and USF&G has 15 business days to approve major changes, modifications, or corrections to the plans and specifications. Failure to respond within the 15 business days shall be considered approval. In the event USF&G should be the sole owner of the Property, they shall receive an assignment of the plans and specifications and any cross easement agreements necessary to construct and enter the atrium between Phases I, II and III of International Centre as currently envisioned.

**B. Construction Budget
Approval:**

USF&G reserves the right to approve the Construction Budget for the improved Property. Failure to respond within 15 business days after receipt of the Construction Budget shall be considered approval.

Mr. James Ryan
November 13, 1986
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C. Property Sale:

USF&G reserves the right to approve a sale of the Property to a third party. Failure to respond within 15 business days after receipt of the sales contract shall be considered approval.

D. Permanent Financing:

USF&G reserves the right to approve all permanent financing entered into by the Partnership. Failure to respond within 15 business days after receipt of the financing proposal shall be considered approval. In addition, USF&G will have the first right to negotiate the financing of the improved Property at market terms at that time.

E. Leasing:

USF&G reserves the right to approve all leases with terms and conditions outside the pre-approved leasing guidelines. Failure to respond verbally within 5 business days and 10 business days in writing after receipt of the proposed lease shall be considered approval. The leasing guidelines will be part of the joint venture agreement. Ryan shall have the right to bind the Partnership to leases that fall within the leasing guidelines.

F. Committee Approval:

This letter of intent must be approved by the USF&G Investment Committee.

G. Economic Due Diligence:

This letter of intent will be subject to Piedmont Realty Advisors satisfactorily completing its economic due diligence.

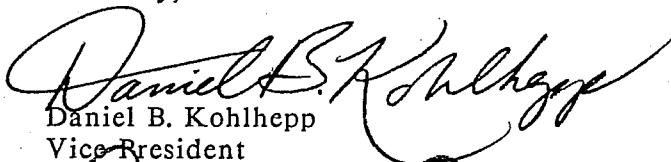
H. Closing Date:

Closing shall occur on or before December 15, 1986.

Mr. James Ryan
November 13, 1986
Page Eight

If the terms outlined in this letter are acceptable, please sign below and return this letter with an Application Fee in the amount of \$20,000 by November 18, 1986. The Application Fee should be wired to a custodial account. Please call me for wiring instructions. The Application Fee will be returned if USF&G does not issue a commitment according to the terms outlined in this letter. The Application Fee will be earned by USF&G upon issuance of a commitment according to the terms outlined in this letter, and the Commitment Fee will be reduced by \$20,000.

Sincerely,


Daniel B. Kohlhepp
Vice President

Accepted:

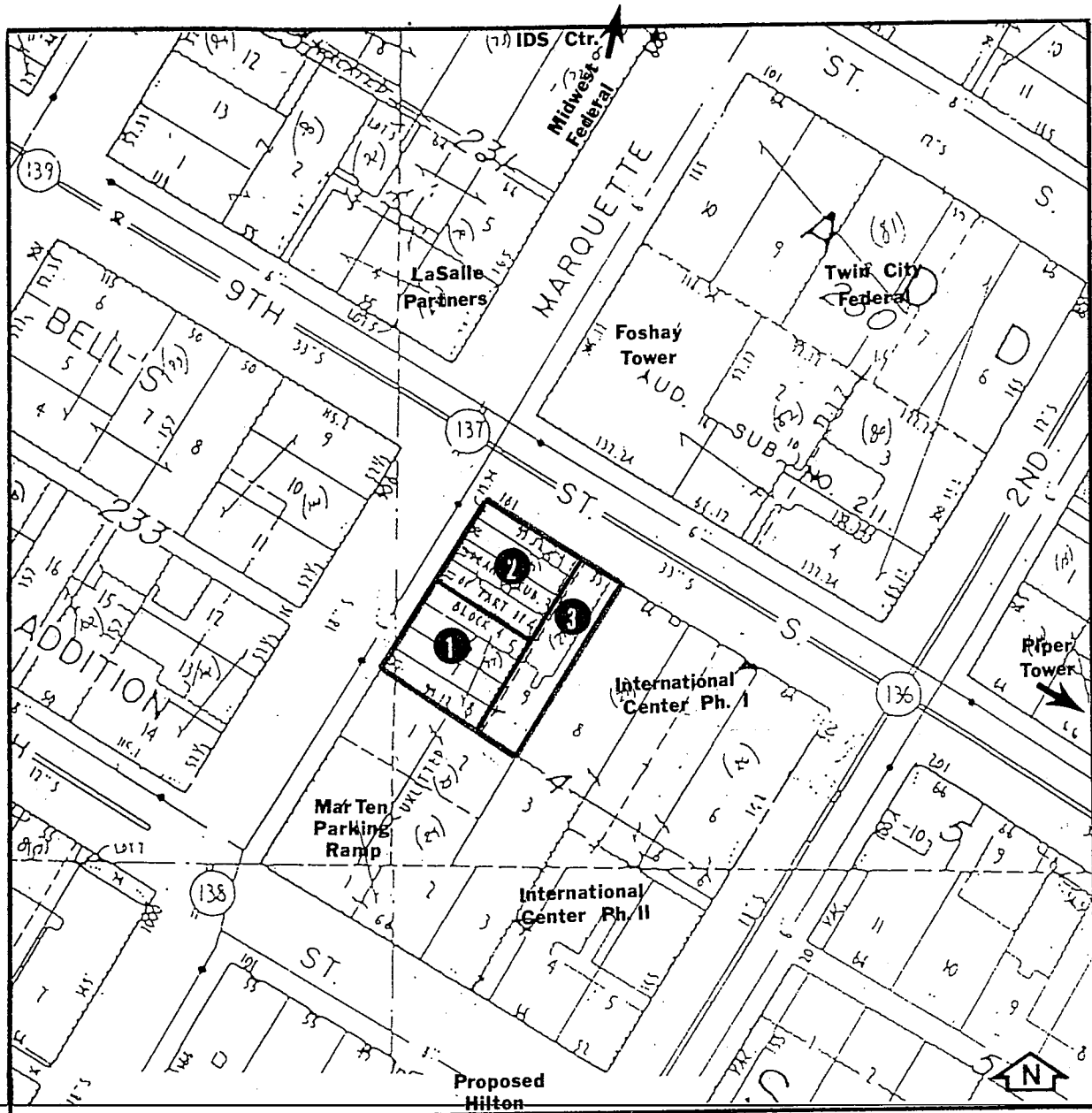

SIGNED


TITLE

Nov. 14 1986.
DATE

Exhibit A

PLAT MAP

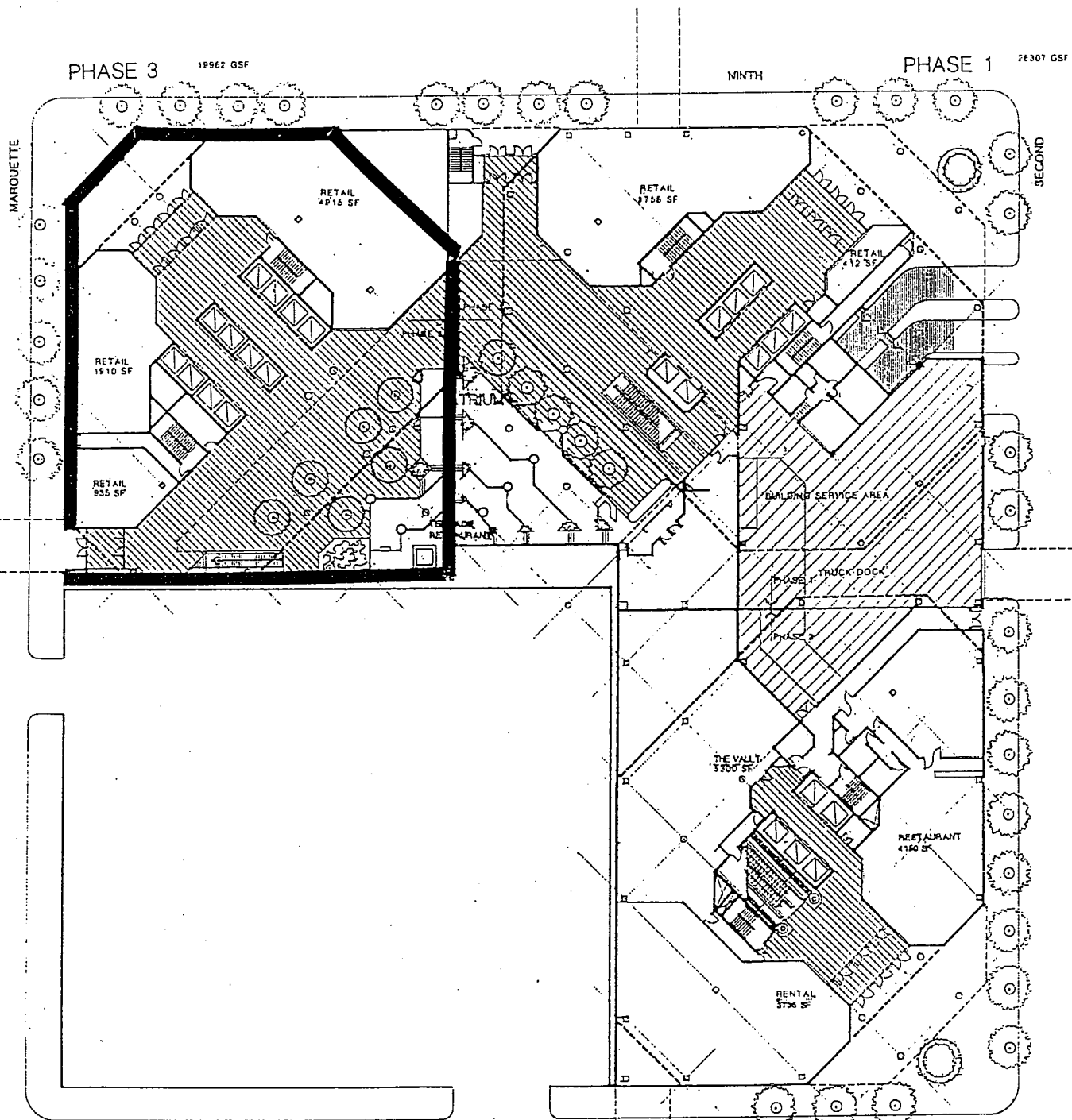


1) Chester E. Groth

2) 901 Marquette -
Marquette Camera
Esteban's
Chandler Tailors

3) Ninth Street Saloon

Exhibit B
THE DEVELOPMENT PLAN



INTERNATIONAL CENTRE
CHICAGO, ILL.

