

**USF&G OFFICE BUILDING**

**LOUISVILLE, KENTUCKY**

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

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Appendix A: Planned Road Improvements in Jefferson County  
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## **I. INTRODUCTION**

**PIEDMONT REALTY ADVISORS**

1150 CONNECTICUT AVENUE, N.W.

SUITE 705

WASHINGTON, D. C. 20036

202-822-9000

August 22, 1986

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

Re: USF&G Office Building  
Louisville, Kentucky

Dear Sirs and Madam:

Enclosed for your review is an Investment Report on a proposed joint venture with J.T. Sims to build and operate a two-story office building containing 26,000 rentable square feet on 1.93 acres of land at 9913 Shelbyville Road in Louisville, Kentucky. USF&G has already executed a lease for 14,500 square feet in the proposed building as its Louisville Branch Office. Piedmont intends to review the recommendations outlined in this report with the Real Estate Investment Committee on August 27, 1986. A summary of the proposed joint venture is presented as Exhibit I-1.

The Property -- The rectangular site is 1/4 mile west of the intersection of Shelbyville Road and Hurstbourne Lane in Jefferson County. This area, known as the Hurstbourne Corridor, is a rapidly growing office and commercial district with good access to the downtown, airport, and quality residential areas. The site is in front of the American Fitness Center which is owned and operated by J.T. Sims and with whom it will share a common entrance from Shelbyville Road. Adjacent to the site on the east is a 3.0 acre parcel owned by Sims which would be developed as Phase II of this project. USF&G will have the right to participate in the Phase II development under the same terms and conditions of this joint venture.

The steel frame brick veneer building will have a two-story atrium at the main entrance that will feature a water fountain and garden area. One hydraulic elevator will serve both floors. There will be 160 parking spaces of which 15 will be reserved for USF&G on a 24-hour basis.

The total development budget of \$2,250,000 (\$86.53 per net rentable square foot) contains adequate interest and lease-up reserves as well as a contingency reserve for \$100,000. A 24-month construction loan for \$1,625,000 has been obtained with an interest rate at one point

Real Estate Investment Committee Members  
USF&G  
August 22, 1986  
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over the prime rate. USF&G's equity contribution will be \$625,000 which is to be funded as follows:

At Closing: \$475,000 for Land Acquisition and Closing Costs

Upon Certificate of  
Occupancy: \$115,000

At Breakeven  
Occupancy: \$35,000

The Market -- The downtown Louisville office market has 7 million square feet of space and an 11.3% vacancy rate while the suburban office market has 4.5 million square feet and a 17.2% vacancy rate. This relatively soft market is experiencing several positive trends: increasing absorption, increasing rental rates, decreasing rent concessions, and a slow-down in new construction.

The Hurstbourne Corridor market in which the subject property is located contains over 2 million square feet with an average vacancy rate of 15.5%. The properties that will be in direct competition with the subject are quoting net rental rates between \$10 and \$12.25 while the subject pro forma rates are \$9.75. Also absorption of new space has been the most rapid in the properties closest to the subject. Consequently, Piedmont estimates that the remaining 11,500 square feet in the USF&G Building should easily lease-up within 18 months after completion at the pro forma rental rates.

The Partner/Developer -- The developing entity will be a general partnership of which J.T. Sims owns 25% and USF&G will own 75%. Initially, Sims will be the managing partner, but he can be removed by USF&G at anytime. J.T. Sims is a successful young man with a modest net worth who has been involved with the development and management of several health club facilities over the last ten years. He has also completed several small real estate projects. The size of the subject property and the required financial guarantees are consistent with his present abilities and capabilities. Since USF&G will be the prime tenant in the property as well as the majority general partner, J.T. Sims will be closely monitored.

Risk and Return -- The proposed equity investment is structured so that USF&G receives 99% of the annual cash flows and cash proceeds from sale until USF&G receives an 8% annual cumulative preferred return as well as a repayment of its equity capital. When this occurs, Sims is repaid his equity capital (if any), and the cash flows and/or cash proceeds from sale are split 75% to USF&G and 25% to Sims. With five percent inflation, the yield on this investment is estimated to be 15.3%.

Real Estate Investment Committee Members  
USF&G  
August 22, 1986  
Page Three

The major risk in the project is that developmental costs exceed the budget of \$2,250,000. This risk has been reduced by providing adequate reserves for the least controllable costs, namely, construction interest, deficit cash flows during lease-up, and unforeseen and unexpected contingencies. The second significant risk is the chance that permanent financing will not be obtainable for \$1,625,000 at affordable rates. However, given the significant pre-leasing (56%), the generous construction loan term (24 months), the loan to value ratio (69%), and the current low interest rates, this financial risk is acceptable at this time.

Piedmont Realty Advisors believes that the 15.3% yield is an appropriate return for the risk associated with this investment. Therefore, we recommend that USF&G invest \$625,000 in an equity joint venture to develop and manage the USF&G Office Building in Louisville, Kentucky under the terms and conditions outlined in this report. If you have any questions, please feel free to call me.

Sincerely,

A handwritten signature in dark ink, reading "Daniel B. Kohlhepp". The signature is fluid and cursive, with the first name "Daniel" and last name "Kohlhepp" clearly legible.

Daniel B. Kohlhepp  
Vice President

DBK:clg  
Enclosures

**Exhibit I-1**  
**APPLICATION LETTER**

**PIEDMONT REALTY ADVISORS**

1150 CONNECTICUT AVENUE, N. W.

SUITE 705

WASHINGTON, D. C. 20036

202-822-9000

July 23, 1986

**Mr. J.T. Sims**  
**9913 Shelbyville Road**  
**Louisville, Kentucky 40223**

**Re: USF&G Office Building**  
**Louisville, Kentucky**

**Dear J.T.:**

Piedmont Realty Advisors is prepared to recommend to its client's Investment Committee that it issue an agreement for a joint venture on the above-captioned property subject to the following terms and conditions.

<b>Property:</b>	USF&G Office Building, a proposed two-story office building containing at least 26,000 square feet of rentable office space of which USF&G will occupy 56%. There will be at least 160 surface parking spaces.
<b>Location:</b>	The north side of Shelbyville Road (U.S. 60) in front of the existing American Fitness Center east of Hurstbourne Lane in Jefferson County, Kentucky.
<b>Land Area:</b>	1.93 Acres
<b>Total Cost:</b>	\$2,250,000 (See Exhibit A attached.)
<b>Parties:</b>	An affiliate of United States Fidelity and Guaranty Company (USF&G) and J.T. Sims.
<b>Ownership Structure:</b>	General or Limited Partnership

Mr. J.T. Sims  
July 23, 1986  
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**Basic Responsibilities:**     USF&G

- 1) Provide equity capital to cover actual costs up to a maximum of \$625,000.
- 2) Primary tenant (USF&G) to occupy 56% of net rentable area with a ten year lease.

J.T. Sims

- 1) Development of all improvements;
- 2) Leasing;
- 3) Property Management;
- 4) Securing permanent financing in the amount of \$1,625,000 with an effective rate not greater than 10.25%.
- 5) Securing acceptable construction financing.

**Initial Contributions:**     USF&G

- 1) \$400,000 (acquisition of 1.93 acres of land).
- 2) \$75,000 (actual closing costs not to exceed set amount.)
- 3) \$115,000 (upon receipt of a certificate of occupancy).

**Subsequent Contributions:**

USF&G

- 1) 75% of additional capital contributions after Sims' equity contributions of \$62,500.
- 2) \$35,000 (to J.T. Sims for developer's fee when Net Operating Income exceeds debt service).

