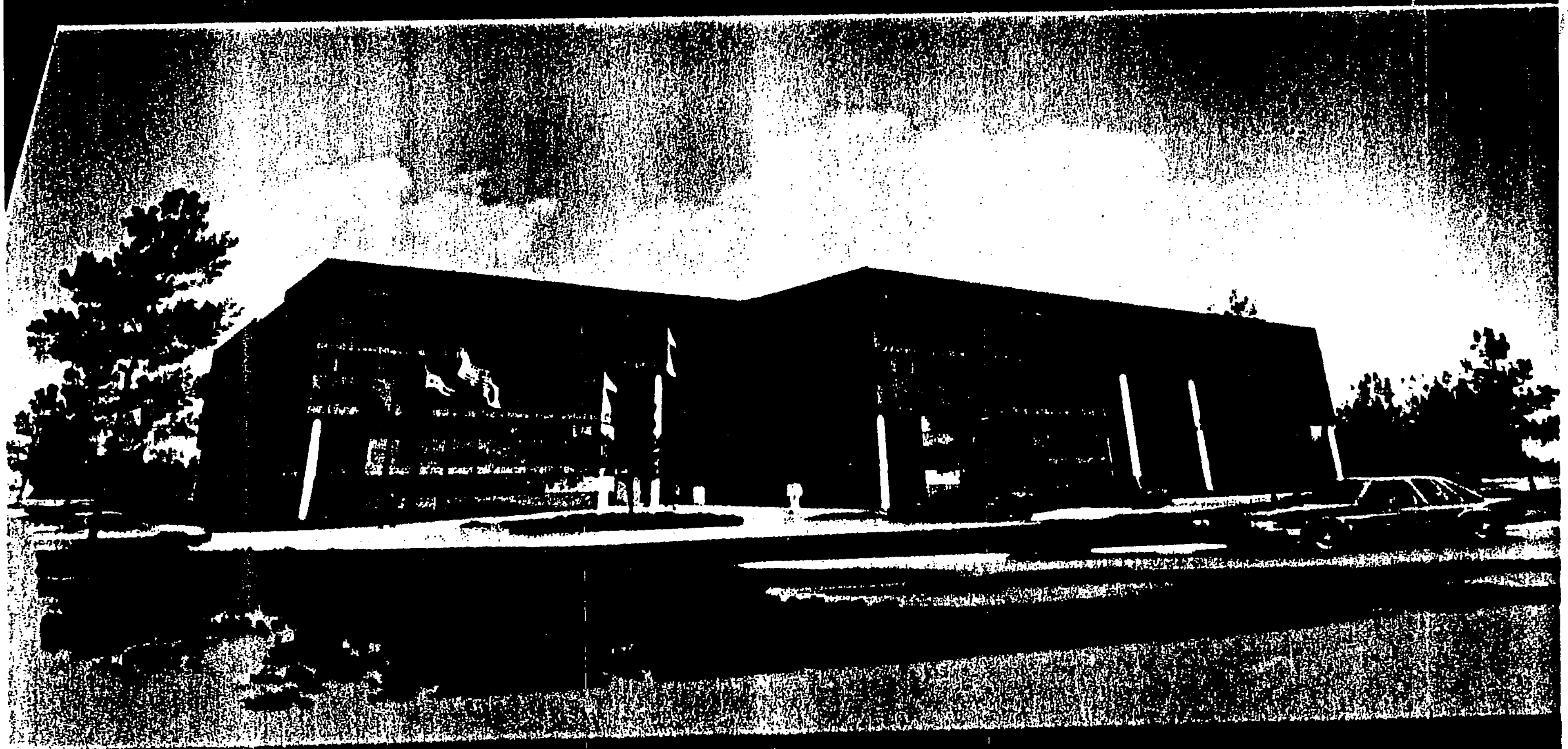
Kohlhepp Copy

OHIO EPA OFFICE BUILDING

COLUMBUS, OHIO

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



Ohio E.P.A. Building
1800 Watermark Drive
Columbus, Ohio

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I. INTRODUCTION

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

202-822-9000

August 25, 1986

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

Re: Ohio EPA Office Building
Columbus, Ohio

Dear Sirs and Madam:

Enclosed for your review is an investment report on an office building to be built in Columbus, Ohio that is 100% pre-leased for use as the new headquarters of the Ohio Environmental Protection Agency. Piedmont Realty Advisors intends to review this report with the Real Estate Investment Committee on August 27, 1986. A summary of the proposed investment in included as Exhibit I-1.

Property - The subject property is a 97,500 gross square foot, four-story office building. Ground was broken just last week for the project, and completion is expected by July 1, 1987. The 5.3 acre site is located on the shore of a fresh water lake (formerly a quarry) that is 2.5 miles west of downtown Columbus. Primary access and many amenities are currently provided by Dublin Road/U.S. 33, a four-lane surface street that connects Columbus' better residential neighborhoods to the northwest with the central business district. Freeway access and visibility will be excellent with the completion of I-670 in 1990. I-670 runs along the south shore of the lake opposite the subject, and will run through downtown and northeast to the airport.

The improvements will be of Class "A" quality, with a level of finish far better than that usually associated with state agency facilities. The building will feature steel and concrete construction with a brick exterior. Four rows of vision glass, building recesses, and structural exterior columns will provide architectural relief and accents. Interior finishes will feature carpeting, permanent partitions, hardwood doors, and polished marble accents in the lobby and restrooms. The building will have no special or unusual improvements for the EPA and will be entirely suitable for multi-tenant uses in the event the EPA relocates and the building must be re-marketed.

Market - The property is 100% pre-leased to the State of Ohio, and the permanent loan will not fund until the Ohio Environmental Protection Agency takes possession. Therefore, USF&G will bear no lease-up exposure.

As background, the Columbus office market contains a total of about 15 million square feet of space. Columbus has a strong and very diversified economic base that has kept absorption at healthy levels but overbuilding in the past few years has created a fairly soft market with vacancies of 18% overall. Piedmont's survey of competitive properties indicates that the subject's initial net rental rate of $10.13 per gross square foot is well within the range of market rents for comparable space.

Borrower - The Borrower will be Daimler Watermark Company, an Ohio general partnership. The managing general partner is Robert C. White, President of The Daimler Group. Mr. White had over 14 years of experience developing properties in central Ohio before forming The Daimler Group in 1983. Since then Daimler has developed 350,000 square feet of office space as well as condominium, retail and warehouse properties. The principals of the Daimler Group are successful brokers, developers and architects with a combined net worth of $17 million.

Risk/Return - Since the subject property is 100% pre-leased to the State of Ohio, this proposed investment involves unusually low risks and a high degree of predictability for the return. Due to state budgeting laws, the lease is structured with a two-year term and 9 two-year renewal options. The lease requires substantial penalty payments from the State in the event it fails to renew an option, but both the lease and the penalty payments are "subject to appropriation" by the State government. While these provisions do present risks, they are contained in all State leases and the likelihood of the State failing to perform is extremely low. Other risks of marketing, operations, and default are also extremely low.

The lease stipulates rental increases which average 3.25% per year for the first ten years, at which time the lease rate is increased by 75% of the cumulative C.P.I. With a coupon rate of 9.5%, additional participations in the property's cash flow bring the investor's cash on cash return to 10.03% in the initial years, and the projected return over an 11-year period is 12.10%. This proposed mortgage provides security that is similar to a state bond with a yield considerably higher than that available in current bond markets. Consequently, Piedmont believes that the projected return is very attractive in light of the low risks involved.

We therefore recommend the issuance of a commitment for a first mortgage of $9,350,000 on the Ohio EPA Building located at 1800 Watermark Drive in Columbus, Ohio, subject to the terms and conditions outlined in Exhibit I-1. If you have any questions, please feel free to contact me.

Sincerely,

William C. Hunter

WCH:clg
Enclosures

Exhibit I-1
LETTER OF APPLICATION

PIEDMONT REALTY ADVISORS
650 CALIFORNIA STREET
TWENTY-SECOND FLOOR
SAN FRANCISCO, CALIFORNIA 94108
415-433-4100

RECEIVED
JUL 22 1986
Ans'd..........

July 21, 1986

RECEIVED
JUL 23 1986

Mr. H. E. Schmidt, III
W. Lyman Case & Company
55 Nationwide Boulevard, Suite 200
Columbus, Ohio 43215

Re: **First Mortgage Financing**
Ohio EPA Building
Columbus, Ohio

Dear Ted:

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:	A planned four-story office building containing at least 97,500 gross square feet with at least 390 parking spaces which is 100% leased to the State of Ohio.
Location:	1800 Watermark Drive, Columbus, Ohio.
Land Area:	Approximately 5-1/2 acre parcel.
Borrower:	Daimler Watermark Company Rcw ~~The Daimler Group, Inc.~~
Lender:	USF&G Realty.
Loan Amount:	$9,350,000.
Interest Rate:	9.50%.
Term:	20 Years.
Amortization:	Not Applicable, interest only.
Recourse:	This will be a non-recourse loan.

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

Prepayment:

* No prepayment through year 7.
* Prepayment fee of 5% of the outstanding loan balance in year 8, 3% in year 9, and 1% in year 10 and thereafter.
* No prepayment fee if lender exercises its call option.

Additional Interest:

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

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

Commitment Fee: $187,000; $93,500 in cash which is earned upon acceptance of the commitment, $93,500 in an unconditional letter of credit which will be refunded to the Borrower at closing.

Initial Funding: $9,350,000. Funding will occur within 60 days after completion of shell and tenant improvements, and occupancy by the Ohio Environmental Protection Agency. Funding must occur within 18 months of the acceptance of the commitment.

Lease Penalty Payments: Any and all proceeds resulting from penalty payments due to the State of Ohio's failure to renew the lease will be put in escrow to fund tenant re-fit expenses, leasing commissions and debt service. Any remaining amounts will be treated as a cash flow distribution.

Contingencies:

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

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

C. Leases: Lender reserves the right to approve all leases subject to agreed upon leasing standards. Specifically, lender must approve the lease and options dated June 19, 1986 between the Daimler Group, Inc. and the State of Ohio.