FIRST FLOOR

Exhibit B
THE DEVELOPMENT PLAN

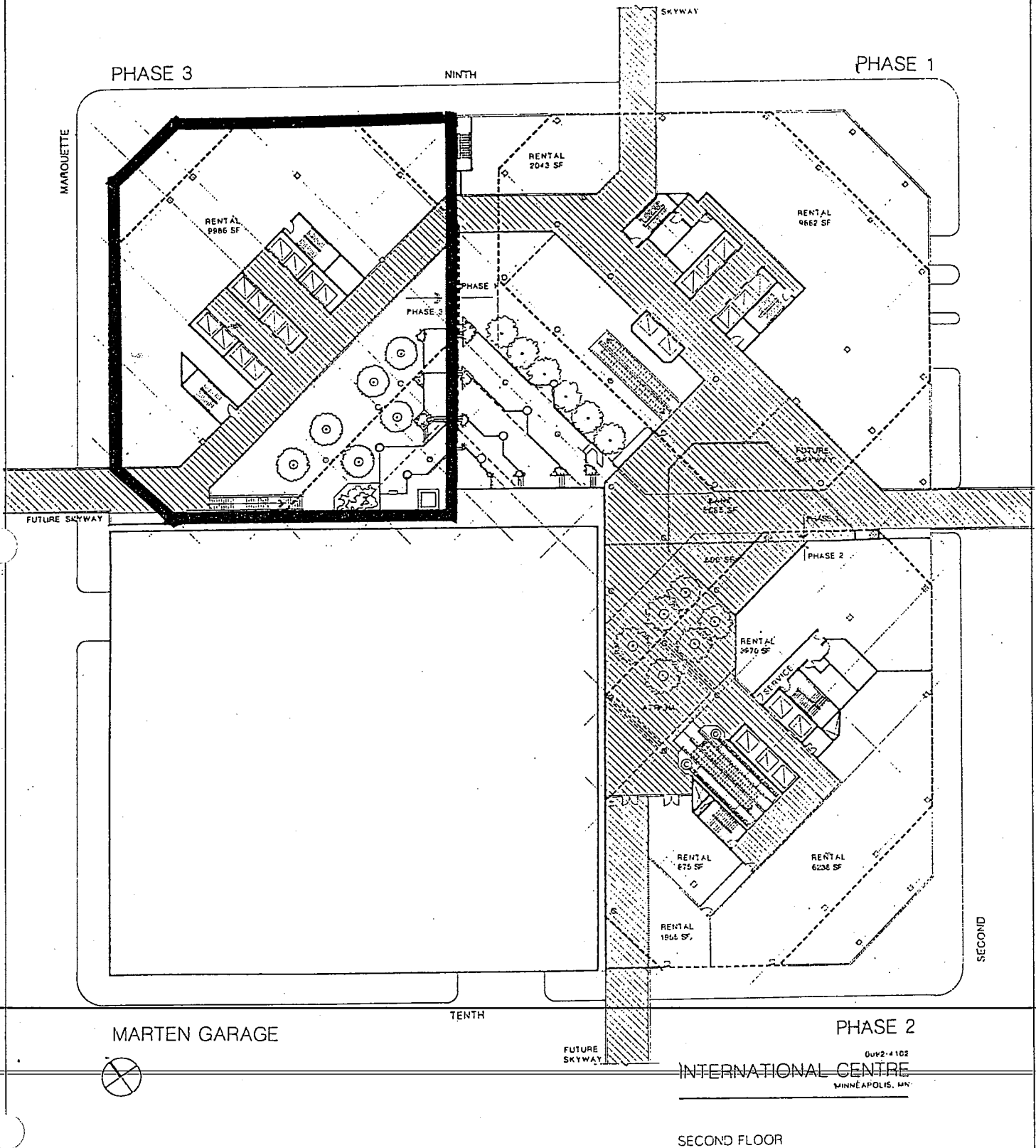


Exhibit B
THE DEVELOPMENT PLAN



Exhibit I-1 Continued

Exhibit C

TENANT CASH FLOWS

	<u>Exp. Date</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>
INCOME:						
9th Street	Mo-Mo	\$14,712	\$14,712	\$14,712	\$14,712	\$14,712
Hier	9-30-88	7,980	7,980	7,980	7,980	7,980
Marquette Camera	9-30-88	12,750	12,750	12,750	12,750	12,750
J-K Investments	5-31-87	3,120	3,120	3,120	3,120	3,120
Chandler Tailors	9-30-87	15,092	15,092	15,092	15,092	15,092
Estebans	12-31-87	60,375	60,375	60,375	60,375	60,375
Arden International	12-31-87	<u>23,596</u>	<u>23,596</u>	<u>23,596</u>	<u>23,596</u>	<u>23,596</u>
TOTAL INCOME:		\$137,625	\$137,625	\$137,625	\$137,625	\$137,625
EXPENSES:						
Estebans		(36,187)	(37,634)	(39,140)	(40,705)	(42,334)
9th Street		0	0	0	0	0
TAXES:						
Estebans		(49,459)	(51,437)	(53,496)	(55,635)	(57,860)
9th Street		<u>(25,750)</u>	<u>(26,780)</u>	<u>(27,851)</u>	<u>(28,965)</u>	<u>(30,124)</u>
TOTAL EXPENSES:		(111,396)	(115,852)	(120,486)	(125,305)	(130,318)
OPERATING INCOME:		\$ 26,229	\$ 21,774	\$ 17,139	\$ 12,320	\$ 7,307

Exhibit I-1 Continued

Exhibit D
NINTH STREET SALOON LEASE
SUMMARY OF TERMINATION PROVISIONS

Necessary funds to terminate the Ninth Street Saloon lease are indicated in Paragraphs #1 and #3 of Amendment No. 2 to the Lease Agreement between Ryan Construction Company of Minnesota ("Ryan") and Ninth Street Saloon, Inc. ("Tenant") dated October 4, 1983. This agreement provides that:

- a) Ryan will pay to Tenant \$2,000 for each month between the date Tenant vacates the Property and the date Tenant's new space is ready in the Marquette Phase.
- b) If Ryan gives the 30-day notice provided in Paragraph #1 of the Agreement prior to October 1, 1987, Ryan and Tenant shall immediately enter into a lease of space in the Marquette Phase and Ryan shall pay Tenant \$25,000 coincidentally therewith. However, if Ryan gives 30-day notice provided in Paragraph #1 of the Agreement on October 1, 1987 or at any time thereafter during the term of the lease, Ryan shall have the option of either requiring Tenant to enter into the new lease and paying Tenant \$25,000 in connection therewith plus Business Interruption Payments or buying out all of Tenant's rights, title and interest under the lease for a one-time cash payment according to the following schedule:

<u>Notice Given</u>		<u>Payment</u>
<u>On or After:</u>	<u>Until/Including</u>	
10-1-87	9-30-88	\$160,000
10-1-88	9-30-89	135,000
10-1-89	9-30-90	100,000
10-1-90	2-27-91	50,000

II. THE PROPERTY

II. THE PROPERTY

A. INTRODUCTION

The proposed equity joint venture with Ryan Properties, Inc. involves the acquisition and development of a 21,477 square foot parcel of land in downtown Minneapolis, Minnesota (see Exhibit II-1). Minneapolis and St. Paul (the "Twin Cities") are situated in the center of the upper mid-west's transportation network which includes the Mississippi River, rail lines, trucking, major highways, and seven airports including one international airport serving the Twin Cities. The Twin Cities comprise the nation's seventh largest wholesale distribution center and the third largest trucking distribution center.

The subject property, International Centre, is the site for the final phase of a three-phase project in downtown Minneapolis at the southeast corner of Marquette Avenue and Ninth Street South (See Exhibit II-2). The first two phases are completed and comprised of a 340,000 square foot tower (98% leased) and a 250,000 square foot tower (42% leased).

B. LOCATION

1. Accessibility

The center of downtown Minneapolis is defined by the landmark IDS Center. International Centre is one block south of the IDS Center on the southeast corner of the intersection of Marquette Avenue and Ninth Street South. The subject has excellent accessibility from either Interstate Highway 94 or Interstate Highway 35W (See Exhibit II-2). I-94 and I-35W intersect in downtown Minneapolis, 6 blocks south of the subject property. I-35W is the main north/south artery, which provides access from the upscale suburbs southeast of downtown, and I-94 is the major east/west route. The outer beltway encompassing the Twin Cities is Interstate Highway 494 which intersects all the major interstates, highways, and roadways in and around Minneapolis. The main bus route in the city runs along the west boundary of the subject site on Marquette Avenue.

The subject property will be directly connected to the state-of-the-art Skyway System, above ground sidewalks connecting many downtown office buildings at the second level. See Exhibit II-3. The Skyway System keeps pedestrians warm and dry in Minneapolis' often inclement weather, and the retail uses along the Skyway System have created a new "Main Street" for downtown. Inclusion in the Skyway System is considered vital to the success of a new project, and the subject will be linked to the skyway via the Twin Cities Federal (TCF) Tower and the MarTen parking ramp. Elevators and escalators serve both the skyway level and street level.

There are currently 23 parking ramps in downtown Minneapolis, one of which is adjacent to the subject property (See Exhibit II-4). Other parking ramps are located throughout the downtown region with approximately 12 ramps situated around the Skyway System. Exhibits II-

5A and B are aerial photographs which show International Centre's excellent location and proximity to major highways, parking ramps, hotels, financial institutions, and retail centers. Exhibit II-5C is a photograph of the Minneapolis Skyline with International Centre I and II in the foreground and International Centre III superimposed alongside the existing buildings. The IDS Center is in the background to the left.

2. Neighborhood Demographics

The Minneapolis CBD has experienced a significant revitalization that started with the completion of the 52-story, 1.2 million square foot IDS Center in 1971. Since the completion of this landmark project, many of the older buildings have been completely or partially renovated, and the new downtown developments are class-A projects ranging in size from 260,000 square feet to over one million square feet.

In addition to an influx of new and improved office space, the Minneapolis CBD has experienced growth in retail facilities, hotels and multi and single family housing. The most notable of the retail centers is the Nicollet Mall just west of the subject property and spanning over thirteen blocks featuring fountains, sculptures, flower gardens, trees, street vendors, and entertainers (See Exhibit II-6). This thirteen block area is restricted to only pedestrian use. The Minneapolis CBD currently has 4,000 first class hotel rooms with an additional 600 rooms scheduled to open in early 1987. Also, a 600 to 800 room Hilton Hotel is currently in the planning stage for a site near the recently completed convention center, just south of the subject site. Several housing developments have been completed between the years of 1970 and 1985. In total, there is presently over 3900 housing units in and around the downtown area, of which 804 are single-family with the remainder being multi-family units.

3. Adjacent Land Uses

Located on the same block as the subject property are the MarTen parking ramp to the west and International Centre I and II to the east and the south. Adjacent to the subject site, on the northwest corner of Marquette Avenue, is the Midwest Federal building and the Medical Arts building. Directly across the Ninth Street South skyway is the TCF Tower, which was renovated in 1980, and the Foshay Tower, which was once the tallest building between Chicago and the West Coast. Directly east of the subject property at the northwest corner of 3rd Avenue South and Ninth Street is the Piper Jaffray Tower. Completed in 1985, this building contains over 700,000 net rentable square feet. The Leamington hotel is south of the subject site at 11th Street and 2nd Avenue South, and the Nicollet Mall is west of the subject.

The three phases of International Centre will utilize three-fourths of the block bounded by Marquette and Second Avenues and Ninth and Tenth Streets. The MarTen parking ramp encompasses the remaining land area on this block. Phase I is an 18-story, 340,000 square foot tower completed in 1984 and is 98% occupied. Phase II is a 15-story, 250,000 square foot tower completed in 1986 and is currently 42% committed. Phases I & II are connected by the Skyway System.

C. THE SITE

The subject site is situated on the corner of Marquette Avenue and Ninth Street South, adjacent to the MarTen parking ramp. Three, two-story retail buildings are currently on this site which measures 21,477 square feet (See Exhibit A of Exhibit I-1). The site is presently divided into three lots. The 901 Marquette building (tenants include Esteban's, Marquette Camera and Chandlor Tailors) is situated on the southwest corner of Marquette Avenue and Ninth Street South with a land area of 8,023 square feet. The Chester E. Groth building is fronted on Marquette Avenue, adjacent to the MarTen parking ramp, and it is situated on 8,000 square feet of land. The Ninth Street Saloon building has frontage on Ninth Street South and is situated between International Centre I and the 901 Marquette building with a total land area of 5,454 square feet.

It is possible, though not probable that the subject site may be used as a parking lot between the time demolition occurs and the time construction commences. This is contingent upon the unlikely event that significantly more revenues could be generated by its use as a parking lot as opposed to its current retail use.

As described earlier, the site has excellent accessibility from Marquette Avenue or Ninth Street South via I-94 or I-35W. Access from Marquette Avenue allows for direct entry into the Marten parking ramp, which will be adjoined to the proposed building by the Skyway System.

The site is zoned B4-2, Central Retail District, which allows for central retail, office and wholesale activities which is consistent with the location and proximity to the major shopping streets of the central business district. Current zoning permits up to 420,000 square feet of office space. A zoning variance would be necessary for a 600,000 square foot building, and the developers are confident that a variance can be obtained.

D. THE IMPROVEMENTS

The size of Phase III will be determined by the amount of pre-leased space and the general market conditions. The building size can range from 300,000 square feet to 600,000 square feet. The building height will depend on the total square footage since the typical floor size will be approximately 16,450 net rentable square feet. At 600,000 square feet, the building will be 35-stories and at 300,000 square feet, the building will be 18-stories in height.

With the completion of Phase III, the entire complex will share a four story atrium, and the office/retail space will be in excess of 1 million square feet, giving International Centre the distinction of being one of the largest developments in Minneapolis. Ryan Properties' schematic development plan with its inherent variables (i.e. building size, construction commencement date, and short term land uses) will allow them to take advantage of current and projected market conditions.

Commencement of construction of Phase III will depend on market conditions, leasing performances for Phase II, and a commitment from a large user to occupy a considerable amount of space in Phase III. Construction of Phase III will begin when Phase II is 95% occupied or Ryan properties receives a firm commitment from one or more perspective tenants to occupy at least 100,000 net square feet. Construction must occur before the fifth year of the partnership.

E. LAND DEVELOPMENT BUDGET

The Land Development Budget of \$3,200,000 is presented in Exhibit II-7. The land acquisitions cost of \$2,400,000 represents a land price per square foot of \$111.75, and the general and administrative costs of \$90,000 (or \$4.19 psf) represents closing costs, and brokerage and joint venture fees. The real estate tax and cash flow deficit contingency is \$260,000 or \$12.11 per square foot.

The \$250,000 demolition contingency is available in the unlikely event that substantially greater revenues could be generated by the demolition of existing buildings and the addition of a parking lot. If this decision is jointly made by the Developer and USF&G, it would be necessary to exercise the existing contract to acquire the leasehold interest in the Ninth Street Saloon. The \$200,000 Ninth Street Saloon leasehold acquisition contingency is reduced each year until 1991, at which time it will no longer be needed (See Exhibit D of the application letter, Exhibit I-1).

F. CONCLUSION

International Centre III represents the final phase of a successful downtown Minneapolis development, as is evidenced by the current occupancy levels of the previous phases. The subject property has several competitive advantages over other Minneapolis projects with regard to location, accessibility, parking, and total project costs.

The subject's location is superior to its competitors due to its proximity to the Nicollet Mall, the skywy system, the IDS Center, the financial district, and several major parking ramps, all within walking distance. Second, the subject is directly accessible from the major freeways while much of the competition is situated several blocks from the major Interstate interchange. Third, the MarTen parking ramp is located on the same block as International Centre, providing tenants with convenient access from the Interstate highways to parking, while the Skyway System provides convenient access from parking to office. The Skyway System's primary route begins at the subject site, and there are plans to expand the system beyond the site to the new Convention Center and the proposed Hilton Hotel. Finally, International Centre's final project costs are less than many of the downtown locations due to the relatively low land costs.