Sims

- 1) Provide equity capital up to \$62,500 for cost overruns and operating deficits. Failure to do so will result in Sims forfeiting his ownership, leaving USF&G with 100% ownership in the building.



Mr. J.T. Sims  
July 23, 1986  
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- 2) 25% of additional capital contributions after Sims' equity contributions of \$62,500.

**Distribution of  
Cash Flows:**

**USF&G**

- 1) 8% cumulative preferred return on capital investment;
- 2) 99% of cash flow until the cumulative preferred returns are paid and all USF&G equity contributions are repaid, then 1% of the cash flow until Sims' equity contributions (if any) are repaid, then 75% of the cash flow thereafter. See Exhibit B attached.

**Sims**

1% of cash flow until USF&G's cumulative preferred returns are paid and USF&G's equity contributions are repaid, then 99% of the cash flow until Sims' equity contribution (if any) are repaid, then 25% thereafter. See Exhibit B attached.

**Distribution of  
Sale Proceeds:**

**USF&G**

- 1) Any additional cash required to provide 8% cumulative return.
- 2) Return of all unpaid equity capital (first to USF&G and then to Sims).
- 3) 75% of any remaining net sale proceeds. See Exhibit C attached.

**J.T. Sims**

- 1) 25% of net sales proceeds after USF&G receives any unpaid cumulative preferred return and all unpaid equity capital (first to USF&G and then to Sims) is repaid. See Exhibit C attached.

Mr. J.T. Sims  
July 23, 1986  
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- Lock In Period:** Unless agreed upon by both partners, there will be no sale of property for five years.
- Right of First Refusal:** USF&G has the right to sell to third party anytime after the 5th year provided Sims has right of first refusal.
- Joint Venture Fee:** \$6,250.
- Contingencies:**
- A. Plans and Specifications:** USF&G 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.
  - B. Engineering:** The joint venture agreement will be contingent upon USF&G receiving engineering reports as to the structural adequacy of the building and its operating system.
  - C. Financing:** USF&G reserves the right to review and approve all financing in the partnership.
  - D. Leases:** USF&G reserves the right to approve all leases subject to agreed upon leasing standards. Agreed upon leasing standards will be part of the joint venture agreement.
  - E. Budget Approval:** USF&G reserves the right to review and approve all operating and capital budgets.
  - F. Phase II Development:** USF&G reserves the right to participate in Phase II under the same terms and conditions as Phase I (the subject property).
  - G. Committee Approval:** This Letter of Intent must be approved by USF&G's Investment Committee.
  - H. Economic Due Diligence:** This Letter of Intent will be subject to Piedmont Realty Advisors satisfactorily completing its economic due diligence.

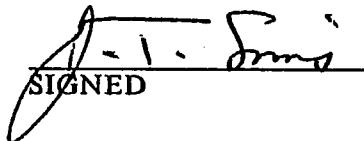
Mr. J.T. Sims  
July 23, 1986  
5

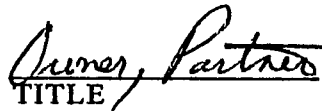
If the terms outlined in this letter are acceptable, please sign below and return this letter with an application fee of \$6,250 by July 30, 1986. The application fee should be wired to a custodial account. Please call me for wiring instructions. Proceeds will be returned if USF&G does not issue a commitment to enter into a partnership as described in this letter.

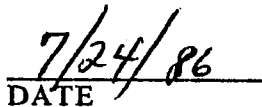
Sincerely,

  
Daniel B. Kohlhepp  
Vice President

DBK:clg  
Enclosures

  
SIGNED

  
TITLE

  
DATE

7/25/86

**Exhibit A**

**CONSTRUCTION BUDGET**

**Sources and Uses of Funds**  
.....

**Sources :**

Loan	\$1,625,000
Equity	625,000
	.....
<b>TOTAL</b>	<b>\$2,250,000</b>

**Uses :**

Land Cost	\$400,000
Construction Cost	1,400,000
Construction Interest	50,000
Loan Fees	45,000
Origination Fees	12,000
Legal and Accounting Fees	15,000
Engineering and Architect Fees	30,000
Development/Syndication Fees (5%)	35,000
Leasing Fees :	
1. (6% of USF&G Space 1st 5 yrs.)	50,000
2. (6% of Remaining Space at \$13.50 P.S.F.)	50,000
Lease - up Reserves	63,000
Miscellaneous Reserves (Over-runs, etc.)	100,000
	.....
<b>TOTAL</b>	<b>\$2,250,000</b>