D. Secondary Financing: Secondary financing will be permitted only with written approval from Lender.

E. Market Value Appraisal: Lender will receive a market value estimate of the property from an approved MAI-designated appraiser which is not less than $11,000,000. This appraisal will be required within thirty (30) days after the Lender's Investment Committee meeting.

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

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

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

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

If the terms outlined in this letter are acceptable to your client, please have the appropriate representative sign below and return this letter with an application fee of $50,000 by July 23, 1986. The application fee should be wired to a custodial account. Please call me for wiring instructions. The application fee will be returned to the Borrower if the Lender does not issue a commitment according to the terms of this letter. The application fee will be earned when the commitment is issued by the Lender in accordance with this letter. The application fee will be applied to the cash commitment fee when the commitment is signed by the Borrower.

Sincerely,

William C. Hunter

[illegible] Watermark Company

ACCEPTED: Robert C. White DATED: July 22, 1986

TITLE: General Managing Partner

II. THE PROPERTY

II. THE PROPERTY

A. INTRODUCTION

The subject property is a 97,500 gross square foot four-story office building to be built at 1800 Watermark Drive in Columbus, Ohio. The property has been 100% pre-leased by the State of Ohio to serve as the new headquarters for the Ohio Environmental Protection Agency. Construction is scheduled to begin in mid-August 1986 with completion and occupancy expected in July 1987. The property will be the first development in a new office park known as Watermark. This office park is located on the shore of a former rock quarry and benefits from excellent access to downtown and Columbus' better residential neighborhoods, freeway visibility, and the water feature provided by the quarry.

B. LOCATION

1. Accessibility

The subject property will be located approximately 2.5 miles west of downtown Columbus (see Exhibit II-1). Dublin Road/U.S. 33 currently provides the primary access to the site. Dublin Road is a four-lane surface street that runs through Columbus' better residential areas to the northwest of the subject, and leads directly into downtown with a 4 to 5 minute driving time from the subject. Dublin Road lies just north of the subject (see Exhibit II-2) and will have a landscaped and signed entrance for Watermark Drive. Watermark Drive is the only road through the park and runs from Dublin Road to Grandview Avenue where there is a signaled intersection.

The subject will have excellent freeway access and visibility from Interstate 670. I-670 is a Columbus beltway that is under construction and will connect western Columbus, downtown and the airport which lies northeast of downtown (see Exhibit II-1). The first spur of I-670 is complete, running along the southern shore of the quarry and terminating at Grandview Avenue a few hundred feet south of the Watermark entrance. The rest of I-670 has already been funded and the eminent domain acquisitions have been made. Final completion of I-670 is expected in 1990-91, well within the expected term of the initial lease with the EPA. Once finished, I-670 will provide the subject with excellent freeway access throughout the Columbus area.

2. Adjacent Land Uses

The subject property will be the first development in the Watermark Office Park. The park derives its name from the large fresh water, spring-fed lake that filled in a former rock quarry. The park will accommodate total development of approximately 500,000 square feet of office space over the next few years. The current plan for the park includes hotel, retail and residential projects, although the most likely use will be low to mid-rise office space (see Exhibit II-2).

The current status of the park is that it has been graded, subdivided and improved with utilities, roads, and signage. The marketing of the park is currently done by the owner, American Aggregate, who has owned the parcel since the 1920's and completed its quarrying activities at the site in the 1960's. However, it is likely that the Daimler Group, developer of the subject, will take over the marketing function in the near future.

Outside of the Watermark Office Park, the only adjacent land uses that will affect the subject are focused along Dublin Road/U.S. 33. (See Exhibits II-3 and II-4 and II-5). Virtually all of the projects along this corridor are owner/user facilities typically under 25,000 square feet in size. Users range from banks to medical centers to truck repair facilities. While the tenants in the area may be mixed there is a predominance of white collar users, and several buildings have recently undergone substantial renovation and improvement. Dublin Road also offers several amenities to the subject including hotels, professional and personal services, and restaurants ranging from fast food to steak houses.

C. THE SITE

The site is an irregularly shaped parcel of 5.289 acres (see Exhibit II-6). It is essentially flat and level having been graded in preparation for development although a large berm with landscaping will be created along the north side of the site to serve as a visual screen for the truck center located between the subject and Dublin Road. All utilities are available at the site, and zoning allows the intended development.

D. THE IMPROVEMENTS

The site will be improved with a four-story, 97,500 gross square foot Class "A" office building and 391 surface parking spaces. The building will be situated on a foundation of cast in place concrete with drilled footings. The structure itself will use a steel frame with flooring systems of metal decking and lightweight concrete.

The exterior will be of red brick with four rows of ribbon vision glass. The design will incorporate several recesses around the exterior accented by structural columns for architectural relief. The areas above the two building entrances will receive a spandrelite glass treatment as a further accent. (See Frontispiece).

Floor plates will average 24,375 gross square feet, laid out in two rectangles connected by an elevator and restroom lobby. (See Exhibit II-7). This layout makes the building very suitable for multi-tenant use, allowing for greater flexibility if the EPA should ever decide to relocate. Each floor will be served by three hydraulic elevators in one bank, and also by a total of three stairwells with one stairwell located at each end of the building and one located at the building's core. Bay depths will be a minimum of 25' X 25'.

Building standard interior finishes will include carpeting, vinyl wallcoverings, and gypsum board permanent partitions. The ceiling system will be of acoustical tile supported by t-bar frames with recessed fluorescent lighting fixtures. Interior doors will be solid core wood with a hardwood veneer, and hardware will have a brass finish. Restrooms will feature ceramic tile finishes and polished marble sink areas. Lobby finishes will include polished marble flooring and brick wall treatments.

Improvements to the site will include ample landscaping of grass and specimen trees along both Watermark Drive and the berm at the north edge of the site. Parking will be provided for 391 cars, giving a ratio in excess of four spaces per 1,000 gross square feet. Seventy-four spaces will be in a secured parking area intended for the use by State Agency vehicles. Visitor and handicapped parking will be located around the south side of the building along with a semi-circular drop-off area.

E. PROJECT BUDGET

The project budget is presented in Exhibit II-8 and totals $9,350,000. Hard costs of $4,450,000 represent $46.67 per gross square foot which is appropriate for the Columbus area. A tenant improvement budget of $1,900,000 ($19.50 per gross square foot) has been given to the Ohio EPA, and any overstandards or cost overruns will be paid for by the tenant. A moving expense of $300,000 has been budgeted, which was a requirement of the state leasing guidelines. The development fee and profit of $569,000 is justified since the property is 100% pre-leased with no free rent given, and these funds that otherwise would have been used for lease-up interest carry may flow to the developer as additional profit. Overall the budget and loan balance reflect a cost of $95.90 per gross square foot. This cost is appropriate for a Class "A" building in the Columbus area.

F. CONCLUSION

The subject property will be located in an attractive setting with water views, freeway visibility and excellent accessibility throughout the Columbus area. As the first development in the Watermark Park, future development on surrounding parcels and the completion of the I-670 beltway during the EPA's occupancy will serve to enhance the property's value and marketability in the event that the EPA relocates. The surrounding area is well established and offers a variety of amenities and conveniences to the subject.

The improvements will be a handsome Class "A" office building with an overall quality much higher than that usually associated with a state agency facility. There will be no special or unusual improvements for the EPA in the building, and the floor plans and building design are entirely suitable for multi-tenant uses, creating maximum flexibility for remarketing and lasting investment value.