Exhibit II-J
REGIONAL LOCATION MAP

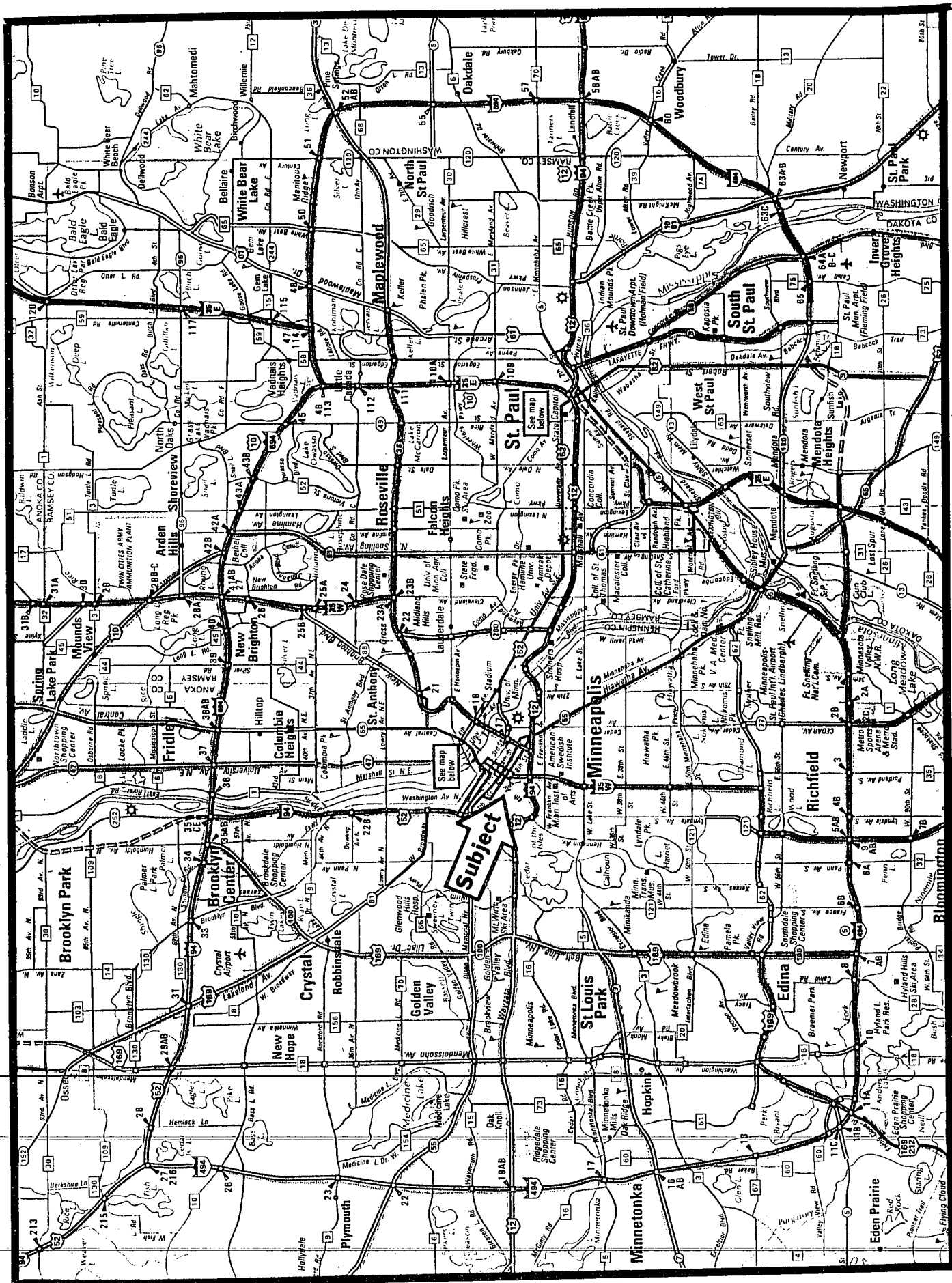


Exhibit II-2
SITE VICINITY MAP



Exhibit II-3
MINNEAPOLIS SKYWAY SYSTEM

Subject 

PARKING RAMPS

Minneapolis CBD

1. Gateway Municipal Ramp
1,200 Spaces
2. Sheraton Ritz Ramp
280 Spaces
3. Central Garage
523 Spaces
4. Court Ramp
450 Spaces
5. Midtown Auto Park
581 Spaces
6. Nicollet Park Auto Ramp
458 Spaces
7. Downtown Auto Park
465 Spaces
8. Government Center Ramp
1,100 Spaces
9. City Center
491 Spaces
10. Northstar
976 Spaces
11. Dayton Radisson
844 Spaces
12. IDS Center
600 Spaces
13. Centre Village Municipal Ramp
1,186 Spaces
14. LaSalle Court
765 Spaces
15. Twin City Federal
325 Spaces
16. Minnegasco Energy Center
580 Spaces
17. MAR TEN Ramp
470 Spaces
18. Curtis Ramp
336 Spaces
19. Orchestra Hall Municipal Ramp
657 Spaces
20. 1221 Nicollet
200 Spaces
21. Hyatt Municipal Ramp
750 Spaces
22. Holiday Inn
260 Spaces
23. Minneapolis Auditorium Municipal Ramp
648 Spaces
24. 4th Street Ramp
900 Spaces*
25. Butler Square Ramp
1,500 Spaces*
26. 7th Street Ramp
3,000 Spaces*
27. 7th & Park County Ramp
1,200 Spaces*

*Proposed

Exhibit II-4
EXISTING AND PROPOSED DOWNTOWN PARKING FACILITIES

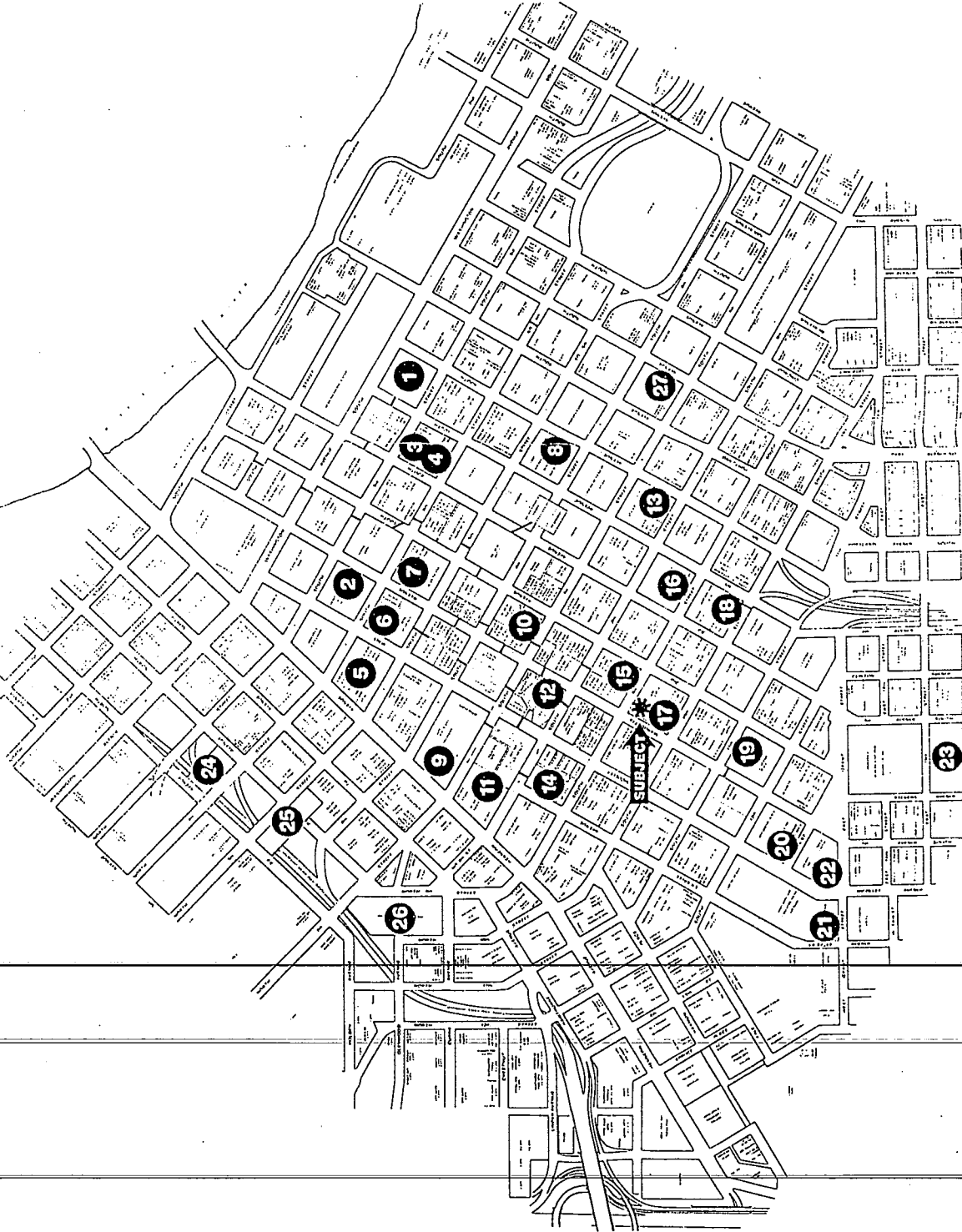


Exhibit II-5A
AERIAL PHOTOGRAPH LOOKING WEST

Subject



Exhibit II-5B
AERIAL PHOTOGRAPH LOOKING NORTH



Exhibit II-5C
PHOTOGRAPH LOOKING NORTHEAST



Subject
(Superimposed)

Phase I

Phase II

Exhibit II-6
RETAIL DISTRICT

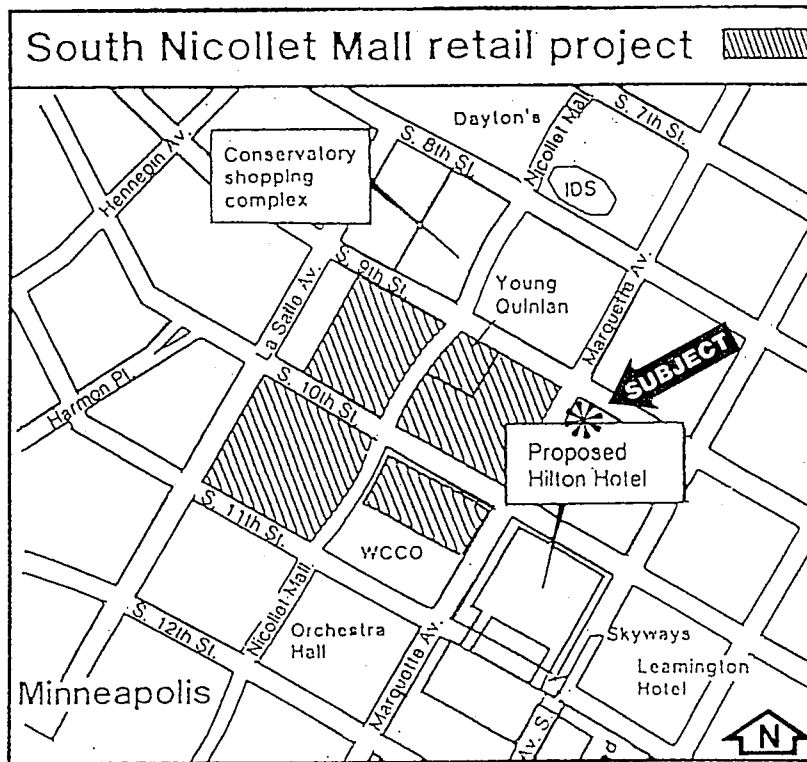


Exhibit 11 - 7

LAND DEVELOPMENT BUDGET

	Total Project Costs -----	PSF of Land -----	PSF of 300,000 Ft. Building -----	PSF of 600,000 Ft. Building -----
Land Acquisition Costs	\$2,400,000	\$111.75	\$8.00	\$4.00
Closing and Administrative Costs	\$90,000	4.19	0.30	0.15
Real Estate Tax Contingency	\$260,000	12.11	0.87	0.43
Demolition Contingency	\$250,000	11.64	0.83	0.42
Ninth Street Saloon Leasehold Acquisition Contingency	\$200,000 -----	9.31 -----	0.67 -----	0.33 -----
TOTALS	\$3,200,000	\$149.00	\$10.67	\$5.33

III. THE MARKET OVERVIEW

III. THE MARKET OVERVIEW

A. INTRODUCTION

The Minneapolis and St. Paul Areas have shown good economic growth in recent years as a production center and as a service center for the Upper Midwest. The Twin Cities Metropolitan Area (TCMA) is the home of several large national and international corporations. These include such firms as Control Data, Cargill, Dayton Hudson, First Bank Systems, General Mills, Honeywell, International Multifoods, Minnesota Mining & Manufacturing, Norwest Corporation, Northwest Airlines, Pillsbury and Republic Airlines. Other large corporations which have major facilities in the TCMA include Federal Cartridge, Ford Motor Company, Litton Microwave, Northern Ordinance, and Sperry Univac.

The TCMA population was 2,070,384 in 1980, an increase of 139,347 persons over the 1970 population. Population growth is expected in the metropolitan area, with 1990 population estimated at approximately 2,272,400 or a 7.2% increase over 1980.

While many downtown areas in larger cities throughout the country have languished and stagnated, the Minneapolis CBD has retained an aura of growth and vitality. Through the efforts of local merchants, businessmen, the Downtown Council and many others, the Minneapolis CBD has been strengthened with physical improvements such as the Nicollet Mall and the Skyway System, and by the retention of large corporate headquarters and other businesses which form the employment base. These activities have generated a high level of confidence in downtown Minneapolis and the continued expansion of downtown employment.

Employment in downtown Minneapolis has been increasing in recent years and should continue to increase. Total employment in the CBD was estimated at 95,000 in 1975 and by 1984, it increased to 115,000. Downtown employment is projected to be approximately 145,000 by the year 2000.

B. DOWNTOWN MINNEAPOLIS OFFICE MARKET

The downtown Minneapolis office market has grown consistently over the past 25 years. In the late 1970's, the prime office space in downtown Minneapolis was located in a small central core. Construction of new buildings has expanded the core office area in all directions, but most recently new construction has been moving in a southeastern direction due to the availability of prime sites for development. Several major developers (Trammell Crow, Lincoln) have announced plans for new projects southeast of the subject. This will surround the subject with Class A space, moving the center of downtown and the Skyway System south towards the subject.