Exhibit B  
DISTRIBUTION OF ANNUAL CASH FLOWS

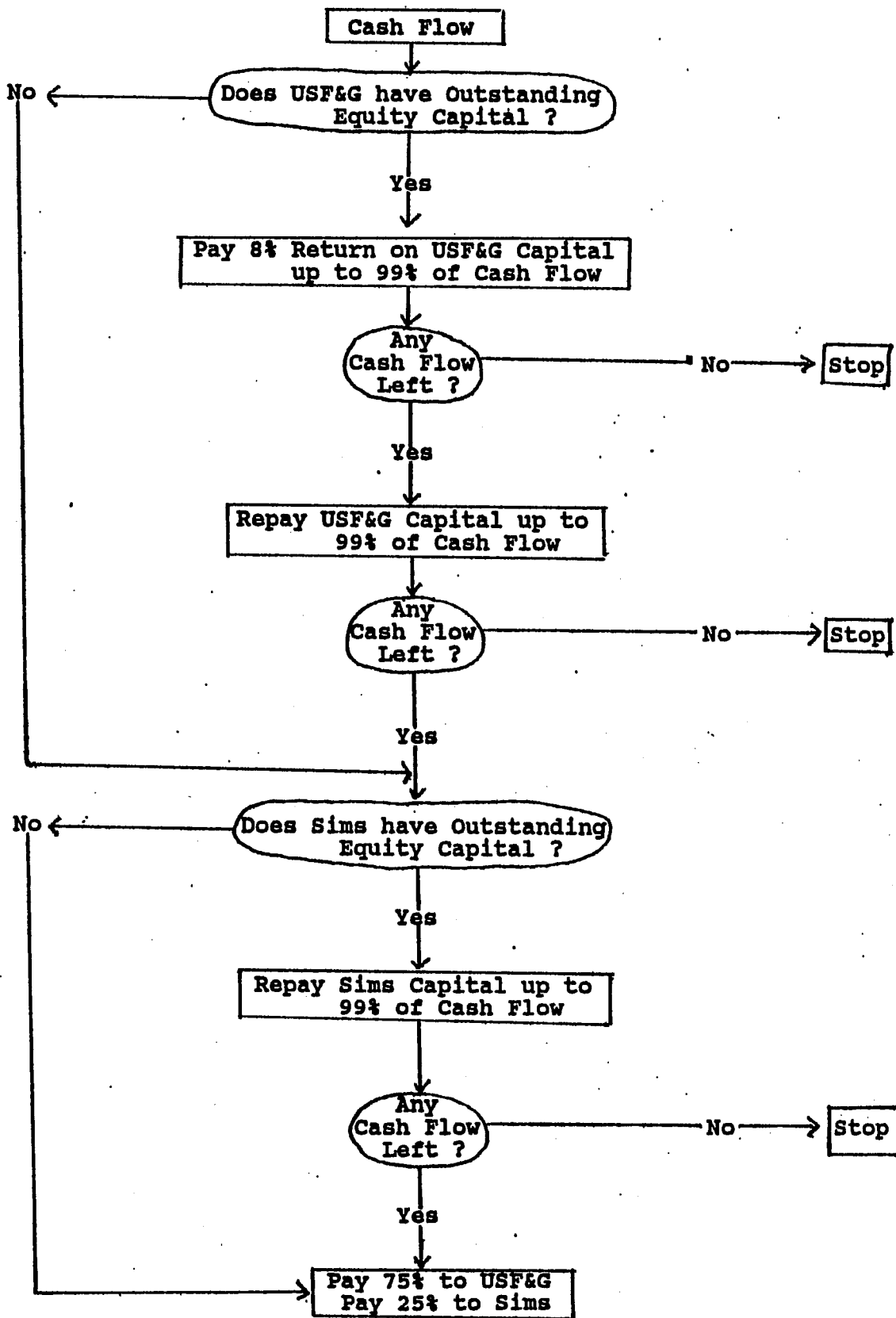
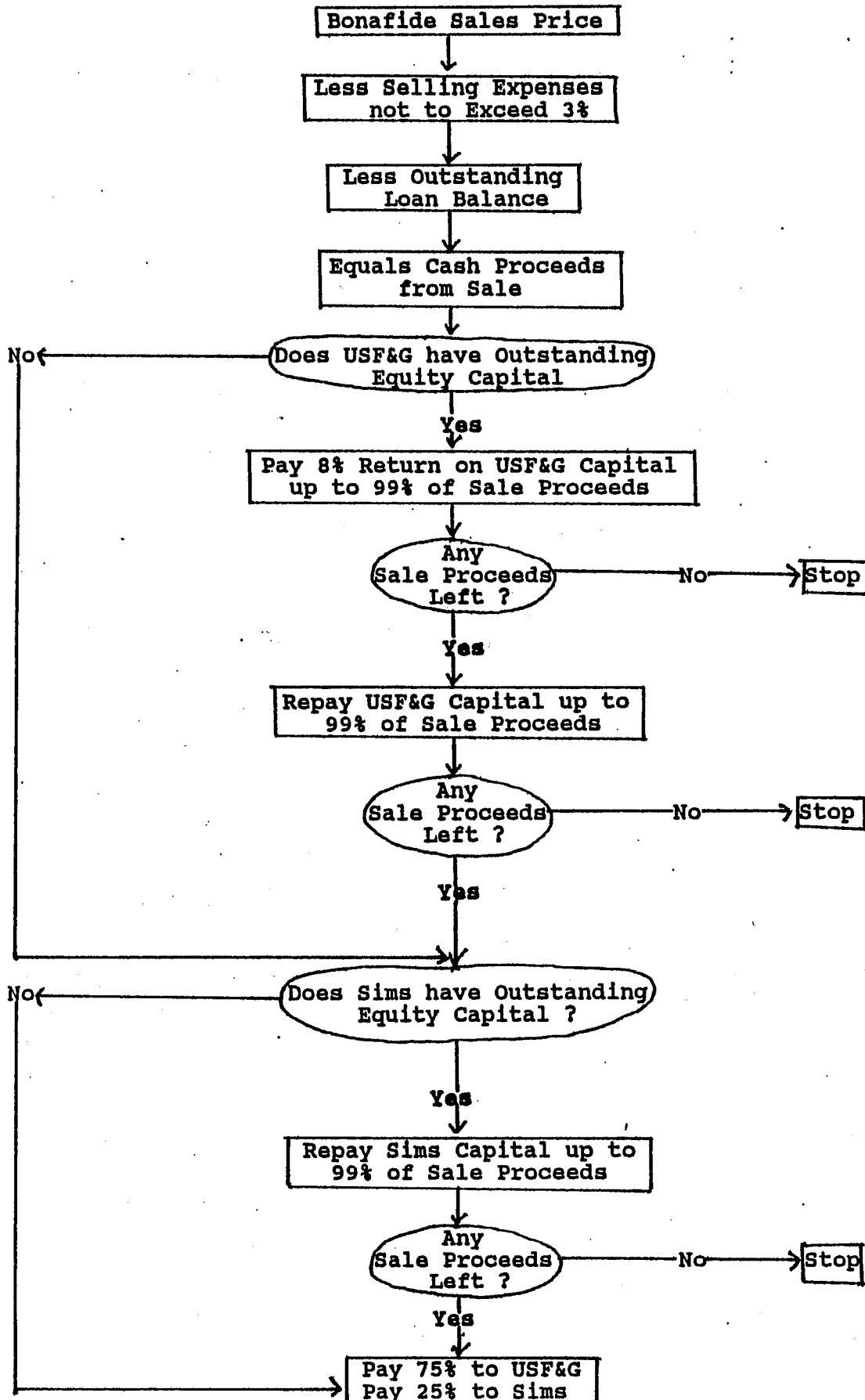


Exhibit C

DISTRIBUTION OF SALE PROCEEDS



## **II. THE PROPERTY**

## II. THE PROPERTY

### A. INTRODUCTION

The USF&G Building is a proposed two-story office project at 9913 Shelbyville Road in Jefferson County, Kentucky. The building will contain at least 26,000 rentable square feet on 1.93 acres of land. USF&G's Louisville Branch Office will occupy the entire second floor (approximately 14,500 rentable square feet). The subject property is the first phase of a two-phase office project to be developed by J.T. Sims, Jr.. USF&G will be the joint venture partner in Phase I and will have the right of first refusal to participate in the development of Phase II. Construction of Phase I is scheduled to begin in late September 1986.

### B. LOCATION

The subject property is in the Louisville Metropolitan Area, eight miles east of the Central Business District and 12 miles northwest of the Standiford Field Airport.

#### 1. Accessibility

The site has an excellent location with good accessibility throughout the tri-state region (Kentucky, Indiana, and Ohio) as well as the greater Louisville MSA. See Exhibits II-1, II-2 and II-3. The major highways connecting Louisville with other cities in the tri-state area are: Interstate Highway 64 (east-west), Interstate Highway 264 (outer beltway), Interstate Highway 65, (north-south), and Interstate Highway 71 (northeast-southwest).

I-64 is approximately two miles south of the site down Hurstbourne Lane, a major north-south artery in Jefferson County. I-64 is the major connector between Lexington, Kentucky (75 miles east of Louisville) and St. Louis, Missouri (256 miles west of Louisville). I-264 (Henry Watterson Expressway) is approximately 2-1/2 miles west of the site via I-64 or Shelbyville Road (US Highway 60). I-264 connects with I-71 when travelling north to Ohio and I-65 when travelling south to Tennessee. Cincinnati is 120 miles northeast of Louisville on I-71, and Nashville is 174 miles southwest of Louisville on I-65.

Louisville also has good water access from the Ohio River to most major inland ports as well as the Gulf of Mexico. Eleven major airlines serve Louisville's Standiford Field, located 10 minutes from downtown and 15 minutes from the site. Two smaller airports, Bowman Field in Louisville and Clark County Airport in Southern Indiana also serve the Louisville metropolitan area. Railroad freight service is provided by six major trunk lines: Southern Illinois Central Gulf, Conrail, Chessie System, and Family Lines. The other two systems are operated jointly by CSX Corporation. Louisville is also serviced by national and local bus lines including Trailways and Greyhound.

Local bus routes run in front of the site on Shelbyville Road and serve



the entire metro area. The local bus stop is situated adjacent to the USF&G Building's entrance. Access to the site from Shelbyville Road will be permitted by way of the American Fitness Center driveway (see Exhibits II-4A and II-4B).