Exhibit II-1

REGIONAL LOCATION MAP

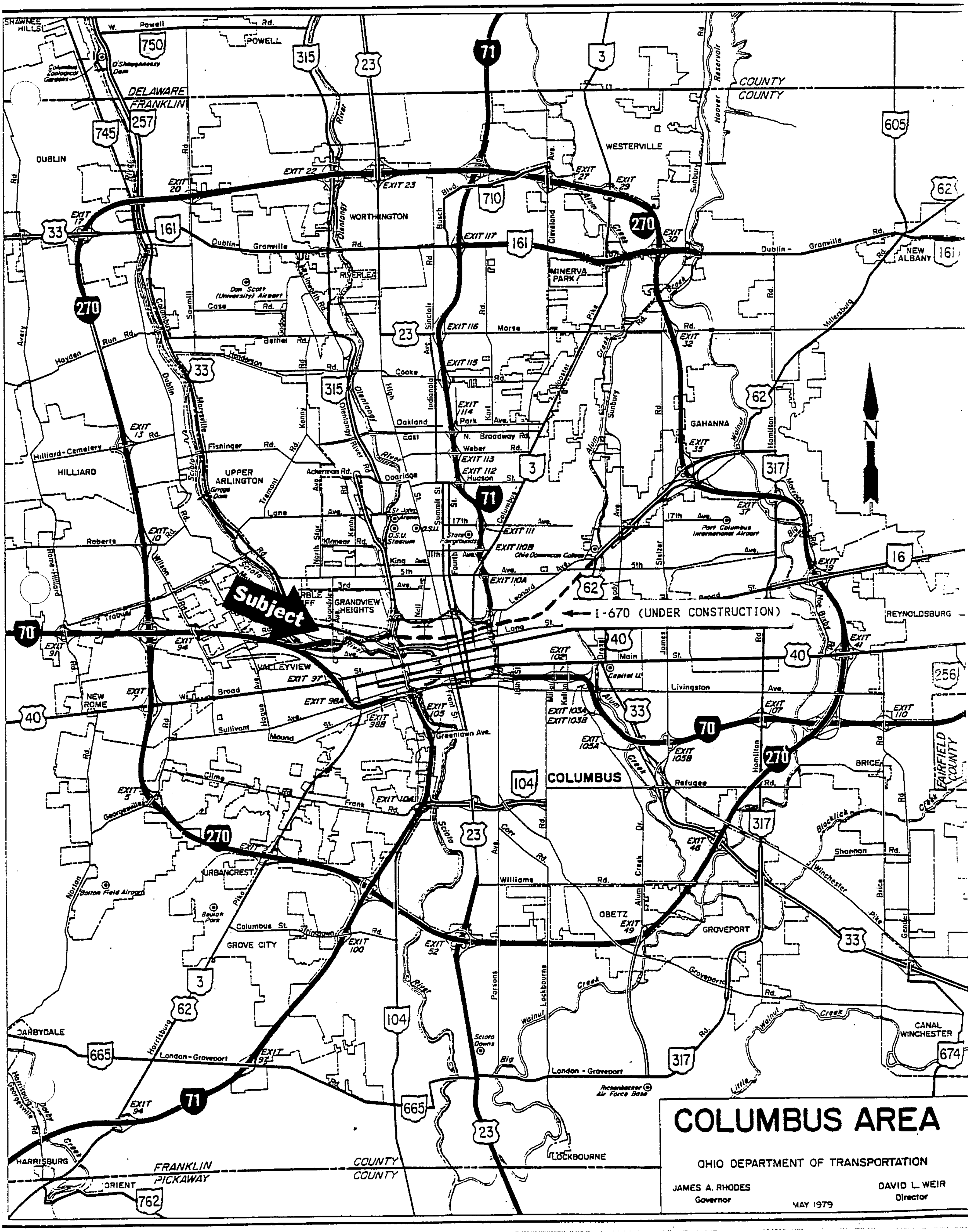


Exhibit II-2

LOCAL ACCESS MAP

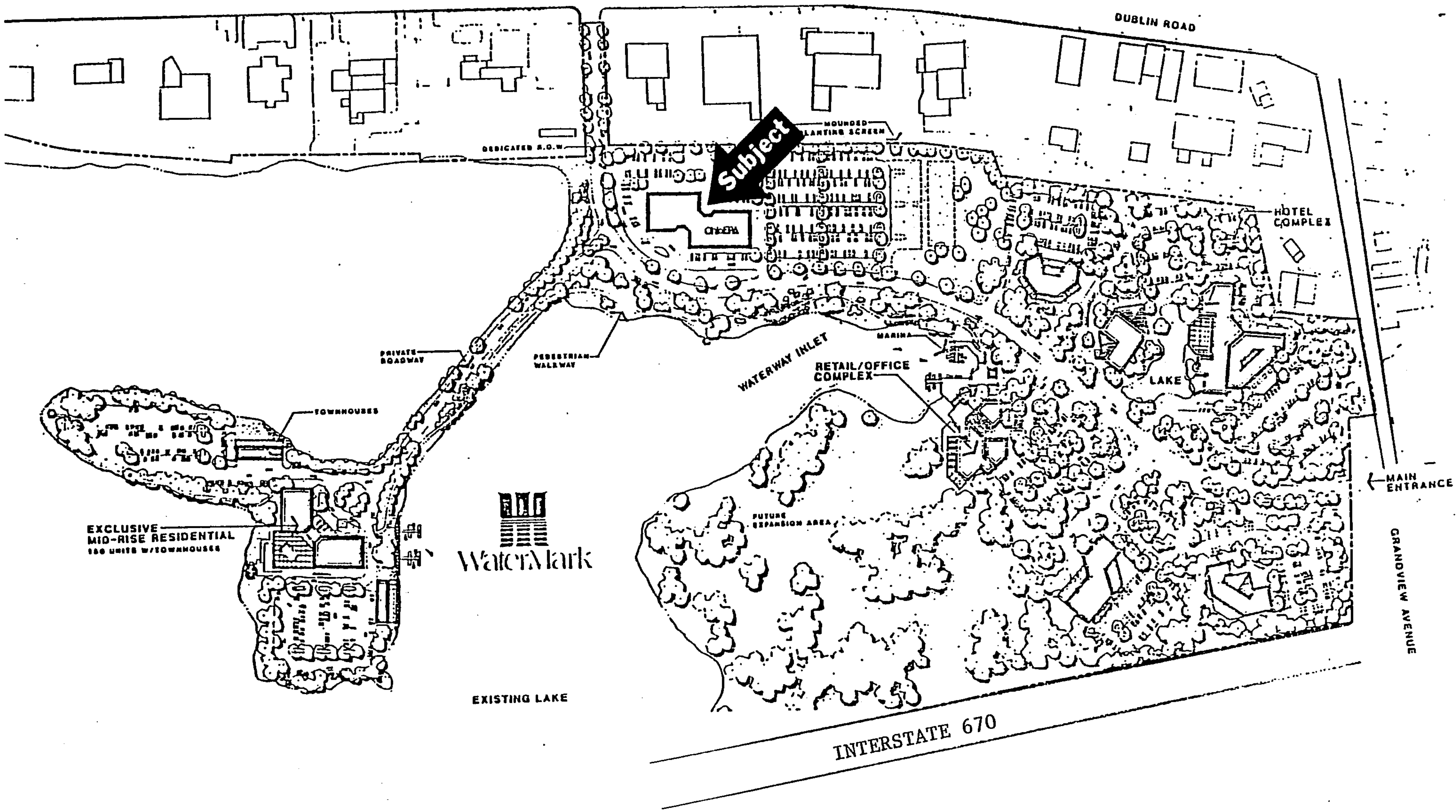


Exhibit II-3

ADJACENT LAND USES

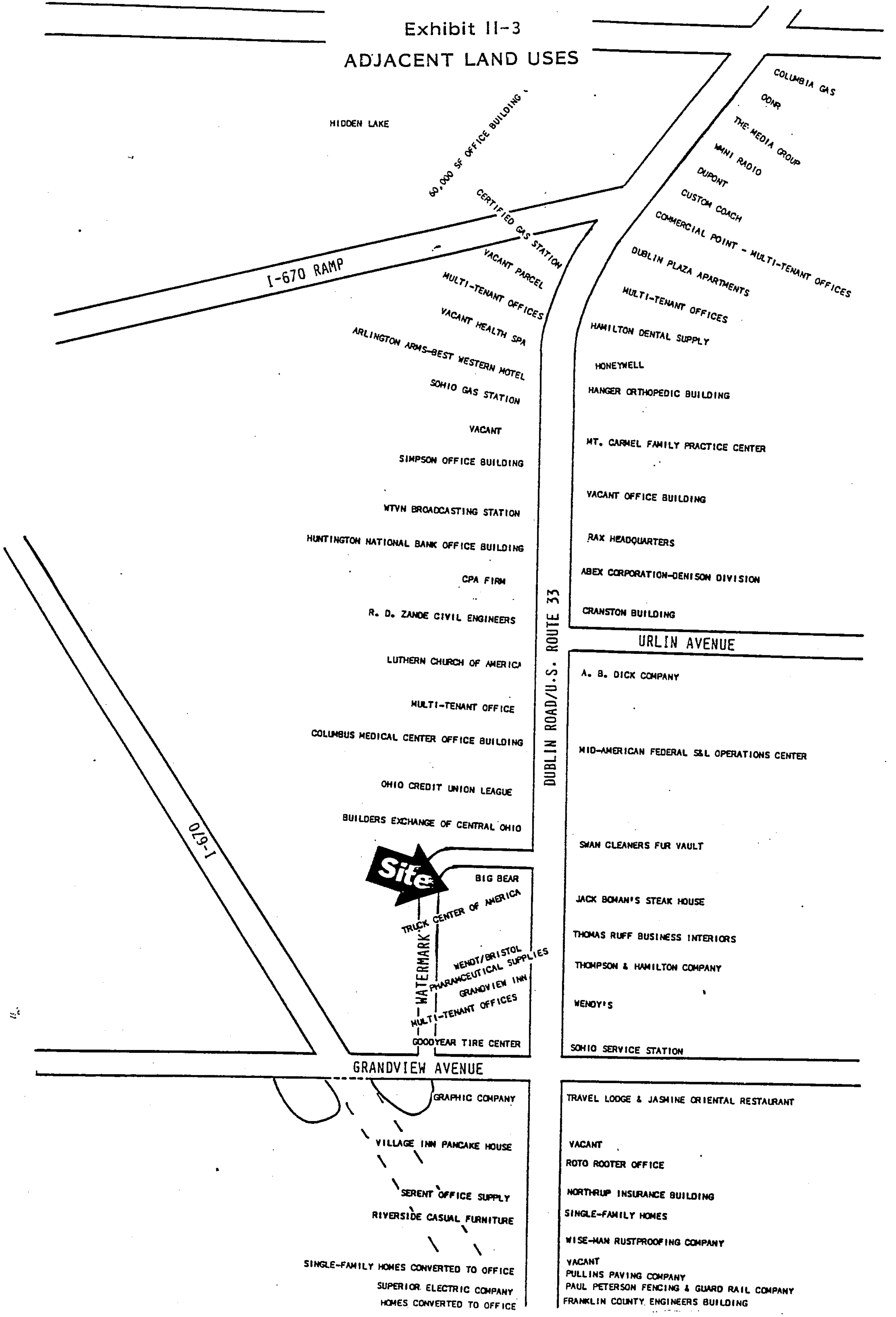


Exhibit II-4

AERIAL PHOTGRAPH

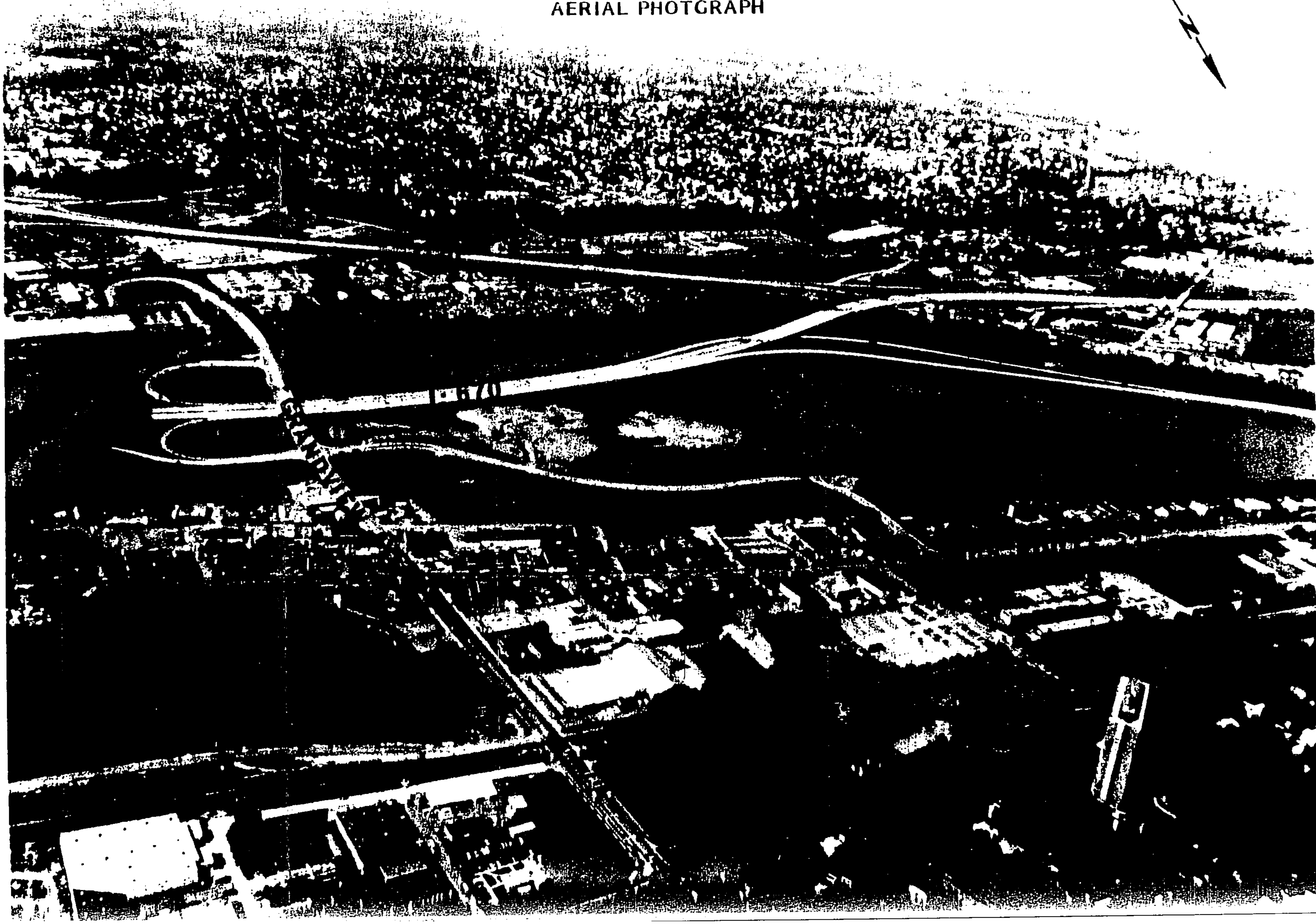


Exhibit II-5

AERIAL PHOTOGRAPH

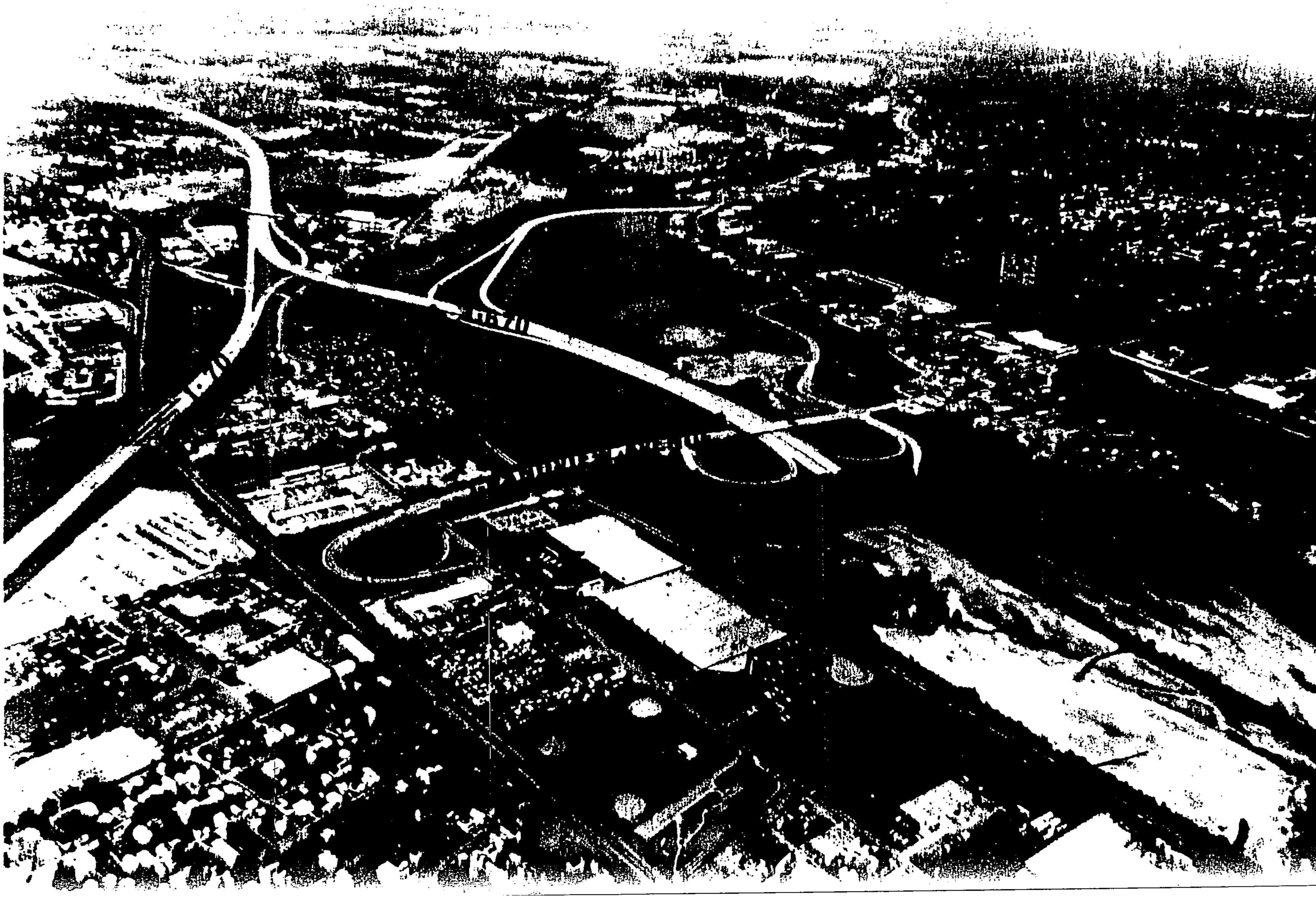


Exhibit II-6
SITE PLAN

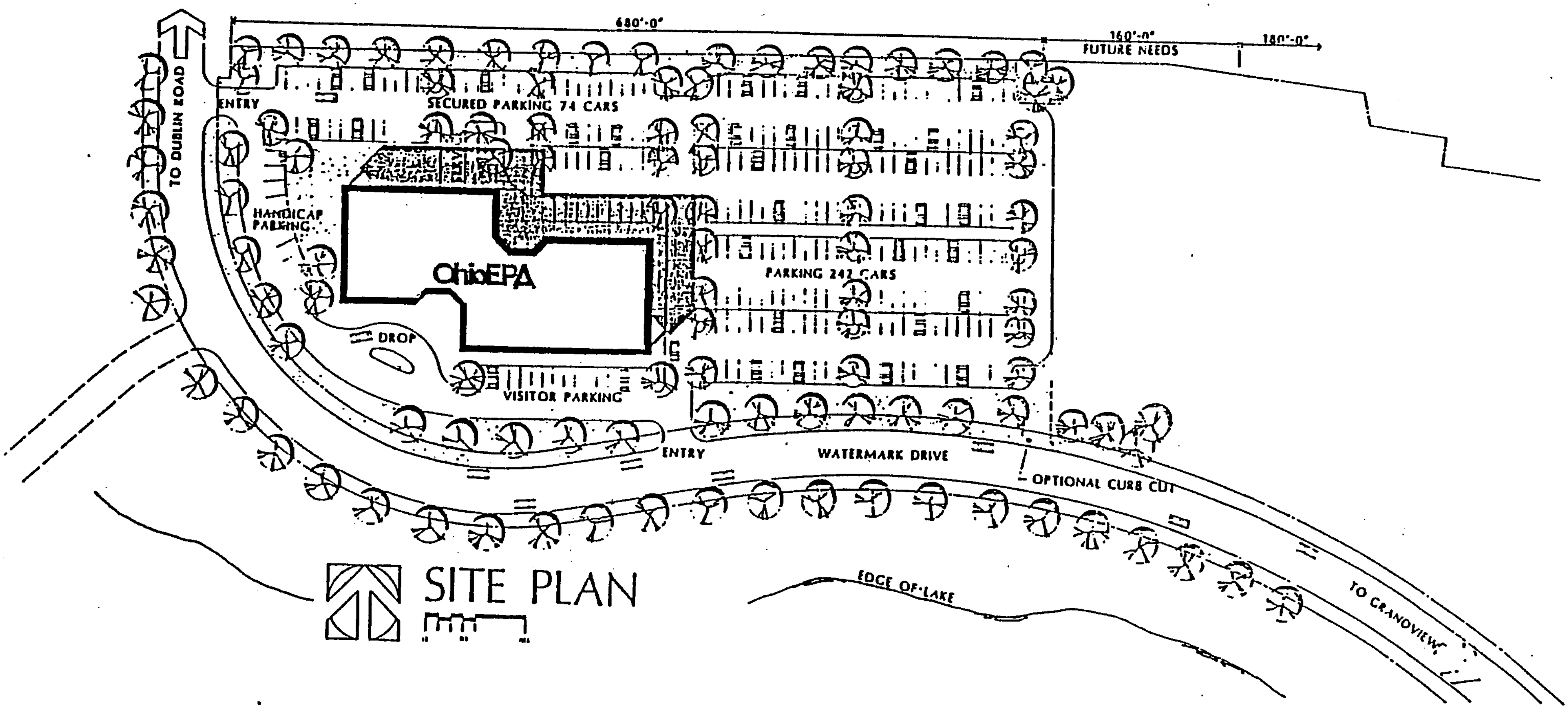


Exhibit II-7
TYPICAL FLOOR PLAN

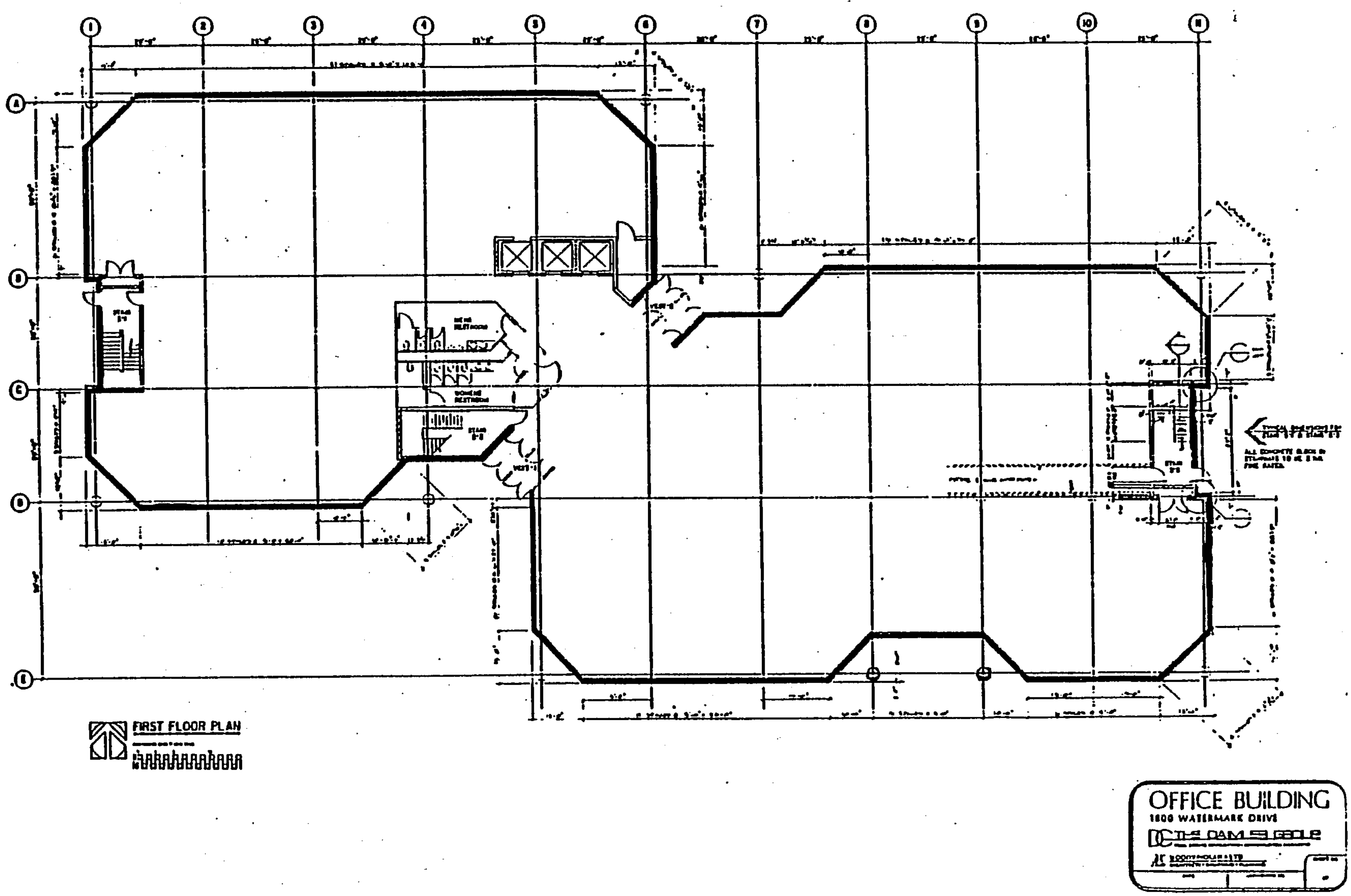


Exhibit II-8

PROJECT BUDGET

SUMMARY OF COSTS

Cost Description	Budget Cost
General Conditions	$ 596,850
Site Work	408,632
Concrete	298,487
Masonry	300,080
Metals	802,313
Carpentry	242,450
Thermal and Moisture Protection	129,375
Doors/Window/Glass	359,546
Finishes	133,319
Specialities	23,225
Equipment	0
Furnishings	0
Special Construction	0
Elevator	250,000
Mechanical	632,100
Electrical	374,568
Subtotal	$ 4,550,945
Tenant Finish	$ 1,900,000
Land	825,000
Preconstruction	200,000
Marketing	275,000
Legal	100,000
Development Fee	569,055
Financing	630,000
FF&E - Move	300,000
Total	$ 9,350,000

III. THE MARKET OVERVIEW

III. THE MARKET OVERVIEW

A. INTRODUCTION

The Columbus Metropolitan Area encompasses several counties and has a population of 1.2 million. While government is the largest employer in this State capital city, Columbus has a very diversified economic and employment base. The surrounding farmlands of Ohio give agriculture a strong presence. Ohio State University (the country's largest campus with over 56,000 students) and the Battelle Memorial Institute are leading research facilities which bring a technical presence to the area and have spawned several high tech start-up firms. Defense contractors in the area include Rockwell International and the Defense Construction Supply Center. Financial institutions of national importance include Nationwide Insurance, Bank One, and Huntington Bank. Heavy manufacturing is represented by Fisher Body Division, Timkin Bearing and Worthington Industries. Sears Roebuck, The Limited, and J.C. Penney have major retail/distribution centers in the area as well.

B. THE COLUMBUS OFFICE MARKET

The Metropolitan Columbus office market contains approximately 15 million square feet of office space, with vacancy rates at close to the national average of 18-20%. About 6.2 million square feet are located downtown, 2.0 million square feet are located in northwest Columbus along the Beltway I-270, and roughly 3.0 million square feet are located along I-270 in northeast Columbus. The balance of the space (3.8 million square feet) is widely distributed throughout the area (see Exhibit III-1).