The most recent surge in office building activity in the Minneapolis CBD began in 1980. Twenty-one new buildings, seven building renovations and three conversions comprised the dramatic increase in the supply of office space downtown during the 1980-85 period. Two projects, Pillsbury

Center and Multifoods Tower, each contains over one million square feet of office space. Other major office structures include Northwestern Computer Center, Lutheran Brotherhood's Corporate Headquarters, Washington Square, 100 South Fifth Street (The Opus Building), and the Piper Jaffray Tower.

Over 90% of the new office space constructed in Minneapolis since 1980 has been multi-tenant buildings. Most of the large companies in downtown Minneapolis have chosen to lease space in multi-tenant buildings as opposed to building a single-purpose, single-user building. This gives the large companies more flexibility and allows for greater expansion within the buildings.

Downtown Minneapolis contained 19,654,700 square feet of office space as of April, 1985 (See Exhibit III-1). The total private sector office space in downtown was 17,934,700 square feet (absorption figures are presented in Exhibit III-2). These figures represent a 60% (or 6,720,400) square feet increase over the 11,214,300 square feet in 1980.

The highest rate of office space growth has been in the Class A category. Between 1965 and 1980, Class A office space grew from 368,000 square feet to 1.9 million square feet. Class A space increased from 1.9 to over 7.2 million square feet between 1980 and 1985, an increase of about 400%.

The most recent report on the downtown Minneapolis office market is the Annual N.A.I.O.P. Office Survey which was released the week of October 20, 1986. This study reports that the Minneapolis CBD annually absorbs approximately 950,000 square feet. The current vacancy rate is approximately 13.7%, and there is currently a two year supply or 2,253,000 square feet of office space, which includes 1,813,000 square feet of space which is currently under construction.

C. COMPETITIVE PROPERTIES

Piedmont Realty Advisors' competitive property survey includes six existing Class A buildings, one Class A building under construction, and International Centre Phases I & II (See Exhibits III-3 and III-4).

The IDS Center is located one block north of the subject site at the corner of Eighth Street South and the Nicollet Mall. Completed in 1971, this 52-story landmark building set the standard for new development in Minneapolis, contains 1,239,725 square feet and is 92% occupied with rental rates ranging from \$16.00 to \$22.00 per square foot. Typical rent concessions are six months based on a lease term of at least five years.

The Pillsbury Center is at the corner of Seventh Street South and Second Avenue South. Completed in 1981, this two building, 22-story and 40-story complex contains a net rentable area of 1,272,715 square feet, which was 100% leased upon completion at average net rents of \$16.00 per square foot with no rent concessions. The Pillsbury headquarters include the First Bank System, Dorsey and Whitney, and Price Waterhouse as major tenants.

The Minneapolis City Center encompasses the entire block bounded by Nicollet and Hennepin Avenues, and Sixth and Seventh Streets. The first phase of this project was completed in 1983 which consisted of a 33-story hotel, a four-story Donaldsons Department Store, and the 52-story Multifoods Tower. Integrating the above structures is a three-level enclosed retail mall. The entire complex contains a net rentable area of 1,081,475 square feet which is 83% occupied with average net rents ranging from \$13.50 to \$18.00 and typical rent concessions of nine months on a five year lease.

The Piper Jaffray Tower is located at 222 Ninth Street South. Completed in 1984, this 42-story tower contains nearly 750,000 square feet and is 86% leased with average rental rates between \$16.00 and \$19.50 psf assuming six month rent concessions. Major tenants include Piper, Jaffray and Hopwood; Campbell Mithun Advertising Agency; and the Larkin, Hoffman, Daly and Lindgren law firm.

The Opus Building (100 South Fifth Street) was completed in 1985 at a cost of \$60,000,000. This 25-story building contains 404,788 net rentable square feet, is currently 99% occupied with net rents between \$17.00 and \$23.00 per square foot and rental concessions averaging six months on a five year lease. Northwestern Bell (the project's joint venture development partner) occupies approximately 125,000 square feet in the building.

Plaza VII is currently under construction and is situated at 45 Seventh Street South, just west of the IDS Center. This 35-story hotel, office and retail building is nearing completion and total project costs are estimated to exceed \$104 million. The building will contain 317,000 square feet of office space with net rents ranging from \$16.00 to \$17.00 per square foot assuming six month rental concessions. In addition, this building will add over 350 first class hotel rooms to downtown Minneapolis' current stock.

The 701 Building on Fourth Avenue South was completed in 1984 and is 74% occupied at \$16.00 per square foot. This 18-story, 260,575 square foot building was developed by the Turner Development Corporation of Chicago and was later sold to Traveler's Insurance Company in 1985.

International Centre I, on the corner of Ninth Street South and Second Avenue South, was completed by Ryan Properties, Inc. in 1984. This 18-story, 340,000 square foot office/retail tower is 98% leased as an office condominium at average rental rates of \$15.00 to \$16.00 and maximum rent concessions of 12 months. This building has a solid base of professional/service firms with such tenants as: AT&T Communications, Coldwell Banker, Fredrikson and Byron-Attorneys At Law, Goldfein, Silverman and Olson, Ltd.- CPA's and Walsh Bishop Association-Architects.

International Centre II is on the corner of Tenth Street South and Second Avenue. Ryan Properties, Inc. just recently completed this 15-story, 250,000 square foot office/retail building which is 42% committed at average rental rates of \$16.00 to \$17.00 and maximum rent concessions of 6 months. In addition to the existing competitive office space survey,

Piedmont has compiled a list of proposed office buildings which can be found in Exhibit III-5.

D. CONCLUSION

The Minneapolis office market is a strong and viable market which has experienced consistent growth and good absorption over the past five years, absorbing nearly 1 million square feet annually. Currently, the office market is overbuilt, due primarily to new buildings delivered in 1986. At this time, there is approximately two years supply of Class A, multi-tenant office space in the Minneapolis CBD. The Minneapolis office market should be ready for additional space within the next three to four years, which is the projected completion date for International Centre III assuming a construction start in two years and a two year construction period.

Exhibit III - 1
DOWNTOWN MINNEAPOLIS
TOTAL OFFICE SPACE SUMMARY , 1959 - 1985
October 1 , Annually

Type	1959	1965	1970	1975	1980	1985 *
Class A	0	368,500	601,900	1,876,100	1,879,500	7,275,300
Class B	1,471,700	2,000,600	2,205,500	2,491,700	2,903,000	2,965,300
Class C	1,473,500	1,505,300	1,526,200	1,536,200	1,600,400	2,221,300
Class D	644,400	465,400	506,800	495,500	453,200	537,000
Semi - Office	348,600	290,000	444,600	366,100	508,700	710,200
Medical Office	319,600	316,800	263,900	349,900	301,200	421,500
Single - User	1,096,100	1,520,700	1,664,400	1,897,900	2,430,000	3,120,100
Other	1,069,700	1,114,300	1,136,800	1,150,300	1,138,300	684,000
TOTAL PRIVATE SECT	6,423,600	7,581,600	8,350,100	10,163,700	11,214,300	17,934,700
Government	1,057,100	1,270,200	1,270,200	1,720,000	1,720,000	1,720,000
GRAND TOTAL	7,480,700	8,851,800	9,620,300	11,883,700	12,934,300	19,654,700

* Estimated as of April 1 , 1985 .

Source : James B. McComb & Associates
Northland Financial Company
Piedmont Realty Advisors

Exhibit III - 2

DOWNTOWN MINNEAPOLIS
PRIVATE SECTOR OFFICE SPACE ABSORPTION , 1960 - 1985

Period	Office Space Absorption	Square Feet Per Annum	Annual Growth Rate
1959 - 65	842,000	140,000	2.10%
1965 - 70	878,000	175,000	2.50%
1970 - 75	1,340,000	268,000	3.10%
1975 - 80	1,482,000	296,000	3.00%
1980 - 4/85	4,795,000	959,000	8.50%

Source : James B. McComb & Associates
Northland Financial Company
Piedmont Realty Advisors

Exhibit III - 3

COMPETITIVE PROPERTY SURVEY

Name	Location	Height	Total Square Footage	Total Vacancy	Percent Vacant	Net Rental Rate PSF	Operating Expenses/ Taxes	Leaseholds	Concessions (1)	Completion Date
1. IDS Center	8th and Nicollet	52 floors	1,239,725	90,000	7.3%	\$16.00 - \$22.00	\$9.42	\$15.00	6 months	1971
2. Pillsbury Center	7th St. and 2nd Ave.	40 floors	1,272,715	0	0.0%	\$16.00	\$8.75	\$15.00	None	1980
3. Minneapolis City Center	7th St. and Nicollet	49 floors	1,081,475	182,000	16.8%	\$13.50 - \$18.00	\$9.07	\$17.50	9 months	1982
4. Piper Jaffray Tower	9th St. and 3rd Ave.	42 floors	723,821	100,000	13.8%	\$16.00 - \$19.50	\$9.00	\$20.00	6 months	1985
5. 100 South Fifth Street (Opus Building)	5th Ave. and Marquette	25 floors	404,788	3,000	0.7%	\$17.00 - \$23.00	\$9.00	\$20.00	6 months	
6. 701 Building	7th St. and 4th Ave.	18 floors	260,575	70,000	26.9%	\$16.00	\$8.50	\$17.00	12 months	
7. Plaza VII	7th St. and Nicollet	35 floors	317,000	317,000	100.0%	\$16.00 - \$17.00	\$8.50	\$16.50	6 months	U / C (2)
8. International Centre I	9th St. and 2nd Ave.	18 floors	312,421	15,000	4.8%	\$15.00 - \$16.00	\$8.00	\$17.50	12 months	1984
9. International Centre II	10th St. and 2nd Ave.	15 floors	250,000	240,000	96.0%	\$16.00 - \$17.00	\$8.50	\$16.50	6 months	1986
TOTALS			5,862,520	1,017,000	17.3%					

(1) Rental concessions are based on a lease term of five years or longer.

(2) Plaza VII is currently under construction, however it is included in this survey due to pre-leasing activities.

Source : James B. McComb & Associates
Northland Financial Company
Piedmont Realty Advisors

Exhibit III-4
COMPETITIVE PROPERTY SURVEY MAP

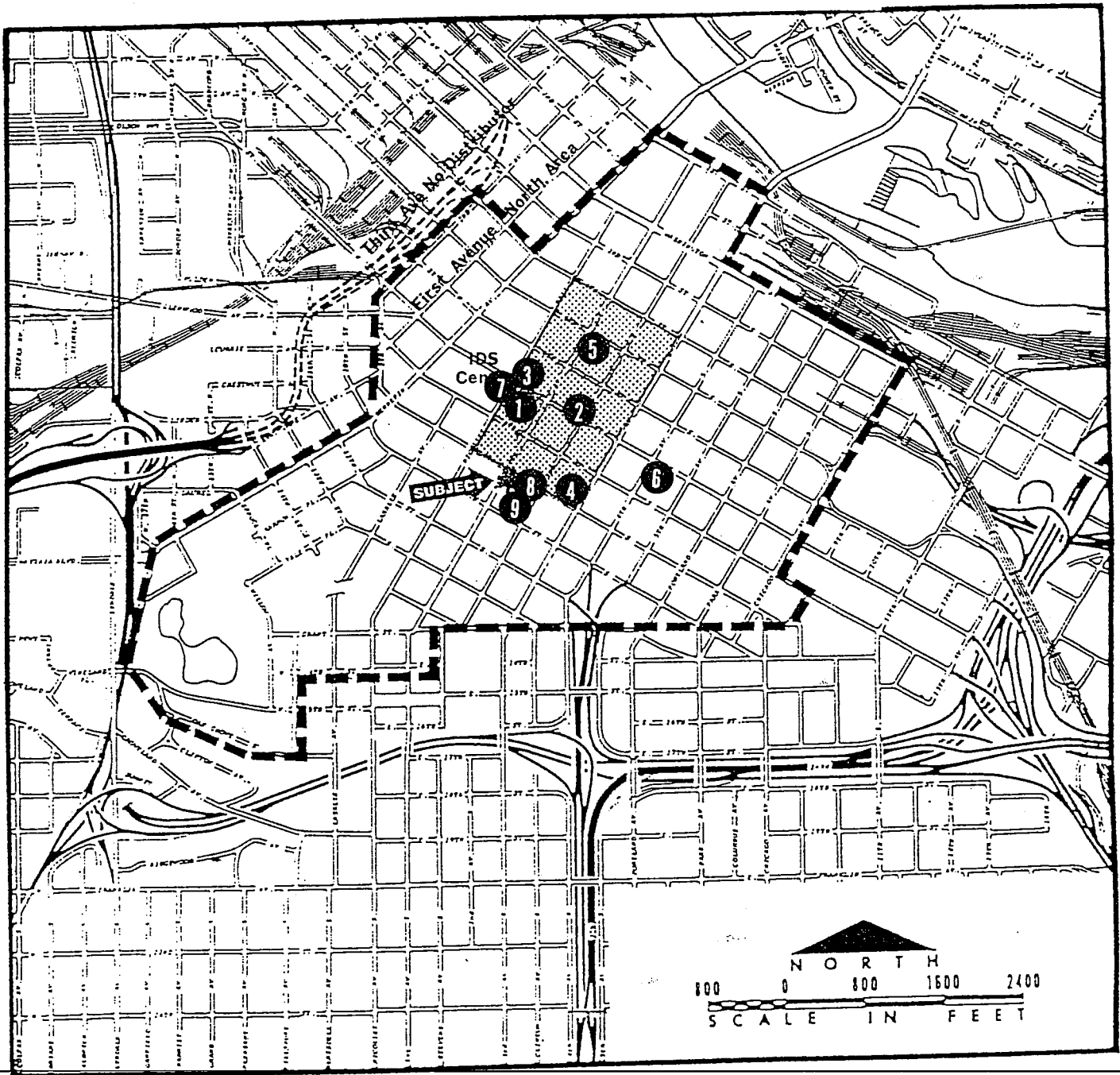


Exhibit III - 5
DOWNTOWN MINNEAPOLIS
PROPOSED OFFICE SPACE SURVEY

Name ----	Location -----	Delivery Date -----	Total Square Footage -----	Net Rental Rate PSF -----	Status -----
1. Lincoln Centre	7th St. and 3rd Ave.	Summer '87	650,000	\$20.00 - \$22.00	U / C
2. Norwest Center	6th St. and Marquette	1989	1,300,000	\$16.00	Committed
3. Maguire Thomas / IBM	6th Ave. and 2nd St.	1988	400,000	\$22.00 - \$24.00	Uncommitted , IBM proposed major tenant .
4. 150 South Fifth Street	5th and 2nd Ave.	1988	600,000	\$17.00 - \$26.00	Committed , 100,000 Sq.Ft. preleased .
5. BCED / IDS Tower	6th St. and Nicollet	1990	see status	\$18.00 - \$23.00	Size of the building is to be determined by IDS Financial Services , the proposed major tenant .
TOTAL			2,950,000		

Source : Northland Financial Company
Piedmont Realty Advisors

IV. THE JOINT VENTURE PARTNER/DEVELOPER

IV. THE JOINT VENTURE PARTNER/DEVELOPER

A. INTRODUCTION

The proposed joint venture will be a limited partnership in which USF&G will be a 25% limited partner. The general partner of the joint venture will be a limited partnership in which Ryan Properties, Inc. is the general partner and Ryan's subsidiaries and executive employees will be limited partners. The purpose of the joint venture is to acquire the unimproved properties, to hold the unimproved properties, and to develop a single office building. This chapter reviews Ryan Properties, Inc.'s financial status, track record, and partnership responsibilities.