Several significant road improvements are planned in the area over the next five years which will have a positive impact on the site's accessibility. See Appendix A for a complete list of road improvements. The major road improvements include:

- (1) The extension of Hurstbourne Lane from Shelbyville Road to Old Whipps Mill Road (letting date - 1988);
- (2) The extension of Hurstbourne Lane from Shelbyville Road to Dorsey Lane (letting date - 1986);
- (3) The extension of Hurstbourne Lane from Dorsey Lane to Old Whipps Road (letting date - 1987);
- (4) Reconstruction of the Shelbyville Road intersection at I-264 (letting date - 1987);
- (5) Reconstruction of the I-64 intersection at I-264 (letting date-1987);
- (6) The addition of a third lane on I-64 from I-264 to Hurstbourne Lane (letting date - 1986);
- (7) The addition of a third lane on I-64 from Hurstbourne Lane to the Jefferson Freeway (letting date - 1986).

The most significant road improvement is the extension of Hurstbourne Lane to Dorsey Lane. This will allow tenants and visitors of the subject building to travel across Shelbyville Road at Hurstbourne Lane (where there is an existing traffic signal), circle around the site and make a right-hand turn into the site's entrance. At this time, a left-hand turn is required when travelling east on Shelbyville Road from Hurstbourne Lane without the aid of a traffic signal. There is, however, a left-turn lane in front of the site which will suffice until the improvements are completed.

## 2. Neighborhood Analysis

The subject property is located in a rapidly expanding office and commercial neighborhood. The intersection of Shelbyville Road and Hurstbourne Lane is 1/4 mile west of the site and is considered to be the center of the Hurstbourne office corridor in Jefferson County which has over 2 million square feet of existing space. NTS and STM are two well-known local development companies responsible for the majority of office space in the Hurstbourne corridor, and other developers in the Hurstbourne corridor include: Prudential, Paragon Group, Trammell Crow, First Development Co., Thurman Development Co., and Allen Blacketer Co.

The majority of office space and commercial development is south and west of the site along Shelbyville Road and Hurstbourne Lane. The extension of Hurstbourne Lane to Dorsey Lane will most likely generate some commercial development to the north if proper zoning can be obtained. The Hurstbourne corridor is also a rapidly growing retail center with many strip shopping centers and several regional malls. Shelbyville Road and Hurstbourne Lane support many fast food restaurants as well. The remainder of Jefferson County is primarily residential.

### 3. Adjacent Land Uses

Directly east of the subject site is the Meddis Tract, a land parcel which is currently owned by J.T. Sims and which contains a single family dwelling leased on a monthly basis. Directly south of the property is the Plainview subdivision, a residential community of approximately 200 persons. West of the site is the Wildwood subdivision which has a population of approximately 300, and north of the site is the American Fitness Center which is co-owned and operated by J.T. Sims.

### C. THE SITE

The site (denoted as Tract-2 on Exhibit II-5, the site plan), contains a land area of 84,070 square feet, or 1.93 acres. The "secondary" site location (denoted as the Meddis Tract on Appendix C in the USF&G Executive Lease Summary) is adjacent to the primary site. J.T. Sims reserves the right to develop the USF&G Building on the Meddis Tract, subject to USF&G's approval, if County approval can be obtained by September 1, 1986. The value, location, and accessibility of the Meddis Tract are equivalent to the primary site (Tract-2).

The site has 265 feet of frontage along Shelbyville Road. The comprehensive development plan received preliminary approval from Jefferson County in July 1979. Grading permits are tentatively scheduled for approval on August 22, 1986 at which time preliminary site work will commence. All necessary utilities are currently available to the site, and there are no physical impediments to development. As a major tenant, USF&G has the right to review and approve all plans and specifications before the final drawings are prepared. This approval is expected in the next few weeks. There is an existing retention basin on the northeast corner of the site which will be filled and relocated on the Meddis Tract (see Exhibit II-5).

The parking plan provides for a ratio of 4 spaces per 1,000 square feet. This plan would initially provide USF&G with 58 spaces, 15 of which would be reserved. In addition, the lease provides USF&G the right to acquire one additional parking space for every 1,000 square feet of additional rented space. The site is zoned R-9, which allows office, office condominiums and apartments. This building cannot exceed 29,600 gross square feet.

The site provides for the following land coverages which are consistent with projects of this type:

	Area (S.F.)	Land Coverage %
Building	16,070.5	19
Parking	38,245.0	46
Landscaping	<u>29,754.5</u>	<u>35</u>
Total	84,070.0	100

#### D. THE IMPROVEMENTS

The USF&G Building will contain at least 26,000 net rentable square feet in two stories. There will be 160 on-grade parking spaces of which 56 spaces may be used by the American Fitness Center on an as-needed basis.

The exterior of the building will be a red brick veneer with projecting brick soldier courses and a painted metal parapet cap. Windows will consist of grey insulated glass on the interior and grey spandrelite glass on the exterior, bordered with black aluminum frames. See Exhibit II-6 for building elevations.

The interior of the building will feature a full height atrium lobby which will have a fountain and garden area (see Exhibits II-7A,B, and C). The lobby floor will be brick, and wood railings will accent the balcony overlooking the lobby. One hydraulic elevator will be located just off the lobby near the center of the building. Overall, the quality of construction and design for the USF&G Building will be higher than the majority of the competitive properties which should enhance leasing performance. Each floor will have its own restroom facilities, and the second floor will also have a powder room adjoining the ladies room.

#### E. PROJECT BUDGET

The total projected cost for the USF&G Building is \$2,250,000. On a square foot basis this budget figure is \$86.53 which is broken down as follows (see Exhibit II-8 for a detailed development budget).

##### Per Square Foot

Direct Costs	
Land Acquisition	\$15.38
Shell Improvements	39.57
Indirect Costs	14.06
Tenant Occupancy Costs	<u>17.52</u>
Total	\$86.53

The indirect costs include a construction interest reserve of \$50,000 based on 9-month construction period at a 10% interest rate. A lease-up reserve of \$63,000 based on a 24-month lease-up period, and a contingency reserve of \$100,000. (Appendix B is a copy of the

construction loan commitment.) Tenant occupancy costs include a \$15.00 tenant finish allowance for USF&G and a \$12.00 tenant finish allowance for the remaining space, as well as a leasing commission allowance of \$100,000.

#### **F. CONCLUSIONS**

The USF&G Building will be located at the crossroads of the fastest growing office and commercial corridor in Jefferson County, Kentucky. The site has excellent accessibility throughout the tri-state region as well as the Louisville metropolitan area. In conclusion, the site's superior location, accessibility, design, and quality of construction will contribute to the building's leasing success in the marketplace.