The Columbus Office Market has several important characteristics. There are a large number of owner/user buildings throughout the area, which tends to decrease the mobility of tenants within the market. There is also a large amount of Class B and C space available at rates as low as $6 per foot, full service. While these low rates do not impact image conscious tenants, they do create a downward pressure on overall rates. Finally, national developers such as Vantage, Linclay and Trammell Crow are increasingly active in the Columbus area. Their aggressive development of relatively large projects could have a destabilizing effect on Columbus' office market.

<u>Downtown</u> - The downtown market contains about 6.2 million square feet of office space (excluding government facilities), with 1.8 million square feet of new space added since 1984. 1.1 million square feet of this new space is from Gerald D. Hines' Huntington Center, completed in 1984 and currently 80% leased. An additional 415,000 square feet (18% pre-leased) will come on the market in late 1986 with the completion of One Columbus, a major high-rise development being managed by the Daimler Group, developer of the subject. Asking rents for Huntington Center and One Columbus are $15 and $19 per foot respectively net of expenses. However, rental concessions bring effective net rents for these buildings to the $11 to $14 range. Other Class A buildings such

as One Nationwide Plaza are asking $13 to $15 per square foot on a full service gross basis, with concessions bringing effective rents to the $11 to $13 range. A large number of Class B buildings are available in the downtown area for under $10 per foot on a full service basis.

Northwest I-270 -- This submarket is located at the intersection of I-270 and Dublin Road in northwest Columbus. The focal point of this market is the five-phase Metro Center that has recently been completed by a joint venture of the Pickett Company and Prudential. The total project offers 550,000 square feet with the final phase containing 194,000 square feet with 33% of the space leased since mid-1985. Asking rents for Phase V are $13.50 per foot on a net basis with 15% concessions lowering the effective rents to $11.50 net. Other properties in this area include the Dublin Tech Mart (125,000 square feet), Cramer Creek (72,000 square feet) and a Trammell Crow project of 130,000 square feet that recently broke ground. The Metro Center area provides a good comparable for the subject (and the Watermark Park) on the basis of overall size, ease of access, and overall quality of design and finish.