B. RYAN PROPERTIES, INC.

Ryan Properties, Inc. and its wholly owned subsidiary Ryan Construction Company are successor corporations to Ryan Lumber and Coal which started in the early 1900's in northern Minnesota. Although the family has its roots in Hibbing, Minnesota, it has been active in the Minneapolis market since the 1950's. The company has been continuously and successfully managed by the Ryan family which is now in the third generation. It is engaged in the development, construction and ownership of commercial and industrial real estate. The company's annual earnings have risen from \$521,000 in 1981 to over \$1,000,000 in 1983, 1984, and 1985, and the company's net worth has increased from \$5.73 million in 1981 to \$11.31 million in 1985. (See Exhibit IV-1.)

Ryan Properties, Inc. currently manages in excess of 2.5 million square feet of office, retail and industrial space (See Exhibit IV-2). Ryan was named Developer of the Year by the Minneapolis Chapter of the National Association of Industrial and Office Parks (NAIOP) for the International Centre project, its first downtown office development. The company has been active in what is known as the City West Development in the southwestern Minneapolis suburbs and has also been active for a number of years in the build-to-suit market, particularly with Super Valu food stores.

Ryan Properties, Inc. currently employs over 130 persons in all aspects of the construction industry. Their construction specialists generate over \$45,000,000 of construction annually. Recently, Ryan has developed in excess of 2,000,000 square feet of office and commercial space with a value of nearly \$200,000,000. Ryan prides itself on long-term relationships and repeat performances with its clients, a few of which are Byerly's, Honeywell, Ford Motor Company, N.W. Bell Telephone Company and Sperry.

~~Ryan's most recently completed projects include International Centre Phases I and II, Brookdale Corporate Center, One Corporate Center, City West, Burnsville Business Center, Shingle Creek Center, and the Highland and Shorewood Shopping Centers. Exhibit IV-3 is a more complete listing of its recent projects.~~

C. RYAN PROPERTIES, INC. RESPONSIBILITIES

As the general partner for the joint venture partnership, Ryan Properties, Inc. has the following responsibilities:

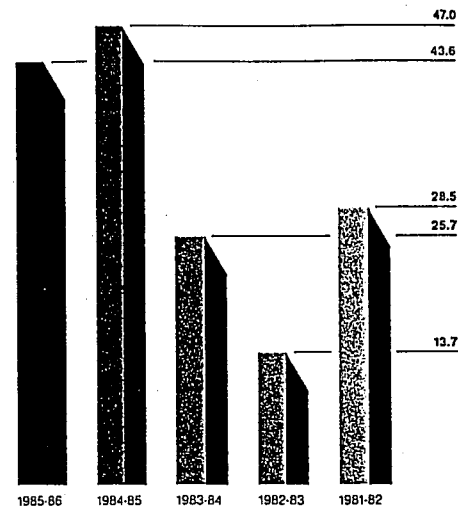
- * To develop Phase III of International Centre which will consist of one building to contain not less than 300,000 square feet of net rentable area. Ryan will receive a development fee equal to 3% of the building costs.
- * To build the Phase III improvements within a construction budget approved by USF&G.
- * To manage the development for a fee equal to 4% of gross receipts for a multi-tenant office building.
- * To lease the building for a commission equal to 150% of the market rate in the event an outside broker is utilized. In the event no outside broker is involved, then a market rate leasing commission will be paid, however, this rate must be mutually agreed upon by the general and limited partners prior to construction.
- * To provide quarterly reports informing USF&G of the business activity in the partnership and of current market conditions.
- * To distribute cash proceeds at least quarterly.
- * To provide monthly accounting reports which are used by Ryan Properties, Inc. internally and full accounting reports annually.

D. CONCLUSION

Ryan Properties, Inc., as the developer and general partner, brings a proven track record, financial credibility and a market-oriented management team to the joint venture. The quality and ability of Ryan is excellent. It should be able to fulfill its general partnership responsibilities in a very competent and professional manner.

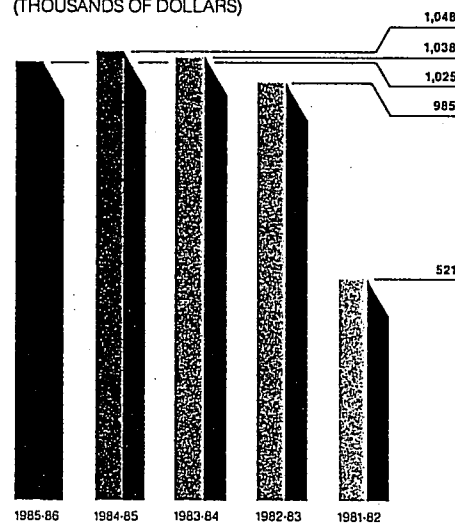
Exhibit IV-1
RYAN PROPERTIES, INC. FINANCIAL SUMMARY

TOTAL REVENUES
(MILLIONS OF DOLLARS)



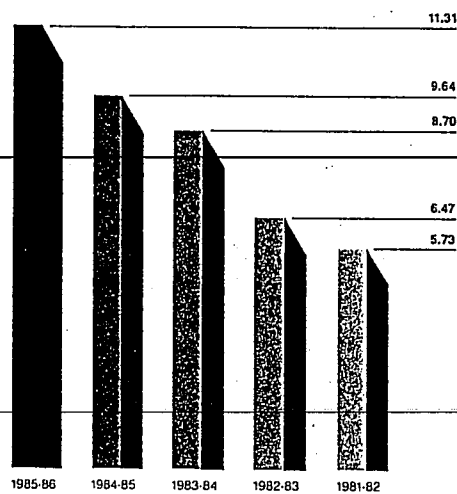
Revenue Increased 53 Percent During the Past Five Years

AUDITED NET EARNINGS
(THOUSANDS OF DOLLARS)



Net Earnings Increased 97 Percent During the Past Five Years

RYAN PROPERTIES, INC./NET WORTH
(MILLIONS OF DOLLARS)

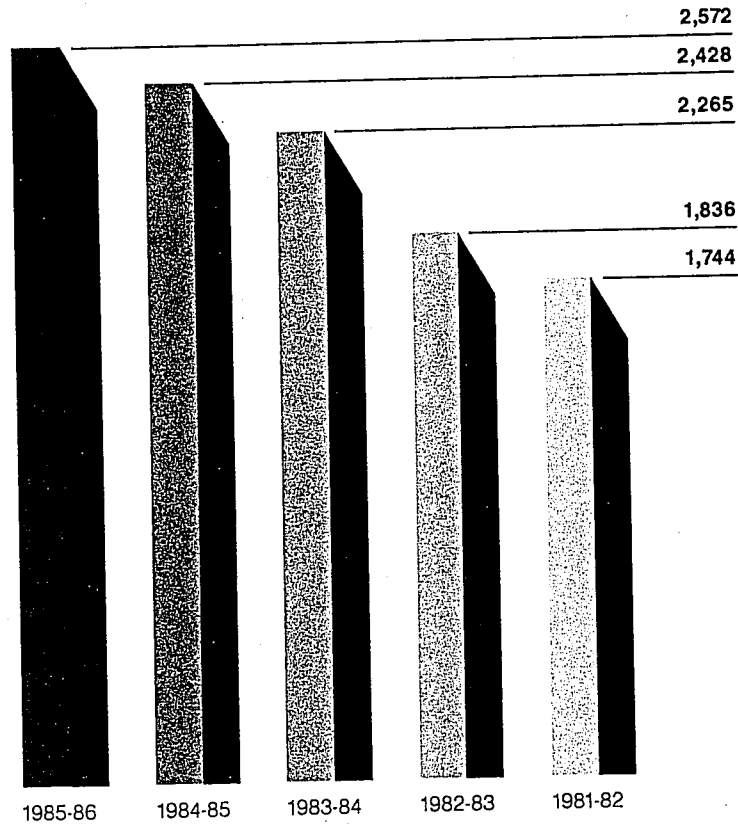


Net Worth has Increased 97 Percent During the Past Five Years

Source: Ryan's 1986 Annual Report

Exhibit IV-2
RYAN PROPERTIES, INC.
ASSET MANAGEMENT SUMMARY

ASSET MANAGEMENT ACTIVITY
(SQUARE FEET IN THOUSANDS)



Total Square Footage Increased 47 Percent During the Past Five Years

SUMMARY OF ASSET
MANAGEMENT ACTIVITY
(SQUARE FEET IN THOUSANDS)

	Office	Retail	Industrial	TOTAL
1985-86	1,312	812	448	2,572
1984-85	1,109	804	515	2,428
1983-84	1,078	804	383	2,265
1982-83	733	804	299	1,836
1981-82	683	828	233	1,744

Exhibit IV - 3

RYAN PROPERTIES , INC.
DEVELOPMENT TRACK RECORD

Name / Location	Type of Property	Completion Date	Total Costs
(1) PYA/MONARCH , INC. 5901 Wayzata Blvd. St.Louis Park , Mn.	165,000 Sq.Ft. Distribution Ctr.	1987	\$7,000,000
(2) THE TORO COMPANY 600 Valley Ind.Blvd. Shakopee , Mn.	88,000 Sq.Ft. Manufacturing Plant	1986	\$2,000,000
(3) SPERRY COMPUTER RECONDITIONING CTR. 2465 S.Lexington Ave.South Mendota Heights , Mn.	127,000 Sq.Ft. Office/Computer Ctr.	1982	\$3,930,000
(4) B. DALTON BOOKSELLERS 7505 Metro Blvd. Edina , Mn.	111,126 Sq. Ft. Office Building	1982	\$6,800,000
(5) HONEYWELL , INC. 6400 France Ave.South Edina , Mn.	Computer Facilities	1982	\$1,700,000
(6) WILSON CENTRE 7500 Washington St. Eden Prairie , Mn.	215,000 Sq.Ft. Office Bldg.	1987	\$24,000,000
(7) ITT LIFE CENTRE 505 North County Rd.18 Plymouth , Mn.	240,000 Sq.Ft. Office Bldg.	1987	\$31,000,000
(8) MASTER , INC. Hastings Industrial Park Spiral Blvd.at Millard Rd. Hastings , Mn.	126,000 Sq.Ft. Office/Tannery Bldg.	1985	\$2,400,000

Exhibit IV - 3

RYAN PROPERTIES , INC.
DEVELOPMENT TRACK RECORD
(Continued)

Name / Location	Type of Property	Completion Date	Total Costs
(9) ONE CORPORATE CENTER 7401 Metro Blvd. Edina , Mn.	617,650 Total Sq.Ft. Office Complex	Phase I (116,000 s.f.) - 1979 Phase II (116,000 s.f.) - 1980 Phase III (116,000 s.f.) - 1980 Phase IV (116,000 s.f.) - 1982 Phase V (6 Bldg's.86,750 s.f.) - 1981 Phase VI (8 Bldg's.66,900 s.f.) - 1982	Phase I - \$9 Million Phase II - \$9 Million Phase III - \$9 Million Phase IV - \$9 Million Phase V - \$7.8 Million Phase VI - \$6.7 Million
(10) CITY WEST BUSINESS CTR. 6451 City West Pkwy. Eden Prairie , Mn.	174,000 Total Sq.Ft. Office/Production and Storage/High-Tech	Phase I (2 Bldg's.83,200 s.f.) - 1984 Phase II (2 Bldg's.91,000 s.f.) - 1985	Phase I - \$3.9 Million Phase II - \$5.4 Million
(11) BROOKDALE CORPORATE CTR. 6300 Shingle Creek Pkwy. Brooklyn Center , Mn.	345,000 Total Sq.Ft. Office Bldg's.	Phase I (117,000 s.f.) - 1982 Phase II (117,000 s.f.) - 1985 Phase III (111,000 s.f.) - 1987	Phase I - \$6 Million Phase II - \$6 Million Phase III - \$8 Million
(12) INTERNATIONAL CENTRE I 900 Second Ave.South Minneapolis , Mn.	300,000 Sq.Ft. Office Tower	1985	\$43,000,000
(13) INTERNATIONAL CENTRE II 920 Second Ave.South Minneapolis , Mn.	240,000 Sq.Ft. Office Tower	1986	\$32,000,000
(14) BYERLY'S , INC. 401 West 98th St. Bloomington , Mn.	46,882 Sq.Ft. Supermarket	1986	\$2,500,000

V. THE RISK AND RETURN

V. RISK AND RETURN

A. INTRODUCTION

The proposed transaction is similar to the land joint venture structure used in T.L. James Business Park investment with the exception that there is a single parcel of ground and a single building to be constructed. USF&G will receive an annual 10% accumulative priority return on its invested capital. The sum of the total capital and the accumulated and unpaid priority return is referred to as the "Development Release Price". In the event the unimproved property is sold to a third party, USF&G first receives the Development Release Price and then the proceeds are split 50-50 with the developer. If the developer builds the high rise office building as expected, USF&G will receive the Development Release Price before construction begins from the construction loan and then will receive 25% of the annual cash flow and cash proceeds from the eventual sale of the property.