Exhibit II-1  
REGIONAL LOCATION MAP

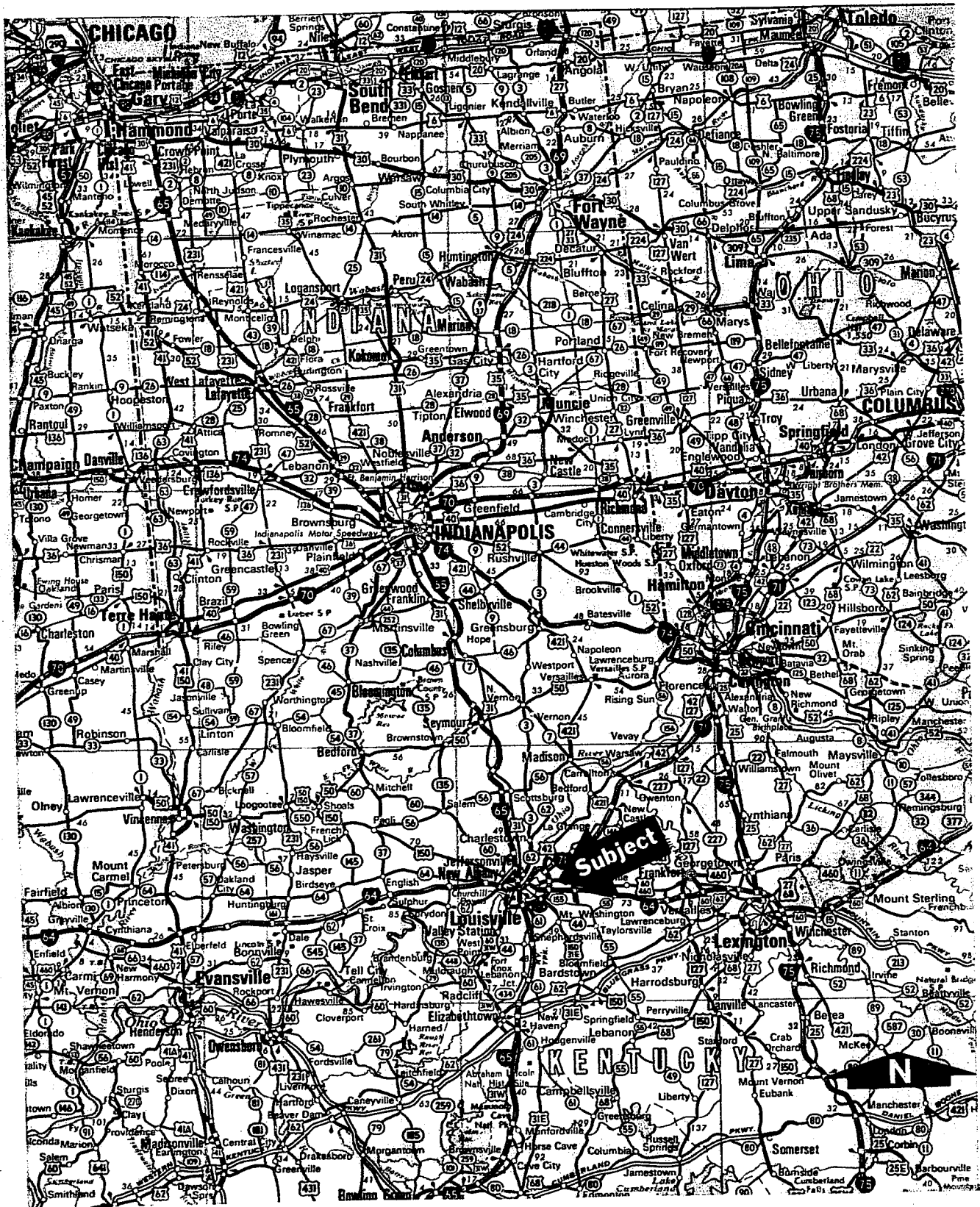


Exhibit II-2  
SITE VICINITY MAP

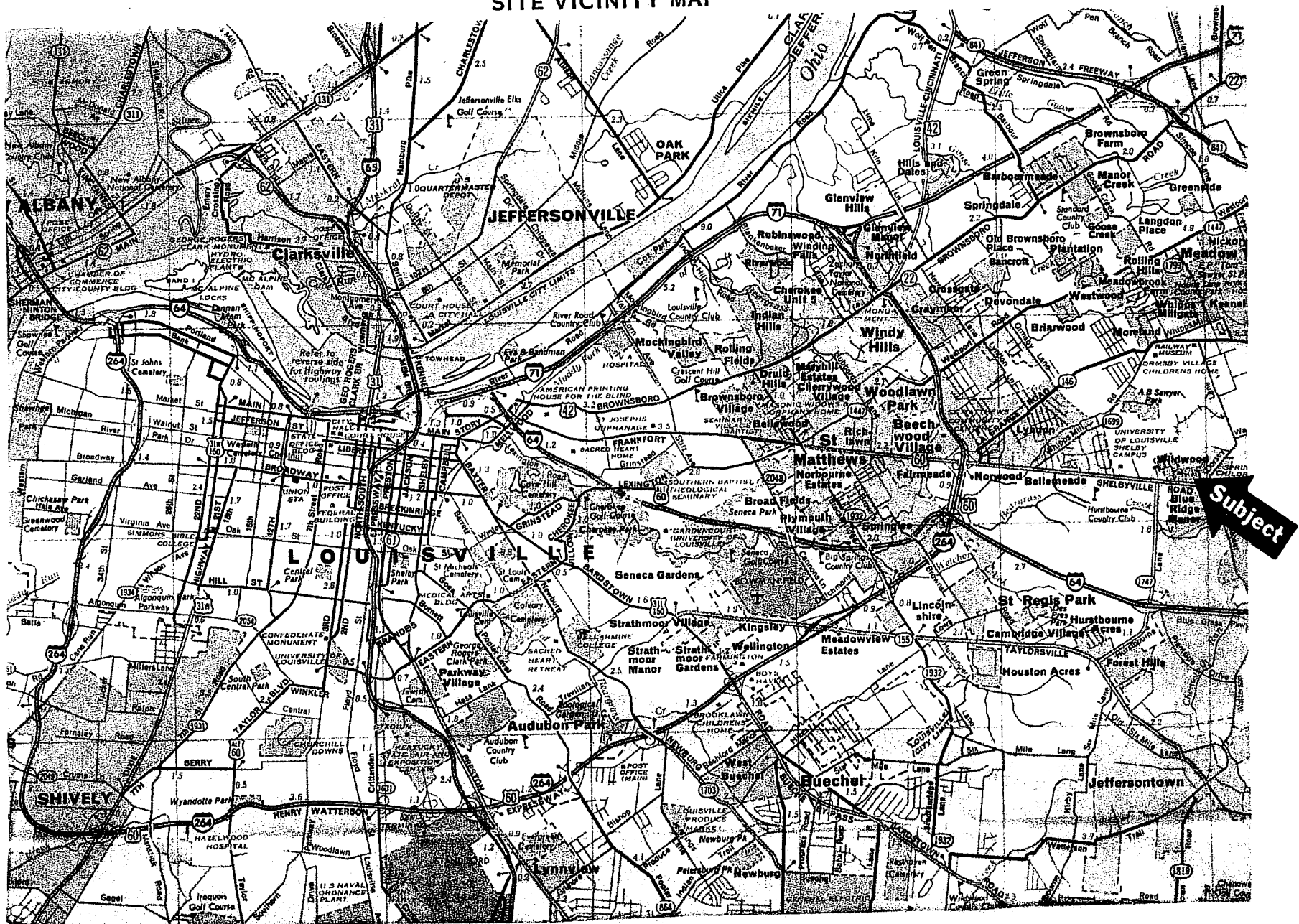
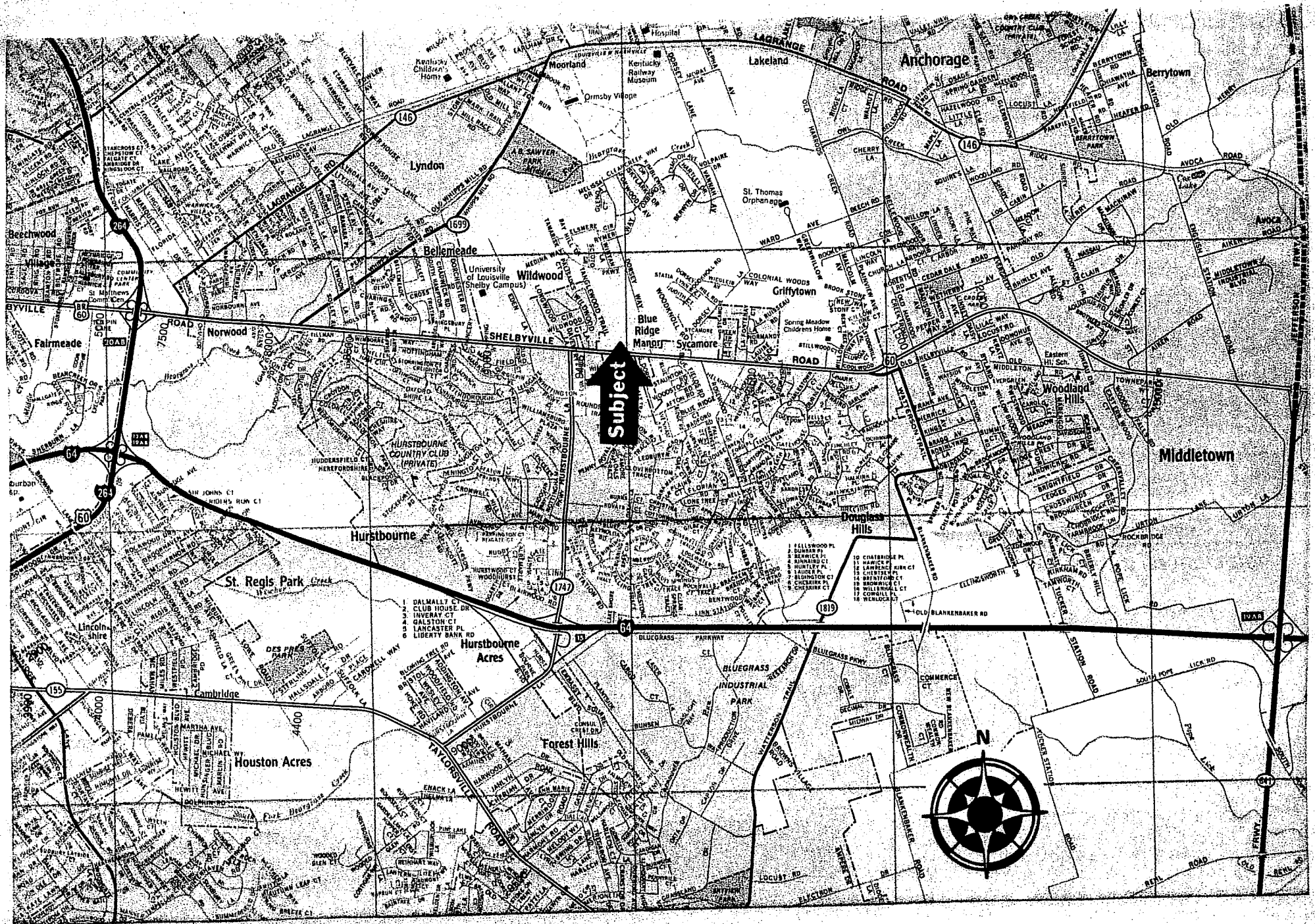