Northeast I-270 -- This submarket is located along I-270 between Route 23 and Route 3 in northeastern Columbus. Major projects in this area include Linclay's three-phase Corporate Exchange Center totalling 280,000 square feet with asking rents of $13 per foot, net, ($11.00 per foot effective), and Vantage Companies' Northeast Business Campus with 75,000 square feet in three buildings asking $13 per foot full service ($11.50 effective).

C. COMPETITIVE OFFICE SPACE

The competitive buildings included in this survey are taken from several of the suburban submarkets. Office space in Columbus is typically quoted on a gross area basis. (This means a tenant who actually uses 10,000 square feet will pay for about 11,000 square feet at the quoted rate.) It is a growing trend to quote space net of operating expenses. If expense stops are used they are typically between $3.25 to $4.00 per foot. Therefore, for comparison purposes the subject property will receive $10.13 per gross square foot net of expenses and with no concessions, which would equal roughly $13.65 per foot on a full service basis.

Rents in this survey range from $10 to $17 per gross rentable foot on a full service basis. (See Exhibits III-2 and III-3.) The lower end of this range (the Landings, Caspian I & II and the Chatham Buildings) are represented by smaller, older buildings that have experienced good occupancies over the past 10-15 years. These buildings have a two-story walk-up design, and while well maintained, they do not have the quality of finish that the subject will have.

Two newer, but still small buildings in the survey are Numbers 7 and 8, both built by the Daimler Group, developer of the subject, and proximate proximity to the subject. While Number 7 is partially leased by the developer and Number 8 is under construction, the asking rents of $14 full service and $12.50 net, respectively, are indicative of rents for newer, better quality space in this area. (concessions of 15% lower the effective rents to $11.90 and $10.63.)

The top of the market is represented by properties 9 through 13. These properties also represent the best comparables on the basis of age, size, and quality. Asking rents for these buildings range from $14.75 to $17.00 per gross rentable square foot on a full service basis, although several properties are being marketed on a net basis to tenants. Concessions of approximately 15% are available making the range of effective rents from $12.50 to $14.50 ($9.00 to $11.00 net). These projects have met with very good market acceptance due to their high quality, and locations in office parks that combine ease of access with an upscale image. The subject property will share these attributes.