This chapter of the report first justifies the purchase price of the land and then discusses the various components of the returns and the risks inherent in a land development project.

B. VALUATION

The acquisition price of the subject property is \$2,400,000 or \$111.75 per square foot of land. This converts to \$8.00 per square foot of building area if a 300,000 square foot building is constructed or \$4.00 per square foot of rentable area if a 600,000 square foot building is constructed. The subject property was acquired in three parcels from 1983 to December 1986. The estimation of the subject property's market value is very important in this investment because the spread between the acquisition price and the market value determines the downside risk of the project. Six actual land sales and one land contract in downtown Minneapolis were evaluated to determine the subject's market value as presented in Exhibit V-1. The best comparable in terms of time and location is across the street from the subject property and currently under contract. The purchase price on the contract is confidential, but it has been confirmed that the price is between \$187.00 and \$196.00 per square foot of land. However until this land sale is consummated, Piedmont Realty Advisors conservatively estimates the market value of the subject property to be \$150.00 per square foot of land or a total value of \$3,221,550. This price represents the mean sales price of the comparable properties in downtown Minneapolis over the past five years. The acquisition price is 74% of the estimated market value which provides a substantial margin of safety in the initial investment. The total capital exposure of USF&G over the next five years will not exceed \$3.2 million in any event, so therefore the total capital exposure is less than today's market value for the property.

C. RETURN

1. General Deal Structure

The general deal structure of the proposed joint venture provides that USF&G contribute the equity capital necessary to acquire the unimproved property, to pay cash flow deficits (if any) up to \$260,000, and to pay demolition costs of up to \$250,000 and lease termination fees up to \$200,000 in the event that the unimproved property is converted to a surface parking lot before construction begins. USF&G will receive a priority return of 10% annually on all outstanding equity capital which accrues but does not compound. If the unimproved parcel is sold to a unrelated third party, the proceeds of the sale will be distributed in the following manner:

- * Repay all equity capital and pay accrued and unpaid priority returns (the Development Release Price) to USF&G, and then
- * split remaining proceeds 50/50 between Ryan Properties, Inc. and USF&G.

If the joint venture develops the 300,000 to 600,000 square foot office building, then the following will occur:

- * USF&G is repaid its outstanding equity capital and it is paid its accrued and unpaid priority returns (Development Release Price) out of the construction loan proceeds.
- * The building is constructed and upon completion of the building, a permanent mortgage is obtained. If the permanent mortgage is greater than the construction loan then any "overborrow" is split 75/25 between Ryan and USF&G.
- * The building is operated, and cash flow is split 75/25 between Ryan and USF&G.
- * When the building is eventually sold, the cash proceeds are used first to repay the permanent mortgage and partnership loans and then split 75/25 between Ryan and USF&G.

The estimated returns in this section are based on the expectation that the property is developed by the joint venture.

2. Return Analysis

USF&G's return will be largely determined by the size of the office building (300,000 to 600,000 square feet) and when construction commences years 2,3,4 or 5. Exhibits V-2A, B, and C are the expected project costs and proforma income and expenses for a 600,000 square foot building, and a 300,000 square foot building respectively with the assumption that construction would begin in year two. Consequently,

years 2 and 3 would be the construction and lease-up period, and cash flow would not be anticipated until year 4. Exhibits V-3A, B, and C are the projected income and expenses for the 600,000, 420,000, and 300,000 square foot buildings respectively over an 11 year period, again assuming that construction begins in year 2.

The projected rents are net of operating expenses and are based on today's rents increasing at 3% annually. Construction is not expected to begin until the property is 33% pre-leased, so that the pre-leased rents are based on the market rents at the beginning of construction. The cash proceeds from sale are based on a 10% capitalization of the next year's net operating income.

3. Yield Analysis

The Development Release Price increases every year development is delayed because of the additional equity capital needed to cover cash flow deficits of the unimproved property and the 10% annual priority returns. Exhibit V-4 is the calculation of the projected Development Release Price for each of the first five years of the joint venture.

The expected returns and estimated yields (IRR) to USF&G for a 300,000 square foot building starting construction in years 2,3,4 or 5 are presented in Exhibit V-5. The highest yield, 36.4%, occurs if construction begins in year two and the lowest yield, 19%, occurs if the construction is delayed until the fifth year. Most likely, construction will begin in the third year, and the yield would be 27.8%.

4. Sensitivity Analysis

The sensitivity analysis was performed to determine the effect of building size on the expected yield. These results are presented graphically in Exhibit V-6 and in tabular form in Exhibit V-7. As expected, the largest building generated the highest yield since the land costs are the same regardless of the building size. For example, a 600,000 square foot building which began in year 2 would have a 48.3% yield while a 420,000 square foot building started at the same time would have a 43.9% yield.

Overall, the highest yields are achieved by building the biggest building as soon as possible, and the lowest yields are achieved by building the smallest building as late as possible. However, the market conditions will determine both the beginning of the construction and the size of the building. Most likely, construction will begin in the third year and the building will be between 300,000 and 420,000 square feet so that the most likely yield will be in the 27% to 34% range.

D. RISK

1. General Deal Structure

The deal structure provides several safeguards that reduce USF&G's risk exposure in the proposed joint venture. First, USF&G is always a limited partner, and second the capital contributions required in each category

have maximum amounts. Third, no liens are allowed on the land, and fourth USF&G has no liability exposure on either the construction loan or the permanent mortgage. Finally, all equity capital and priority returns must be repaid within five years. If any equity capital or priority return (the Development Release Price) is unpaid at that time, then the developer must do one of the following:

- * pay USF&G the Development Release Price, and the partnership continues, or
- * sell the unimproved property, pay USF&G the Development Release Price, and split remaining cash proceeds 50/50, and the partnership terminates, or
- * if the sales price of the unimproved property is not sufficient to pay the Development Release Price, then USF&G, at its option, can acquire the land for the Development Release Price, and the partnership terminates.

2. Market Risks

The most significant risk of the project is the market risk since a major determinant of profitability is the commencement of building construction when the Development Release Price is paid to USF&G. The downtown Minneapolis market while currently oversupplied has continued to experience good absorption. The market acceptance and success of Phases I and II suggest that when the excess space is absorbed International Centre III should capture its share of the new demand for space. The subject's competitive position is further enhanced by a low land cost and Ryan's marketing team is headed by Pat Ryan, an experienced leasing agent. Thus, the marketing risk is acceptable.

3. Operational Risk

The operational risk is minimal in the project because of Ryan's extensive experience in Minneapolis in all phases of real estate development (construction, leasing, and management). Also, Ryan's activities will be closely controlled with a comprehensive management agreement which will be part of the partnership agreement.

4. Default Risk

The default risk is also minimal in this project because no liens or encumbrances will be put on the project, and there are adequate reserves for real estate taxes even if the short term leases on the unimproved property are not renewed. If additional funds are required beyond USF&G's equity capital, the Ryans have a good net worth, good cash assets, and good banking relationships with First Minneapolis Bank.

E. CONCLUSIONS AND RECOMMENDATIONS

The proposed joint venture with Ryan Properties, Inc. should be profitable with an acceptable amount of risk. The downside risks are minimized because of the proven market acceptance of Phases I and II, the location

of the subject property, the low land cost, and Ryan's development expertise.

Therefore, as an equity investment in a land development, the proposed investment will provide more than adequate returns for the risks involved. Consequently, Piedmont Realty Advisors recommends that the Real Estate Investment Committee of the United States Fidelity and Guaranty Company approve the commitment of \$3,200,000 for an equity investment in Phase III of International Centre under the terms and conditions outlined in this report.

Exhibit V-1
VALUATION ANALYSIS

The Direct Sales Comparison Approach was used to estimate the market value of the subject property. The following land sales in downtown Minneapolis were considered.

Map No.	Description	Date	Size/S.F.	Price	Price/PSF	Zoning	Price/PSF/ Floor	Improvement (Buyer)
1.	222 South 9th Street Minneapolis, Minnesota	Dec. 1981	27,440	\$2,000,000	\$72.89	B4-2	\$2.67	Piper Jaffray Tower (JMB)
2.	701 Fourth Avenue South Minneapolis, Minnesota	Oct. 1982	27,225	\$2,800,000	\$103.70	B4-2	\$9.33	701 Building (Turner Development)
3.	Guest House Block 7th Street & 4th Avenue Minneapolis, Minnesota	Jan. 1985	108,900	\$21,800,000	\$200.18	B4-2	\$16.96	Lincoln Centre Phase I - 685,000 SF Phase II - 600,000 SF (Lincoln Properties)
4.	Site of Int'l Centre Phase II 10th Street & 2nd Avenue Minneapolis, Minnesota	1985	21,083	\$1,925,000	\$91.31	B4-2	\$7.52	International Centre II 256,000 SF (Ryan Properties, Inc.)
5.	Normandy Hotel Site 8th Street & 4th Avenue Minneapolis, Minnesota	Apr. 1986	107,056	\$14,000,000	\$130.77	B4S-1	\$14.00	1,000,000 SF Development (Trammell Crow)
6.	Clinton Block Assemblage 6th Street & 3rd Avenue Minneapolis, Minnesota	1983-1986	67,782	\$16,820,000	\$248.15	B4-2		Office Complex (McGuire/Thomas)
7.	SWC 9th Street South and Marquette Avenue Minneapolis, Minnesota	Under Contract	22,950	\$4,300,000- \$4,500,000	\$187.36 \$196.09			First Minnesota Bank (LaSalle Partners)
			Mean		\$149.82		\$10.10	

The best comparable in terms of time and location is Sale #7 which is across the street from the subject property and currently under contract. However on a conservative basis, the market value of the subject property is estimated to be \$150 per square foot of land or \$3,221,550.

$$21,477 \text{ S.F. @ } \$150.00 \text{ P.S.F.} = \$3,221,550$$

$$\text{Acquisition Cost to Market Value} = 74\% \\ (2,400,000/3,221,550)$$

Exhibit V-1A
RECENT LAND SALES MAP

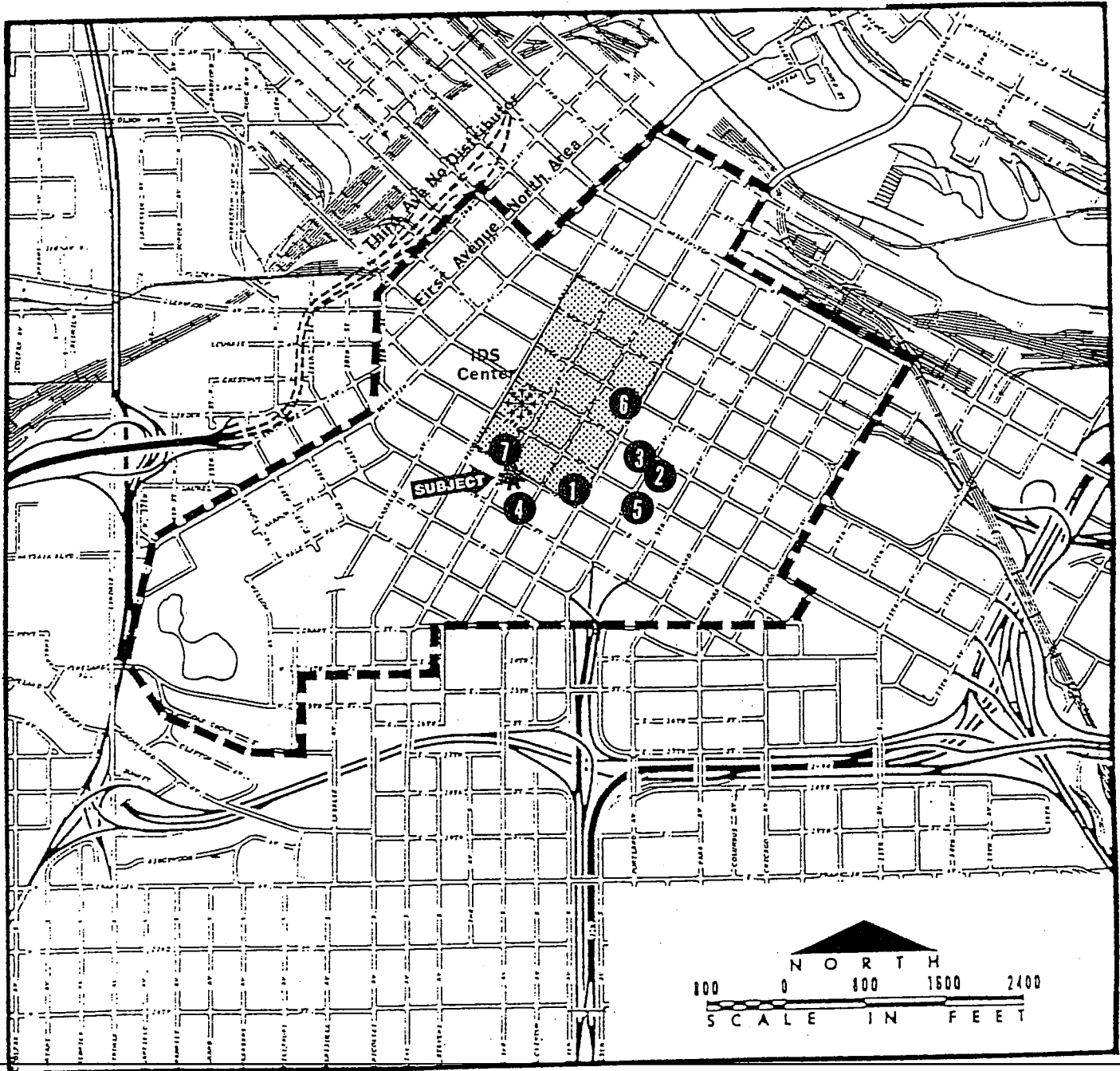


Exhibit V-2A
PROFORMA INCOME AND EXPENSES

PRELIMINARY PRO FORMA (Assume construction start - Year 2)
INTERNATIONAL CENTRE - PHASE III