Exhibit 11-5  
SITE ACCESS MAP



**Exhibit II-4A**  
**SITE PHOTOGRAPH**



**View of the subject site looking northwest from Shelbyville Road  
with the site's main entrance in the foreground and the American  
Fitness Center in the background.**



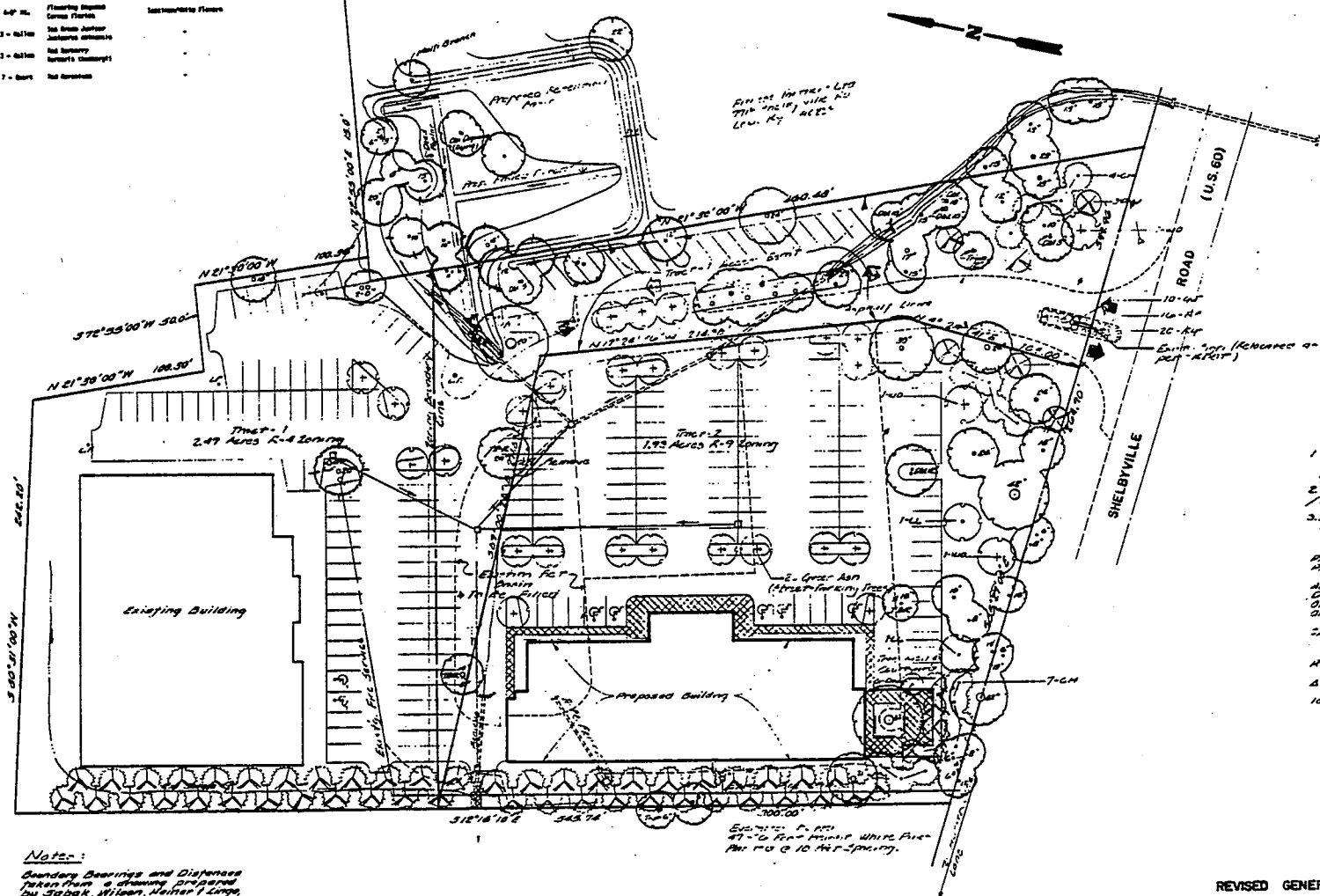
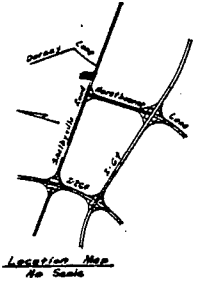
**Exhibit II-4B**  
**SITE PHOTOGRAPH**