D. CONCLUSION

The Columbus office market is typical of most national real estate markets. Over-building has created a vacancy rate approximating 20%, but tenant demand and absorption has remained healthy. The fact that the subject is 100% pre-leased eliminates the need for absorption and lease-up projections. However, several successful comparable projects indicate that the subject is in line with the market in terms of price, quality and market acceptance in the event that the property must be remarketed.

Exhibit III-1

COLUMBUS OFFICE
SUB-MARKETS

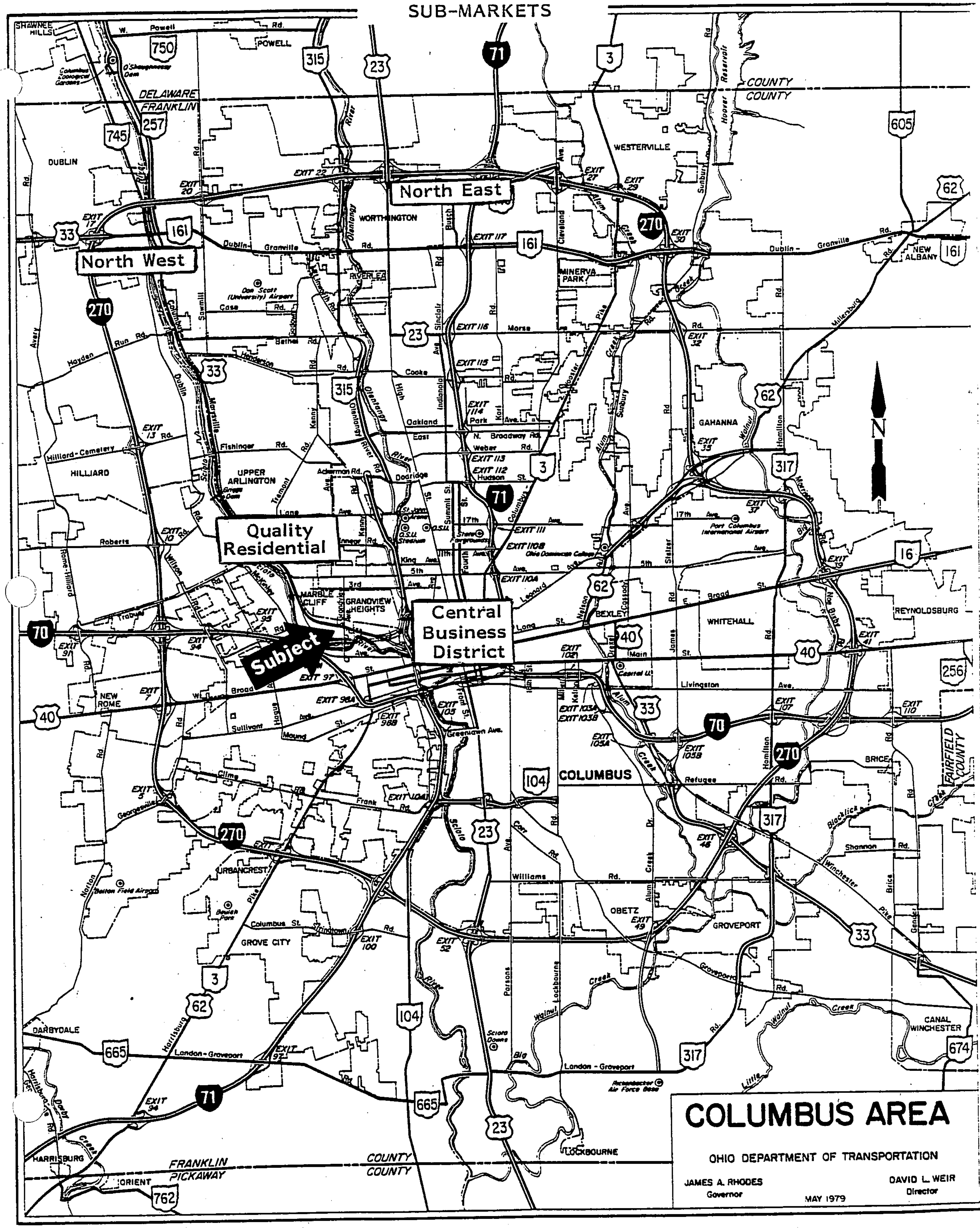


Exhibit III-2

COMPETITIVE PROPERTY SURVEY

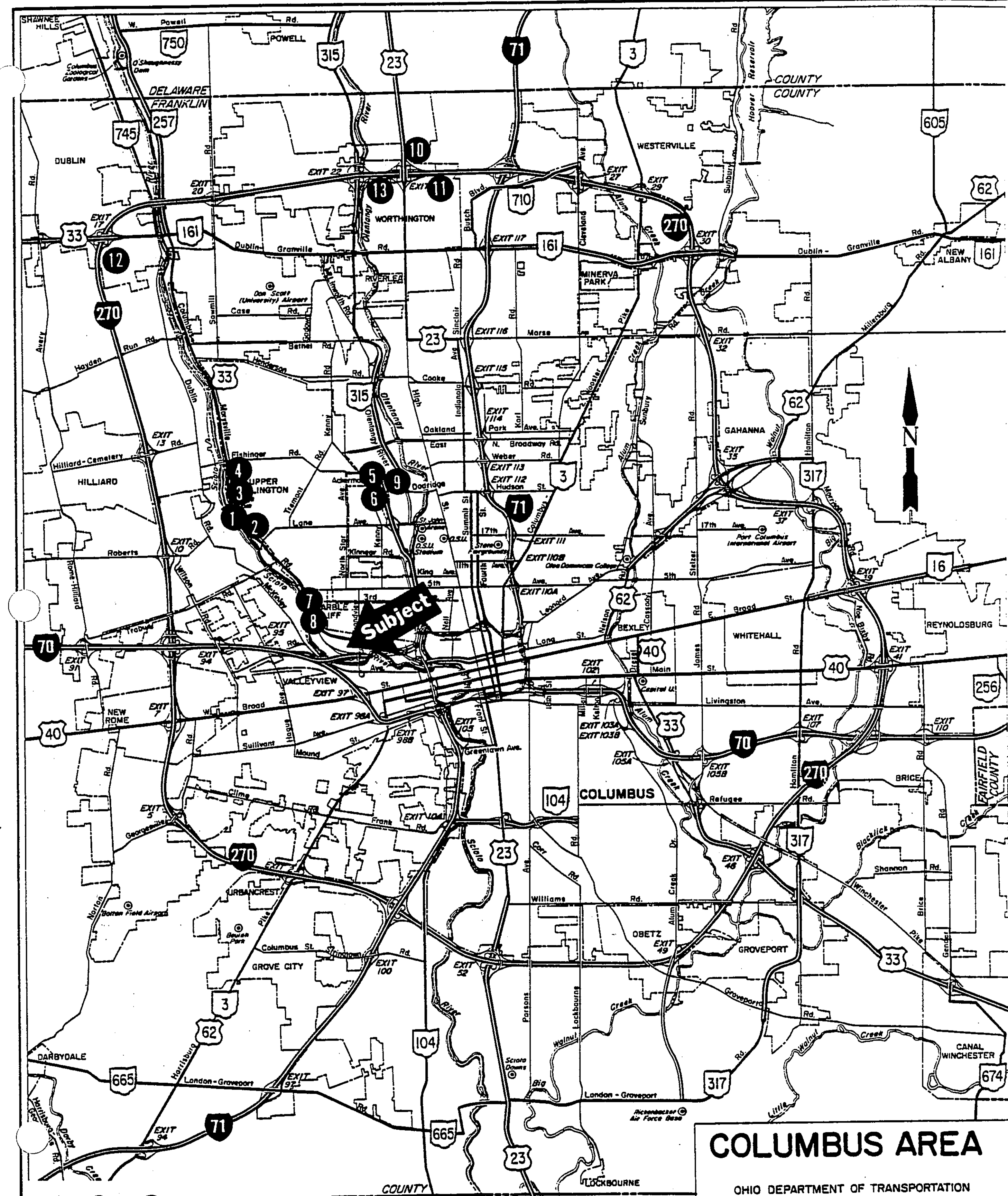
Map Indication #	Name	Location	Size	Age	Occupancy	Lease Rate and Comments
Subject	E.P.A. Building	1800 Watermark Drive	97,500 sf	To be built	100%	10.13/sf net app. 13.50 on a gross basis.
1	The Landings I	3070 Riverside Drive	17,315 sf	15 years	100%	$8.50-$14.00/sf full service; pass thru expence increases over base year.
2	The Landings II	3040 Riverside Drive	38,000 sf	14 years	93%	$10.50/sf full service; expense pass thru over base year.
3	Caspian I	3366 Riverside Drive	18,641 sf	10 years	90%	$11.00/sf full service; expense & tax pass thru base year.
4	Caspian II	3518 Riverside Drive	23,468 sf	7 years	95%	$11.00/sf full service; expense & tax pass thru base year.
5	Chatham Village Building	931 Chatham Lane	26,600 sf	14 years	100%	$10.50-$14.50 full service.
6	Chatham Office Building	941 Chatham Lane	47,000 sf	12 years	89%	$11.50-$12.50 full service.
7	Davon/Daimler Building	1533 Lake Shore Drive	13,000 sf	1 year	85%	$14.00/sf full service.
8	1500 Lake Shore Drive Building	1500 Lake Shore Drive	57,000 sf	U/C	0%	$12.50/sf net

Exhibit III-2 (Continued)

9	Ackerman Place	Ackerman Road at S.R. 315	109,500 sf	2 years	50%	$14.75/sf full service
10	One Crosswoods Center	100 E. Campus View Blvd.	134,952 sf	2 years	100%	$15./sf full service, expense and tax stops at $3.50, 16% common area factor.
11	Conquest Center I, II	E. Wilson Bridge Road	51,806 sf	New	0%	$12.50/sf net
12	Metro Center V	Metro Place	194,000 sf	1 year	33%	$13.50/sf net
13	Corporate Hill III	300 Old Wilson Bridge Rd.	94,716 sf	2 years	87%	$13.25/sf net

Exhibit III-3

COMPETITIVE PROPERTY MAP



Note: 1 - 13 correspond to Exhibit III-2.