Net Rentable Area:	600,000 SF	COST/SF
Gross Rentable Area:	626,533 SF	NRA
CONSTRUCTION COST:		
626,533 sf @ \$63.00	39,471,579	65.79
Architectural & Engineering	1,400,000	2.33
Subtotal	40,871,579	68.12
LAND (See attached Land Pro Forma)	2,798,243	4.66
DEVELOPMENT:		
Financing Fee	840,000	1.40
Legal, Title, Miscellaneous	250,000	0.42
Development Fee	2,000,000	3.33
Marketing	180,000	0.30
Subtotal	3,270,000	5.45
INTERIM & CARRY:		
Interim	4,693,982	7.82
Amount:	46,939,822	
Rate:	10%	
Period:	2 Yrs	
Carry	1 Yr @ 10%	14.00
Subtotal	13,093,982	21.82
CONTINGENCY:	1,000,000	1.67
TOTAL BASE BUILDING:	\$61,033,804	101.72
TENANT FINISH:		
Tenant Improvement - 600,000 sf @ \$18.00/sf	10,800,000	18.00
Leasing Fees - 600,000 sf @ \$4.50/sf	2,700,000	4.50
Tenant Inducement - 600,000 sf @ \$15.00/sf	9,000,000	15.00
	22,500,000	37.50
TOTAL PROJECT COST:	\$83,533,804	
TOTAL COST PER SQ. FT.:	\$139.22	
RENT:		
200,000 sf @ \$16.48	3,296,000	
200,000 sf @ \$19.10	3,820,000	
200,000 sf @ \$19.67	3,934,000	
TOTAL BASE RENT:	11,050,000	
Less: Vacancy @ 5%	(552,500)	
EFFECTIVE BASE RENT:	10,497,500	
ADDITIONAL INCOME:		
Parking Rental	132 stalls @ \$100.00/mo	158,400
Storage	6,000 sf @ \$6.00	36,000
TOTAL NET INCOME:	10,691,900	
Return on Project Cost:	12.80%	
Debt Payment:	\$83,533,804 @ 10%	(8,353,380)
CASH FLOW:	2,338,520	
Debt Coverage Ratio:	1.28	

Exhibit V-2B
PROFORMA INCOME AND EXPENSES

PRELIMINARY PRO FORMA (Assume construction start - Year 2)
INTERNATIONAL CENTRE - PHASE III

Net Rentable Area:	420,000 SF	COST/SF
Gross Rentable Area:	442,000 SF	NRA
<hr/>		
CONSTRUCTION COST:		
442,000 sf @ \$64.00	28,288,000	67.35
Architectural & Engineering	1,000,000	2.38
	<hr/>	<hr/>
Subtotal	29,288,000	69.73
LAND (See attached Land Pro Forma)	2,798,243	6.66
DEVELOPMENT:		
Financing Fee	520,000	1.24
Legal, Title, Miscellaneous	250,000	0.60
Development Fee	1,500,000	3.57
Marketing	126,000	0.30
	<hr/>	<hr/>
Subtotal	2,396,000	5.70
INTERIM & CARRY:		
Interim	3,448,224	8.21
Amount:	34,482,243	
Rate:	10%	
Period:	2 Yrs	
Carry	5,200,000	12.38
	<hr/>	<hr/>
Subtotal	8,648,224	20.59
CONTINGENCY:	750,000	1.79
	<hr/>	<hr/>
TOTAL BASE BUILDING:	\$43,880,467	104.48
TENANT FINISH:		
Tenant Improvement - 420,000 sf @ \$18.00	7,560,000	18.00
Leasing Fees - 420,000 sf @ \$4.50	1,890,000	4.50
Tenant Inducement - 420,000 sf @ \$15.00	6,300,000	15.00
	<hr/>	<hr/>
	15,750,000	37.50
TOTAL COST:	\$59,630,467	
TOTAL COST PER SQ. FT.:	\$141.98	
RENT:		
110,000 sf @ \$16.48	1,812,800	
155,000 sf @ \$19.10	2,960,500	
155,000 sf @ \$19.67	3,048,850	
	<hr/>	<hr/>
TOTAL BASE RENT:	7,822,150	
Less: Vacancy @ 5%	(391,108)	
	<hr/>	<hr/>
EFFECTIVE BASE RENT:	7,431,043	
<hr/>		
ADDITIONAL INCOME:		
Parking Rental	132 stalls @ \$100.00/mo	158,400
Storage	6,000 sf @ \$6.00	36,000
	<hr/>	<hr/>
TOTAL NET INCOME:	7,625,443	
Return on Project Cost:	12.79%	
Debt Payment:	\$59,630,467 @ 10%	(5,963,047)
<hr/>		
CASH FLOW:	1,662,396	
Debt Coverage Ratio:	1.28	

Exhibit V-2C PROFORMA INCOME AND EXPENSES

PRELIMINARY PRO FORMA (Assume construction start - Year 2)
INTERNATIONAL CENTRE - PHASE III

Net Rentable Area:	300,000 SF	COST/SF
Gross Rentable Area:	320,000 SF	NRA

CONSTRUCTION COST:		
320,000 sf @ \$65.00	20,800,000	69.33
Architectural & Engineering	725,000	2.42
	-----	-----
Subtotal	21,525,000	71.75
LAND (See attached Land Pro Forma)	2,798,243	9.33
DEVELOPMENT:		
Financing Fee	450,000	1.50
Legal, Title, Miscellaneous	250,000	0.83
Development Fee	1,150,000	3.83
Marketing	90,000	0.30
	-----	-----
Subtotal	1,940,000	6.47
INTERIM & CARRY:		
Interim	1,969,743	6.57
Amount:	26,263,243	
Rate:	10%	
Period:	1.5 Yrs	
Carry	4,500,000	15.00
	-----	-----
Subtotal	6,469,743	21.57
CONTINGENCY:	500,000	1.67
	-----	-----
TOTAL BASE BUILDING:	\$33,232,986	110.78
TENANT FINISH:		
Tenant Improvement - 300,000 sf @ \$18.00	5,400,000	18.00
Leasing Fees - 300,000 sf @ \$4.50	1,350,000	4.50
Tenant Inducement - 300,000 sf @ \$15.00	4,500,000	15.00
	-----	-----
	11,250,000	37.50
TOTAL COST:	\$44,482,986	
TOTAL COST PER SQ. FT.:	\$148.28	
RENT:		
100,000 sf @ \$16.48	1,648,000	
100,000 sf @ \$19.10	1,910,000	
100,000 sf @ \$19.67	1,967,000	
	-----	-----
TOTAL BASE RENT:	5,525,000	
Less: Vacancy @ 5%	(276,250)	
	-----	-----
EFFECTIVE BASE RENT:	5,248,750	
ADDITIONAL INCOME:		
Parking Rental	132 stalls @ \$100.00/mo	158,400
Storage	6,000 sf @ \$6.00	36,000
	-----	-----
TOTAL NET INCOME:	5,443,150	
Return on Project Cost:	12.24%	
Debt Payment:	\$44,482,986 @ 10%	(4,448,299)
CASH FLOW:	994,851	
Debt Coverage Ratio:	1.22	

INTERNATIONAL CENTRE - PHASE III

Gross Leasable Area: 626,533 sf
Net Rentable Area: 600,000 sf

Inflation Factor: 3% per annum

Exhibit V-3A
PROFORMA PROJECTIONS
(Construction Start: 2nd Year)

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	AREA (SF)	NET RENT (\$/Sq.Ft.)	YEAR 1 16.00 18.00	YEAR 2 16.48 18.54	YEAR 3 16.97 19.10	YEAR 4 17.48 19.67	YEAR 5 18.01 20.26	YEAR 6 18.55 20.87	YEAR 7 19.10 21.49	YEAR 8 19.68 22.14	YEAR 9 20.27 22.80	YEAR 10 20.88 23.49	YEAR 11 21.50 24.19
			Construction		Lease-Up								
BASE RENT (1):	200,000	\$16.48	0	0	3,296,000	3,296,000	3,296,000	3,296,000	3,296,000	3,296,000	3,296,000	3,296,000	3,296,000
	200,000	\$19.10	0	0	0	3,819,240	3,819,240	3,819,240	4,298,588	4,298,588	4,298,588	4,697,183	4,697,183
	200,000	\$19.67	0	0	0	0	3,933,817	3,933,817	3,933,817	3,933,817	3,933,817	4,697,183	4,697,183
TOTAL BASE RENT:	600,000		0	0	3,296,000	7,115,240	11,049,057	11,049,057	11,528,405	11,528,405	11,528,405	12,690,367	12,690,367
Less: Vacancy @ 5% (2)			0	0	(164,800)	(355,762)	(552,453)	(552,453)	(576,420)	(576,420)	(576,420)	(634,518)	(634,518)
EFFECTIVE BASE RENT:			0	0	3,131,200	6,759,478	10,496,604	10,496,604	10,951,985	10,951,985	10,951,985	12,055,849	12,055,849
ADDITIONAL INCOME (3)													
- Parking Income (132 stalls @ \$100/mo)			0	0	0	158,400	158,400	158,400	158,400	158,400	158,400	158,400	158,400
- Storage (6,000 sf @ \$6.00)			0	0	0	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000
TOTAL NET INCOME:			0	0	3,131,200	6,953,878	10,691,004	10,691,004	11,146,385	11,146,385	11,146,385	12,250,249	12,250,249
DEBT SERVICE (4)													
Int. Only (10%) * Proj. Cost			0	0	(8,353,380)	(8,353,380)	(8,353,380)	(8,353,380)	(8,353,380)	(8,353,380)	(8,353,380)	(8,353,380)	(8,353,380)
CASH FLOW FROM OPERATION			0	0	(5,222,180)	(1,399,502)	2,337,624	2,337,624	2,793,005	2,793,005	2,793,005	3,896,868	3,896,868
CASH FLOW DISTRIBUTION													
Land Developer (Ryan)	0.75		0	0	(5,222,180)	(1,399,502)	1,753,218	1,753,218	2,094,754	2,094,754	2,094,754	2,922,651	2,922,651
Land Partner (USF&G)	0.25		0	0	0	0	584,406	584,406	698,251	698,251	698,251	974,217	974,217

- (1) Base Rent assumes that (i) 200,000 sf is leased in Yr 3 for a 10-yr term at \$16.48/sf;
 (ii) 200,000 sf is leased in Yr 4 for a 3-yr term at \$19.10/sf renewing at market; and
 (iii) 200,000 sf is leased in Yr 5 for a 5-yr term at \$19.67/sf renewing at market.
 Assumptions include an inflation factor of 3% per annum for rents.

- (2) Due to the multi-tenant nature of the facility, a 5% vacancy factor has been assumed.

- (3) Additional Income includes parking rental of 132 stalls at \$100.00/mo and the rent on 6,000 sf of storage space at \$6.00/sf. No inflation has been calculated.

- (4) Debt Service assumes interest only at 10% on a Total Project Cost of \$83,533,804.