**View of the subject site looking northeast from Shelbyville Road  
with the subject site in the foreground and the American Fitness  
Center in the background.**

# Exhibit II-5 SITE PLAN

NO.	DESCRIPTION	QUANTITY	SIZE	UNIT PRICE	TOTAL PRICE	REMARKS
1	Grass Area	24.47	Sq. Yd.	1.00	24.47	Grass Area
2	Grass Area	24.47	Sq. Yd.	1.00	24.47	Grass Area
3	Grass Area	24.47	Sq. Yd.	1.00	24.47	Grass Area
4	Grass Area	24.47	Sq. Yd.	1.00	24.47	Grass Area
5	Grass Area	24.47	Sq. Yd.	1.00	24.47	Grass Area
6	Grass Area	24.47	Sq. Yd.	1.00	24.47	Grass Area
7	Grass Area	24.47	Sq. Yd.	1.00	24.47	Grass Area
8	Grass Area	24.47	Sq. Yd.	1.00	24.47	Grass Area
9	Grass Area	24.47	Sq. Yd.	1.00	24.47	Grass Area
10	Grass Area	24.47	Sq. Yd.	1.00	24.47	Grass Area
11	Grass Area	24.47	Sq. Yd.	1.00	24.47	Grass Area
12	Grass Area	24.47	Sq. Yd.	1.00	24.47	Grass Area
13	Grass Area	24.47	Sq. Yd.	1.00	24.47	Grass Area
14	Grass Area	24.47	Sq. Yd.	1.00	24.47	Grass Area
15	Grass Area	24.47	Sq. Yd.	1.00	24.47	Grass Area
16	Grass Area	24.47	Sq. Yd.	1.00	24.47	Grass Area
17	Grass Area	24.47	Sq. Yd.	1.00	24.47	Grass Area
18	Grass Area	24.47	Sq. Yd.	1.00	24.47	Grass Area
19	Grass Area	24.47	Sq. Yd.	1.00	24.47	Grass Area
20	Grass Area	24.47	Sq. Yd.	1.00	24.47	Grass Area



OFFICE BUILDING		
TIME	DATE	REVISION
1	11/27	1
2	11/28	2
3	11/29	3
4	11/30	4
5	12/01	5
6	12/02	6
7	12/03	7
8	12/04	8
9	12/05	9
10	12/06	10
11	12/07	11
12	12/08	12
13	12/09	13
14	12/10	14
15	12/11	15
16	12/12	16
17	12/13	17
18	12/14	18
19	12/15	19
20	12/16	20

General Notes:

1. Engineer's Office
2. Engineer's Office
3. Engineer's Office
4. Engineer's Office
5. Engineer's Office
6. Engineer's Office
7. Engineer's Office
8. Engineer's Office
9. Engineer's Office
10. Engineer's Office
11. Engineer's Office
12. Engineer's Office
13. Engineer's Office
14. Engineer's Office
15. Engineer's Office
16. Engineer's Office
17. Engineer's Office
18. Engineer's Office
19. Engineer's Office
20. Engineer's Office

Notes:

Boundary Bearings and Distances taken from a drawing prepared by Sabak, Wilson, Heister & Long, Inc.

Revised General District Development Plan - not for construction purposes.

Exhibit A Major Fee

For Preparation Services Only For Services in Addition to Major Fee \$100.00

REVISIONS				PROJECT DATA			
No.	Date	Description	By	No.	Date	Description	By
1	11/27	Initial Design	J.T.S.	1	11/27	Initial Design	J.T.S.
2	11/28	Revised Design	J.T.S.	2	11/28	Revised Design	J.T.S.
3	11/29	Final Design	J.T.S.	3	11/29	Final Design	J.T.S.
4	11/30	Final Design	J.T.S.	4	11/30	Final Design	J.T.S.
5	12/01	Final Design	J.T.S.	5	12/01	Final Design	J.T.S.
6	12/02	Final Design	J.T.S.	6	12/02	Final Design	J.T.S.
7	12/03	Final Design	J.T.S.	7	12/03	Final Design	J.T.S.
8	12/04	Final Design	J.T.S.	8	12/04	Final Design	J.T.S.
9	12/05	Final Design	J.T.S.	9	12/05	Final Design	J.T.S.
10	12/06	Final Design	J.T.S.	10	12/06	Final Design	J.T.S.