IV. THE BORROWER

IV. BORROWER/DEVELOPER

A. INTRODUCTION

The borrowing entity for this transaction will be The Daimler Watermark Company, an existing Ohio general partnership. Although this Borrower is a separate legal entity, it is affiliated with The Daimler Group, Inc. which has developed or managed the construction of numerous projects in the Columbus area. The Daimler Group is an Ohio Corporation formed in 1983 whose stockholders include several of Columbus' leading architects, brokers, developers, and businessmen.

B. BORROWER

The following are biographical sketches of the principals of Daimler Watermark Company. The Borrower is a general partnership, and as such has no limited partners. The percentage interest in the borrowing entity appears parenthetically after the individuals named. All of the following individuals except Messrs. Johnson and Ziegler are also principals of The Daimler Group, Inc.

Robert C. White (25%) - President, The Daimler Group, Inc. Mr. White spent 14 years with the Pickett Companies (formerly known as Banning & Pickett) developing properties in central Ohio prior to the formation of the Daimler Group in 1983.

Conrad Wisinger (10%) - Executive Vice President, The Daimler Group, Inc. Mr. Wisinger has been active in real estate development for over 15 years. His areas of expertise include construction management, systems design, and cost control.

Friedrich K.M. Bohm (13.75%) - President, Bohm-NBBJ, Inc., an architectural firm of international reputation. Major design projects include One Columbus, the 650,000 square foot State Tower II being built in downtown Columbus, and the 1.6 million square foot Workers Compensation Complex.

Hal W. Field (13.75%) - President, Upton Department Stores. Mr. Field was formerly the Chairman of the Board of Gold Circle Stores, a major Ohio retail chain that was acquired by Federated Department Stores.

H.E. Schmidt, III and Denison Neale, Jr. (13.75% Each) - Principals, W. Lyman Case & Company. W. Lyman Case serves as lending correspondent for several institutional lenders and is also active in the commercial leasing markets.

G. Bradford Johnson and Herman Ziegler (6% and 4% respectively) - Mr. Johnson is Vice President of Marketing for The Daimler Group, and Mr. Ziegler is Vice President of Operations.

The stated net worth of these individuals totals over $17 million.

C. DEVELOPMENT TEAM

1. Developer

The Daimler Group has developed over 350,000 square feet of office space in northwestern Columbus over the past three years. Daimler has done several smaller office buildings of 10,000-30,000 square feet (which are typical for suburban Columbus) as well as several larger build-to-suit properties. To a lesser degree Daimler has also developed condominiums, retail, warehouse, and renovations. Major projects currently underway include the development management of One Columbus, a $62 million, 450,000 square foot downtown high-rise being developed by Travelers Insurance, and the development management of the $17 million renovation of LeVeque Tower in downtown Columbus. A listing of Daimler's projects appears as Exhibit IV-1.

2. General Contractor

The general contractor will be Dugan & Meyers Construction Co., Inc., based in Cincinnati, Ohio. Dugan & Meyers began as a home builder 50 years ago and rapidly progressed to the construction of larger projects. Clients include Gerald D. Hines Interests, Prudential Insurance and General Motors Corporation. Recent major projects include the Georgia World Congress Center in Atlanta, the Port Columbus International Airport, and the Southeast Financial Center in Miami, Florida.

3. Architect

The architect will be Moody/Nolan, Ltd. of Columbus, Ohio. Moody/Nolan is a minority owned firm formed in 1978 that currently employs 21 professionals. Curtis J. Moody received his training at Ohio State University, and has been a practicing architect since 1973. Howard Nolan has an engineering background, and spent 20 years with the Ohio Department of Transportation. Projects include several designs for state and local agencies such as the Ohio State University Agricultural Center, a Veterans Administration Building, and the Linden Branch Library Addition. Moody/Nolan is also a member in a consortium of architects (including Bohm-NBBJ) designing the 650,000 square foot State Office Tower II in downtown Columbus.

D. CONCLUSION

Daimler Watermark Company, and The Daimler Group, Inc. has assembled a credible team for the design and construction of the subject property. The Borrowers have substantial financial strength and a good track record. The initial design has been approved by the State of Ohio, and Dugan & Meyers' depth of experience in construction should bring in a timely completion of the project.

Exhibit IV-1

PROJECT LISTING
THE DAIMLER GROUP, INC.

One Columbus - The Daimler Group is the development consultant for Travelers Insurance for this prestigious project located at the corner of Broad and High Streets in downtown Columbus. This is to be a 26-story, $62,000,000 project, totalling 450,000 square feet of luxury office space. Completion is scheduled for October of 1986.

LeVeque Tower Renovation - A $17,000,000 renovation of Columbus' historic 40-story landmark office building which was originally built in 1926.

Payco American Regional Headquarters - A 50,000 square foot office building for the nation's largest debt collection agency.

Davon Building - A 14,000 square foot build-to-suit building built for Davon, Inc. The project was completed in July, 1985.

Ron Foth Retail Corporate Headquarters - A 12,000 square foot office building for a regional advertising agency specializing in broadcasting. Completed December, 1983.

Llewellyn Farms Corporate Center (Buildings I and II) - Two 10,140 square foot speculative office buildings.

Beall Rose and Associates, CPA's Building - An 8,000 square foot build-to-suit office building, located in Dublin for a group of certified public accountants. Completed in March of 1985.

55 Nationwide Boulevard - An historic, tax advantage renovation project in what was once a cold storage warehouse for a plumbing supply company. The 51,000 square foot structure has been converted into a luxury office building. Completed, March 1983.

Hayden Run Plaza - A 32,000 square foot retail shopping center housing approximately 24 individual stores, located in the northwest quadrant of Columbus. Completion of the center was in January of 1985.

Glenbarr At Muirfield - Glenbarr will include three phases totalling 36 residential condominium units overlooking the picturesque sixth hole of the Country Club at Muirfield. Phase I was completed in August, 1985 and Phase II is starting in 1986.

The Dublin Tech Mart - A 125,000 square foot office park on a 12-acre tract of land comprising three separate single story buildings designed with flexibility to suit different space needs ranging from 1,500 square feet to 75,000 square feet.

Brookside Corporate Park - Three 6,100 square foot single story buildings. One building was built-to-suit for a client, the other two were speculatively built.

1500 Lake Shore Drive - A 60,000 square foot five story speculative office building located on the banks of the Scioto River is scheduled to start in 1986 with completion in early 1987.

Payco American II - A 40,000 square foot office building build-to-suit at Llewellyn Farms. The building is presently in the preliminary design state. Construction is to commence in mid-1986.

V. THE RISK AND RETURN

V. RISK AND RETURN

A. INTRODUCTION

This transaction is unusual in that the subject property is 100% pre-leased to a state agency on a long-term basis. The lease (reviewed in the next section) does contain some risks, but the lease payments with escalations are fixed for the first ten years. This allows a great degree of accuracy in calculating the expected yield since the coupon interest and participations in operations are known in advance. There is no lease-up risk, and the only unknown variables are the lease renewal rate in Year 10 and the residual value which are both largely determined by inflation. Essentially, this participating mortgage provides a security and predicability approaching that of a state bond, while providing a yield considerably greater than market yields for state bonds.

B. THE LEASE

The Ohio Environmental Protection Agency currently occupies 160,000 gross square feet in a converted hotel near downtown Columbus. This space is of B-/C+ quality, and the director of the EPA, Warren Tyler, has put a high priority on finding better quality space for his staff. In response to a request for proposals, the Daimler Group submitted a plan for the subject property which allows the EPA the same usable area and the same occupancy costs as the old facility while providing a substantial upgrade in the quality of the agency's space.

The lease was signed June 19, 1986 between the State of Ohio, Department of Administrative Services and The Daimler Group. This makes the lease an obligation of the State of Ohio rather than of the EPA alone. The lease calls for occupancy by July 1, 1987 with any costs of holding over the EPA's current space to be borne by the developer, although this expense is capped at $10,000 per month.

Operating expenses will be fully reimbursed by the State each year. While the landlord is still responsible for the active and ongoing management of the property, the lease payments are economically on a net basis. A benefit of this situation is that the property may be maintained at above average levels since the State will fully reimburse expenses rather than the developer paying for extra maintenance "out of pocket".

The major risk in the lease concerns the lease term and the "subject to appropriation" language. The lease term is only two years, with nine 2-year renewal options. This term is mandated by State budgeting laws which prohibit leases longer than two years. The Daimler Group has addressed this risk by including in the lease substantial penalty payments from the State for "unamortized tenant improvements" in the event the State fails to exercise its renewal option. These penalties start at $2 million if the State fails to renew its first option two years out and decline $500,000 each option period to $500,000 if the

State fails to renew its fourth option in 1995, and $0 thereafter. In the event that these penalties are received the funds will be escrowed to cover the costs of remarketing, refitting, and interest carry on the building.

Both the base rent and penalty payments are "subject to appropriation" by the Ohio State Government. This provision is required by State law in every State lease and allows the State to effectively break the lease if the State legislature fails to appropriate the proper funds. However, since the tenant is the State of Ohio (not just the EPA) a failure to perform on this lease due to the appropriations provision would be accompanied by a failure to perform on all other State leases. This failure to perform would have such a negative impact on the State's credit rating and borrowing capacity that it would only be exercised in the most dire of circumstances. While these legal provisions in the lease do present risks, as a business judgement Piedmont Realty Advisors believes the lease is sound and the minimal risks are acceptable.

C. RETURN

1. Income and Expense

The net rental payments from the State of Ohio (which represent the property's net operating income) are presented in Exhibit V-1. These payments are stipulated in the lease for the first 10 years, at which time the rate adjusts to the initial base rent ($10.13 per foot) multiplied times 75% of the cumulative increase in "All Cities" Consumer Price Index. The stipulated rent payments remain flat for four years, and then step up at the beginning of subsequent option periods. The average annual increase of these stipulated payments is approximately 3.25%.