Sale Price - 11th Yr. N.O.I. x 10%: 122,502,466
 Less: Sales Commission @ 2% (2,450,050)

Sale Proceeds: 120,052,436
 Less: Mortgage Balance (83,533,804)

Net Sale Proceeds: 36,518,632
 Land Partner Share (25%) 9,129,658
 Plus Land Partner 10th Yr Net Income 974,217

Land Partner 10th Yr Cash Flow: 10,103,875

INTERNATIONAL CENTRE - PHASE III

Gross Leasable Area: 442,000 sf
Net Rentable Area: 420,000 sf

Inflation Factor: 3% per annum

Exhibit V-3B
PROFORMA PROJECTIONS
(Construction Start: 2nd Year)

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	AREA (SF)	NET RENT (Sq.Ft.)	YEAR 1 16.00 18.00	YEAR 2 16.48 18.54	YEAR 3 16.97 19.10	YEAR 4 17.48 19.67	YEAR 5 18.01 20.26	YEAR 6 18.55 20.87	YEAR 7 19.10 21.49	YEAR 8 19.68 22.14	YEAR 9 20.27 22.80	YEAR 10 20.88 23.49	YEAR 11 21.50 24.19
				Construction	Lease-Up								
BASE RENT (1):	110,000	\$16.48	0	0	1,812,800	1,812,800	1,812,800	1,812,800	1,812,800	1,812,800	1,812,800	1,812,800	1,812,800
	155,000	\$19.10	0	0	0	2,959,911	2,959,911	2,959,911	3,331,406	3,331,406	3,331,406	3,331,406	3,331,406
	155,000	\$19.67	0	0	0	0	3,048,708	3,048,708	3,048,708	3,048,708	3,048,708	3,640,317	3,640,317
TOTAL BASE RENT:	420,000		0	0	1,812,800	4,772,711	7,821,419	7,821,419	8,192,914	8,192,914	8,192,914	8,784,523	8,784,523
Less: Vacancy @ 5% (2)			0	0	(90,640)	(238,636)	(391,071)	(391,071)	(409,646)	(409,646)	(409,646)	(439,226)	(439,226)
EFFECTIVE BASE RENT:			0	0	1,722,160	4,534,075	7,430,348	7,430,348	7,783,269	7,783,269	7,783,269	8,345,297	8,345,297
ADDITIONAL INCOME (3)													
- Parking Income (132 stalls @ \$100/mo)			0	0	0	158,400	158,400	158,400	158,400	158,400	158,400	158,400	158,400
- Storage (6,000 sf @ \$6.00)			0	0	0	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000
TOTAL NET INCOME:			0	0	1,722,160	4,728,475	7,624,748	7,624,748	7,977,669	7,977,669	7,977,669	8,539,697	8,539,697
DEBT SERVICE (4)													
Int. Only (10%) * Proj. Cost			0	0	(5,963,047)	(5,963,047)	(5,963,047)	(5,963,047)	(5,963,047)	(5,963,047)	(5,963,047)	(5,963,047)	(5,963,047)
CASH FLOW FROM OPERATION			0	0	(4,240,887)	(1,234,571)	1,661,702	1,661,702	2,014,622	2,014,622	2,014,622	2,576,650	2,576,650
CASH FLOW DISTRIBUTION													
Land Developer (Ryan)	0.75		0	0	(4,240,887)	(1,234,571)	1,246,276	1,246,276	1,510,966	1,510,966	1,510,966	1,932,488	1,932,488
Land Partner (USF&G)	0.25		0	0	0	0	415,425	415,425	503,655	503,655	503,655	644,163	644,163

(1) Base Rent assumes that (i) 110,000 sf is leased in Yr 3 for a 10-yr term at \$16.48/sf;
(ii) 155,000 sf is leased in Yr 4 for a 3-yr term at \$19.10/sf renewing at market; and
(iii) 155,000 sf is leased in Yr 5 for a 5-yr term at \$19.67/sf renewing at market.
Assumptions include an inflation factor of 3% per annum for rents.

(2) Due to the multi-tenant nature of the facility, a 5% vacancy factor has been assumed.

(3) Additional Income includes parking rental of 132 stalls at \$100.00/mo and the rent on 6,000 sf of storage space at \$6.00/sf. No inflation has been calculated.

(4) Debt Service assumes interest only at 10% on a Total Project Cost of \$59,630,467.

Sale Price - 11th Yr. M.O.I. x 10%: 85,396,969
Less: Sales Commission @ 2% (1,707,939)

Sale Proceeds: 83,689,030
Less: Mortgage Balance (59,630,467)

Net Sale Proceeds: 24,058,563
Land Partner Share (25%): 6,014,641
Plus Land Partner 10th Yr Net Income: 644,163

Land Partner 10th Yr Cash Flow: 6,658,803

INTERMEDIATE CENTRE - PHASE III

Gross Leasable Area: 320,000 sf
Net Rentable Area: 300,000 sf

Inflation Factor: 3% per annum

Exhibit V-3C
PROFORMA PROJECTIONS
(Construction Start: 2nd Year)

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13-Nov-86

	AREA (SF)	NET RENT (Sq.Ft.)	YEAR 1 16.00 18.00	YEAR 2 16.48 18.54	YEAR 3 16.97 19.10	YEAR 4 17.48 19.67	YEAR 5 18.01 20.26	YEAR 6 18.55 20.87	YEAR 7 19.10 21.49	YEAR 8 19.68 22.14	YEAR 9 20.27 22.80	YEAR 10 20.88 23.49	YEAR 11 21.50 24.19
				Construction	Lease-Up								
BASE RENT (1):	100,000	\$16.48	0	0	1,648,000	1,648,000	1,648,000	1,648,000	1,648,000	1,648,000	1,648,000	1,648,000	1,648,000
	100,000	\$19.10	0	0	0	1,909,620	1,909,620	1,909,620	2,149,294	2,149,294	2,149,294	2,348,592	2,348,592
	100,000	\$19.67	0	0	0	0	1,966,909	1,966,909	1,966,909	1,966,909	1,966,909	2,348,592	2,348,592
TOTAL BASE RENT:	300,000		0	0	1,648,000	3,557,620	5,524,529	5,524,529	5,764,203	5,764,203	5,764,203	6,345,183	6,345,183
Less: Vacancy @ 5% (2)			0	0	(82,400)	(177,881)	(276,226)	(276,226)	(288,210)	(288,210)	(288,210)	(317,259)	(317,259)
EFFECTIVE BASE RENT:			0	0	1,565,600	3,379,739	5,248,302	5,248,302	5,475,993	5,475,993	5,475,993	6,027,924	6,027,924
ADDITIONAL INCOME (3)													
- Parking Income (132 stalls @ \$100/mo)			0	0	0	158,400	158,400	158,400	158,400	158,400	158,400	158,400	158,400
- Storage (6,000 sf @ \$6.00)			0	0	0	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000
TOTAL NET INCOME:			0	0	1,565,600	3,574,139	5,442,702	5,442,702	5,670,393	5,670,393	5,670,393	6,222,324	6,222,324
DEBT SERVICE (4)													
Int. Only (10%) * Proj. Cost			0	0	(4,448,299)	(4,448,299)	(4,448,299)	(4,448,299)	(4,448,299)	(4,448,299)	(4,448,299)	(4,448,299)	(4,448,299)
CASH FLOW FROM OPERATION			0	0	(2,882,699)	(874,160)	994,404	994,404	1,222,094	1,222,094	1,222,094	1,774,026	1,774,026
CASH FLOW DISTRIBUTION													
Land Developer (Ryan)	0.75		0	0	(2,882,699)	(874,160)	745,803	745,803	916,570	916,570	916,570	1,330,519	1,330,519
Land Partner (USF&G)	0.25		0	0	0	0	248,601	248,601	305,523	305,523	305,523	443,506	443,506

(1) Base Rent assumes that (i) 100,000 sf is leased in Yr 3 for a 10-yr term at \$16.48/sf;
(ii) 100,000 sf is leased in Yr 4 for a 3-yr term at \$19.10/sf renewing at-market; and
(iii) 100,000 sf is leased in Yr 5 for a 5-yr term at \$19.67/sf renewing at market.
Assumptions include an inflation factor of 3% per annum for rents.

(2) Due to the multi-tenant nature of the facility, a 5% vacancy factor has been assumed.

(3) Additional Income includes parking rental of 132 stalls at \$100.00/mo and the
rent on 6,000 sf of storage space at \$6.00/sf. No inflation has been calculated.

(4) Debt Service assumes interest only at 10% on a Total Project Cost of \$44,482,936.

Sale Price-11th Yr. N.O.I. x 10%: 62,223,243
Less: Sales Commission @ 2% (1,244,465)

Sale Proceeds: 60,978,778
Less: Mortgage Balance (44,482,936)

Net Sale Proceeds: 16,495,792
Land Partner Share (25%) 4,123,948
Plus Land Partner 10th Yr Net Income 443,506

Land Partner 10th Yr Cash Flow: 4,567,454

Exhibit V - 4

SPECIAL CAPITAL ANALYSIS
AND
DEVELOPMENT RELEASE PRICE CALCULATIONS

Year	1	2	3	4	5
Beginning Special Capital Balance	2,490,000	2,515,771	2,545,998	2,580,859	2,620,539
- Income from Operations	26,229	21,773	17,139	12,320	7,307
+ Operating Deficit Contingency	52,000	52,000	52,000	52,000	52,000
(A) = Ending Special Capital Balance	2,515,771	2,545,998	2,580,859	2,620,539	2,665,232
Beginning Priority Returns	0	249,000	500,577	755,177	1,013,263
+ Current Priority Returns	249,000	251,577	254,600	258,086	262,054
(B) = Ending Priority Returns	249,000	500,577	755,177	1,013,263	1,275,317
= Development Release Price [(A) + (B)] = DRP	2,764,771	3,046,575	3,336,036	3,633,802	3,940,549

Exhibit V-5
USF&G CASH FLOW ANALYSIS
300,000 Square Foot Building

	Year of Operations	0	1	2	3	4	5	6	7	8	9	Sale	IRR
Construction Starts in Yr.:	2	(2,490,000)	2,764,771	0	0	248,601	248,601	305,523	305,523	305,523	443,506	4,567,454	36.4%
	3	(2,490,000)	(30,227)	3,046,575	0	0	248,576	248,576	307,206	307,206	307,206	4,480,334	27.8%
	4	(2,490,000)	(30,227)	(34,861)	3,336,036	0	0	248,661	248,661	309,050	309,050	3,099,353	21.7%
	5	(2,490,000)	(30,227)	(34,861)	(39,680)	3,633,802	0	0	248,795	248,795	310,996	3,112,046	19.0%

Exhibit V-6

IRR PROJECTIONS

600,000 SF

420,000 SF

300,000 SF

% RETURN

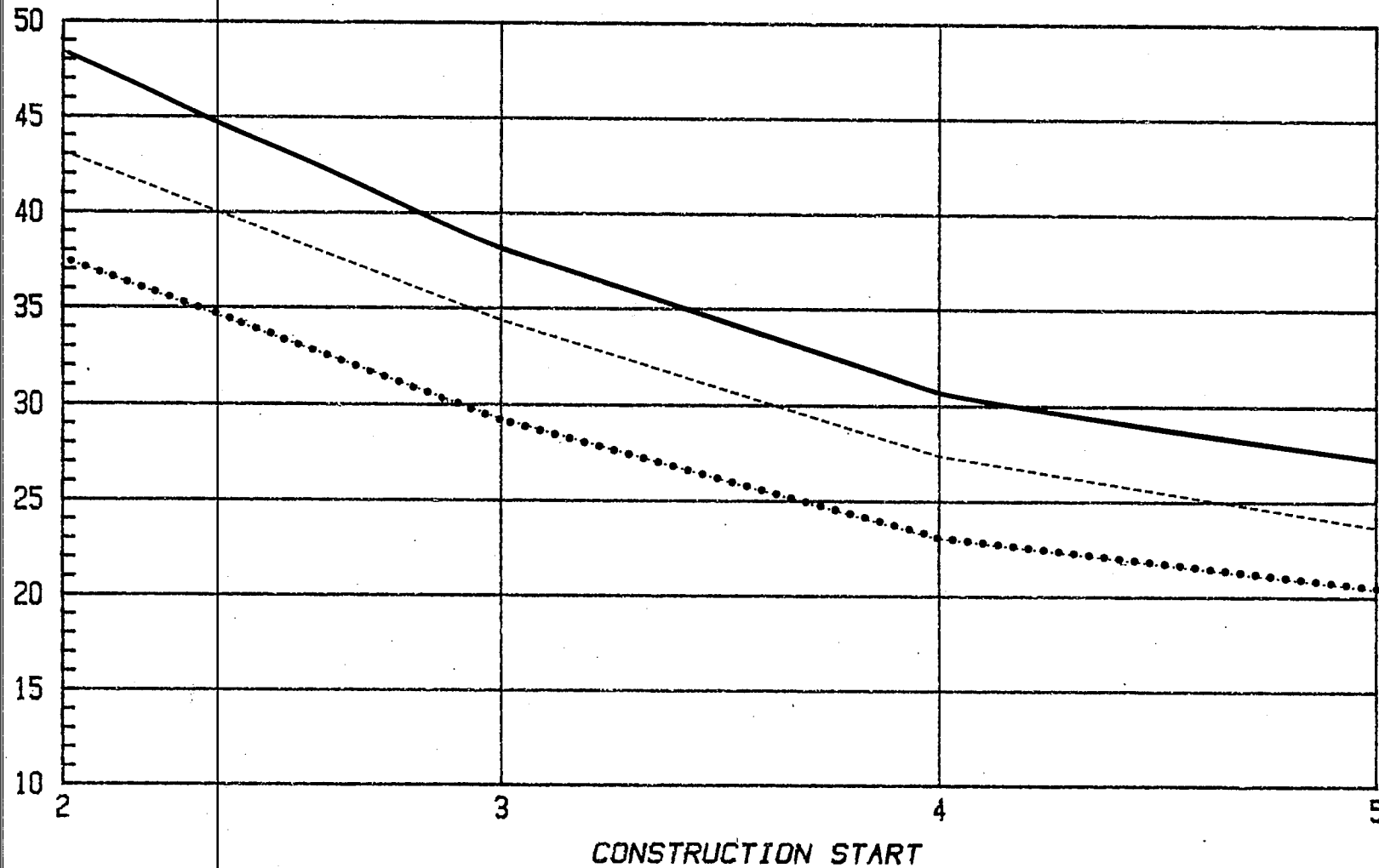


Exhibit V - 7

SENSITIVITY ANALYSIS

	Construction Start			
	Year 2	Year 3	Year 4	Year 5
300,000 Sq.Ft.Building	36.4%	27.8%	21.7%	19.0%
420,000 Sq.Ft.Building	43.1%	34.4%	27.4%	23.7%
600,000 Sq.Ft.Building	48.4%	38.0%	30.6%	27.2%