2. Valuation Methodology

Since the lender on this participating mortgage will immediately participate in 50% of the spread between cost and value once the building is complete, the estimation of value is an important consideration for the investment. Piedmont Realty Advisors evaluated the property using the three methods of valuation accepted by the American Institute of Real Estate Appraisers. These estimates are presented in Exhibit V-2, and indicate a value of $11,000,000. As shown in the application letter (Exhibit I-1), the commitment is contingent on an independent MAI appraisal of at least $11,000,000. The indicated loan to value ratio is therefore 85%.

3. Projected Return

The investors yield summary is presented in Exhibit V-3. The property's net operating income is given by the lease payments from the State of Ohio. Base debt service is 9.50% on a loan amount of $9,350,000 or $888,250 per year. The lender will participate in 50% of cash flow, which is calculated as an additional interest of $49,638 per year for the first four years before stepping up along with the lease payments. The coupon interest plus the additional participation provide the lender with a cash on cash return of 10.03% in the initial years of the loan.

The residual value calculation is based on income in Year 11 capitalized at 9.0%. In Year 11 the lease payments are no longer stipulated but are determined by multiplying the initial base rate times 75% of the cumulative increase in the C.P.I. Assuming 5% inflation the renewal rate is calculated at $14.94 per foot, versus a market rent of $16.53 per foot. A refit expense of $7.00 per foot, inflated at 5% per year has been deducted from the residual proceeds of the property. This is a conservative step since the expense will not be necessary if the State renews at the below market rate, while if the refit expense is incurred the property would be marketed at the higher market rent. This higher rate would enhance the property's value significantly and would add about 40 basis points to the yield. Under the current underwriting the yield is projected at 12.10% over an 11-year period. A sensitivity analysis showing the effects of inflation on the real and nominal yields is presented in Exhibit V-4.

D. RISK

1. Market Risk

The subject property is 100% pre-leased to the State of Ohio. The permanent loan will not fund until the building and all improvements are completed and the Ohio EPA has taken occupancy. This puts the burden of the risk on the construction lender for any construction delays, stoppages, or refusal of the EPA to take possession.

In the event that the property must be remarketed, it will be a Class "A" building in an established location with excellent access. The borrowers have the financial strength to carry the property during remarketing, and the lender's return is based on rental rates that are well within current market levels.

2. Operating Risks

These risks involve the ability of the Daimler Group to operate the property effectively and efficiently. In light of the complete pass through of expenses to the State, these risks are minimal.

Rather than maintain its own property management department, Daimler contracts out the day to day management of its properties to local management companies. This situation allows Daimler the flexibility to change managers in the event a property is not being properly managed, while keeping Daimler's overhead lower. Proposals from Seguin-Thomas-Mathews-Click, and Kohr Royer Griffith, Inc., both quality firms, are being considered for the management of the subject property.

3. Default Risk

Due to the pre-leased status of the property to a credit tenant, and the substantial net worth of the borrowers, this risk is viewed as minimal. In the event of a default the collateral for the loan would be a well located, well designed building that will be suitable for a wide variety of single or multi-tenant users. The unit value of the property approximates $113.00 per gross square foot, while the lender's loan basis at full disbursement will be $95.90 per gross square foot. Additionally, a debt coverage ratio of 1.11 to 1 provides additional security against default.

4. Interest Rate Risk

Due to the forward commitment nature of the loan, possible fluctuations in interest rates present a risk to the lender. If rates go up due to inflationary expectations, the participating features of the loan will compensate the lender for being unable to re-invest at higher rates. If interest rates decrease during the approval period there is a risk that the borrower will terminate their application obligations and forfeit the $50,000 application fee. If rates decline after a commitment is issued and signed the Borrower will be locked in through a tri-party agreement with the construction lender and the real return to USF&G will increase accordingly.

E. CONCLUSIONS AND RECOMMENDATIONS

The Ohio EPA Building represents an excellent investment opportunity. The proposed investment provides security and predicability of return that are far higher than typical forward commitment participating loans. While the projected yield of 12.10% is slightly less than the yields projected for more speculative investments, the yield is still very attractive when the much lower risks are considered.

The property itself will of a quality far higher than that typically associated with government facilities. Its location, access throughout the Columbus area and level of finish and sponsorship will all be excellent. These attributes also allow for maximum flexibility should the property ever need to be remarketed.

Due to this combination of excellent real estate fundamentals, attractive returns and low risks, we recommend that the Real Estate Investment Committee of the United States Fidelity and Guaranty Company approve the issuance of a commitment for a first mortgage of $9,350,000 for the Ohio EPA Building under the terms and conditions outlined in this report.

Exhibit V-1
LEASE SUMMARY

YEAR	1	2	3	4	5	6	7	8	9	10	11	12
LEASE/OPTION NUMBER	1		2		3		4		5		6	
3.25% per year NET LEASE PAYMENT	987,525	987,525	987,525	987,525	1,124,378	1,124,378	1,198,044	1,198,044	1,275,439	1,275,439	75% OF CUMULATIVE C.P.I. UNTIL YEAR 20	
PENALTY FOR FAILURE TO RENEW			2,000,000		1,500,000		1,000,000		500,000		0	

Exhibit V-2

VALUATION ANALYSIS

Cost Approach

Improvements (See Exhibit II-8)	$ 7,955,945
Land Value @ $3.75 P.S.F. (Actual Cost)	863,958
Developer Profit @ 10% of Hard Costs	645,000
Imputed Lease-up Costs	750,000
Estimated Value	$10,214,903

Direct Sales Comparison Approach

Gross Building Area	97,500
times: Price per Square Foot (See Exhibit V-2A)	$113.00
Estimated Value	$11,017,500

Capitalized Income Approach

Net Operating Income (See Exhibit V-1)	
divided by: Overall Capitalization Rate (See Exhibit V-2A)	9.0%
Estimated Value	$ 10,972,500

Correlation of Value Estimates

The three approaches to value indicate a narrow range of values from $10,214,903 to $11,017,500. In the correlation of value estimates, little weight is given to the cost approach because it reflects primarily historic costs. The direct sales comparison approach is a good indication of value since it reflects market activity in terms of direct conversion ratios. The capitalized income approach is considered the best indication of value because it reflects a reasonable edstimate of the property's earning power. Therefore the value of the subject property when it is built and leased is estimated to be:

$11,000,000

Indicated Loan to Value Ratio: 85%

($9,350,000/$11,000,000)

Exhibit V-2A

DIRECT SALES COMPARISON APPROACH

SALE	DATE	SALES PRICE ($000'S)	GROSS S.F.	PRICE/S.F.	ADJUSTMENT	ADJUSTED PRICE/S.F.	CAPITALIZATION RATE
555 Metro Place	3/86	$10,085	82,424	$122.35	- $ 5.00 (1)	$117.35	8.90
1 Crosswood Center	10/83	$15,500	135,000	$114.81	$10.00 (2)	$124.81	8.32
Campus Corp. Center	12/85	$15,580	150,734	$105.15	$ 8.00 (3)	$113.15	9.10
Corporate Hill III	10/85	$11,800	94,716	$124.65	$ 5.00 (2)	$129.65	9.02
525 Metro Place	3/86	$ 7,117	76,124	$ 93.49	$ 5.00 (4)	$ 98.49	9.20
2 Crosswoods	Under Contract	$15,850	114,000	$139.04	- $10.00 (5)	$129.04	8.27
Corporate Exchange	Under Contract	$23,000	180,000	$127.77	- $10.00 (5)	$117.77	8.90
Subject		$11,017	97,500	$113.00			9.00

VALUE BY MARKET COMPARISON . $11,000,000

(1) Downward adjustment due to location in an established office park.

(2) Upward adjustment due to time of sale.

(3) Upward adjustment due to time of sale and age of building.

(4) $5.00 upward adjustment is net of upward adjustment for age of building, downward adjustment for location in established park.

(5) Downward adjustment due to the fact that the transaction has not yet closed.

Exhibit V-3
INVESTOR'S YIELD SUMMARY

OHIO EPA BUILDING
COLUMBUS, OHIO
DAIMLER DEVELOPMENT

ASSUMPTIONS			
MKT RENT	10.15	LOAN AMT	9,350,000
INFLATION	5.00%	INT. RATE	9.50%
REFIT EXP	7.00	PART OPS	50.00%
CAP RATE	9.00%	PART RESID	50.00%

YEAR		1	2	3	4	5	6	7	8	9	10	11
NET OPERATING INCOME		987,525	987,525	987,525	987,525	1,124,378	1,124,378	1,198,044	1,198,044	1,275,439	1,275,439	1,456,402
BASE DEBT SERVICE		888,250	888,250	888,250	888,250	888,250	888,250	888,250	888,250	888,250	888,250	888,250
ADD'L INTEREST		49,638	49,638	49,638	49,638	118,064	118,064	154,897	154,897	193,595	193,595	284,076
REFIT EXPENSE												1,111,721
VALUE		10,972,500	10,972,500	10,972,500	10,972,500	12,493,089	12,493,089	13,311,600	13,311,600	14,171,544	14,171,544	16,182,249
SUMMARY CASH FLOWS	(9,350,000)	937,888	937,888	937,888	937,888	1,006,314	1,006,314	1,043,147	1,043,147	1,081,845	1,081,845	13,382,590
LOAN TO VALUE		85.21%	85.21%	85.21%	85.21%	74.84%	74.84%	70.24%		MARKET RENT		16.53
DEBT COVERAGE		111.18%	111.18%	111.18%	111.18%	126.58%	126.58%	134.88%		RENT @ 75% OF CPI		14.94
CASH ON CASH YIELD		10.03%	10.03%	10.03%	10.03%	10.76%	10.76%	11.16%	11.16%	11.57%	11.57%	12.54%

INTERNAL RATE OF RETURN 12.10%

Exhibit V-4

SENSITIVITY ANALYSIS

INFLATION RATE	3%	5%	7%
Nominal Yield	11.52	12.10	12.73
Real Return	8.52	7.10	5.73