REVISED GENERAL DISTRICT  
DEVELOPMENT PLAN

OWNER: MR. J. T. SIMS

AMERICAN FITNESS CENTER

9013 Shelbyville Road  
Louisville, Kentucky 40223  
(502) 425-4471



# Exhibit II-6 FLOOR ELEVATIONS

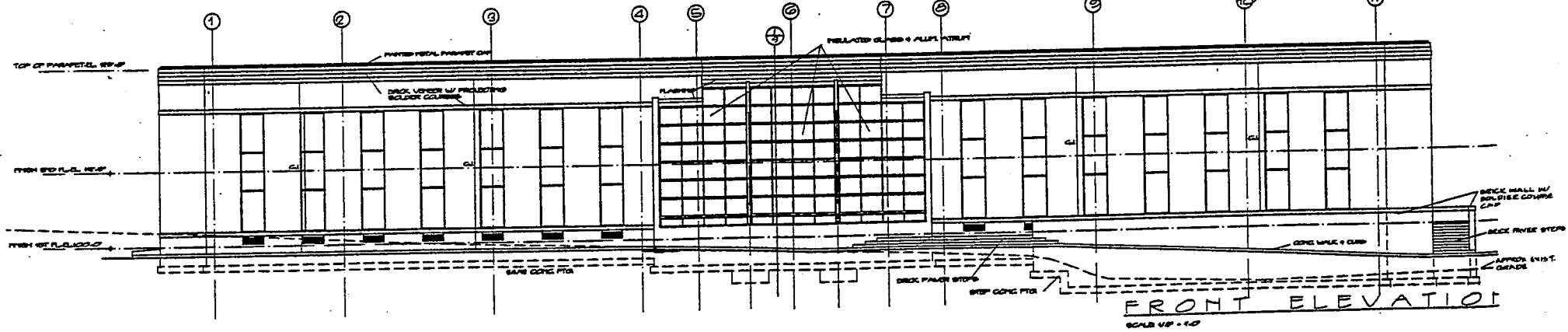
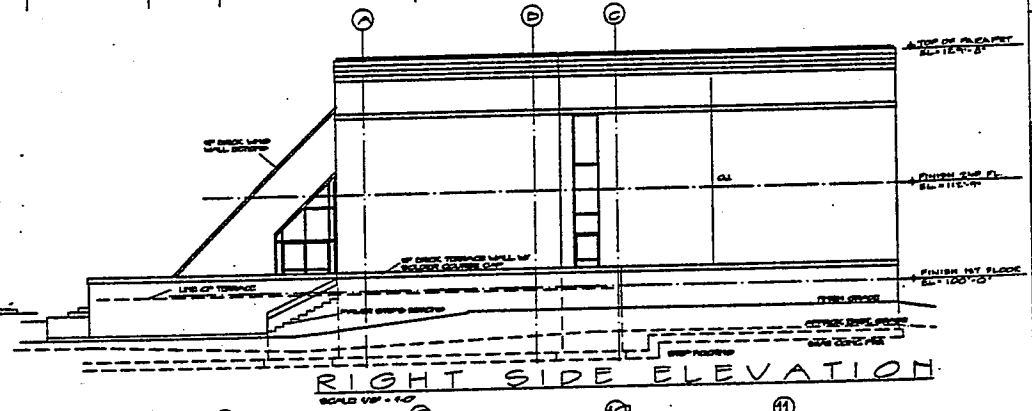
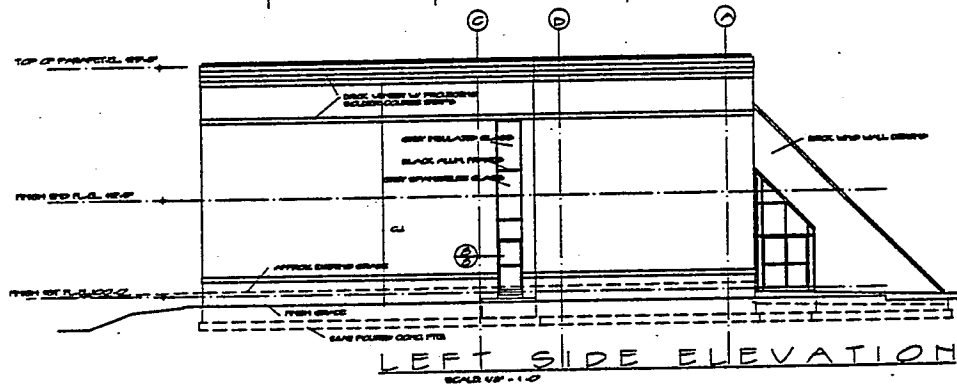
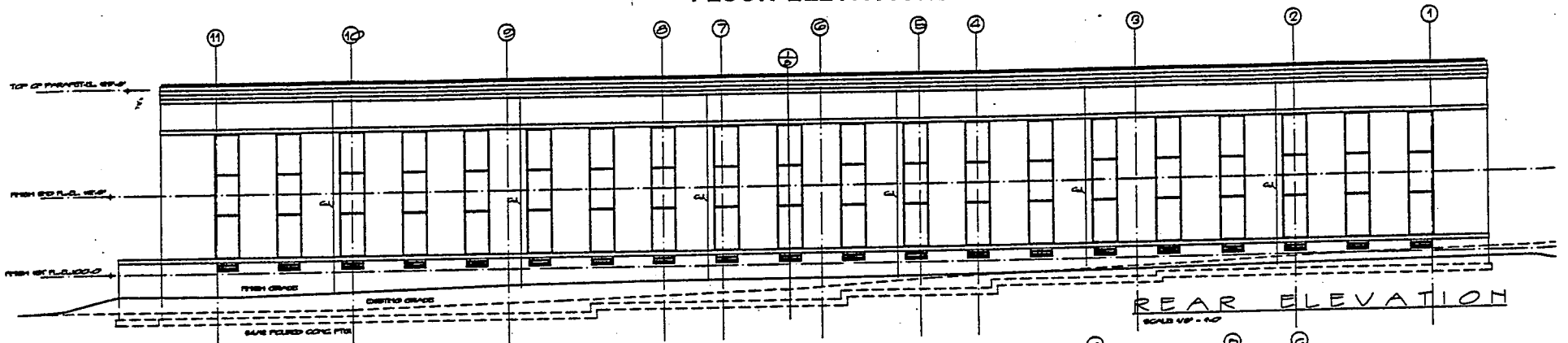
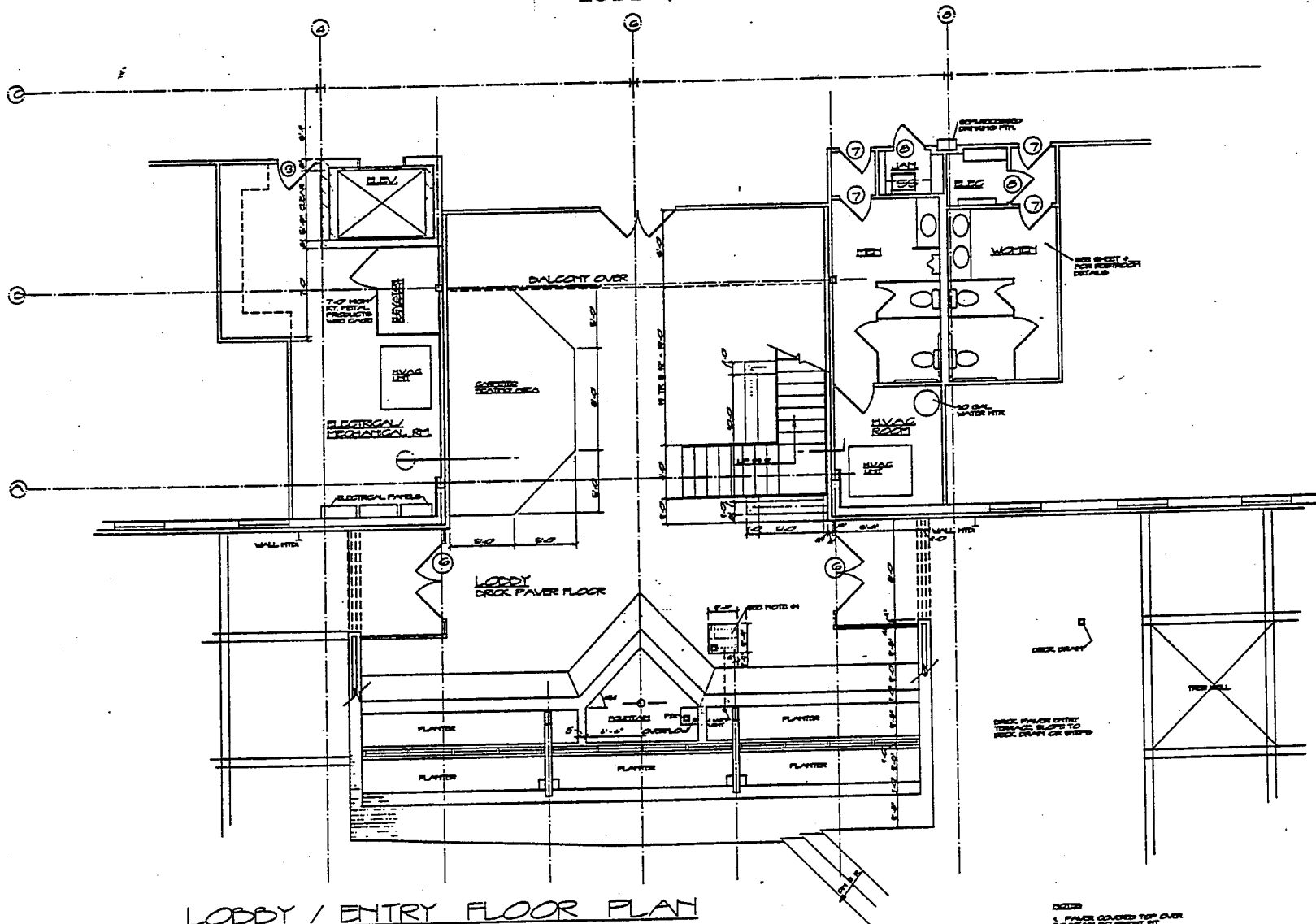


Exhibit II-7A  
LOBBY/ENTRY FLOOR PLAN



LOBBY / ENTRY FLOOR PLAN  
SCALE 1/8" = 1'-0"

NOTES  
1. PAVEMENT COVERED TOP OVER  
FOUNDATION ELEMENTS AT  
FURNISH THICKNESS FOR  
WEIGH LIFT - SEE DETAIL

LOBBY/ENTRY  
FLOOR PLAN

U.S.F. & G. BUILDING

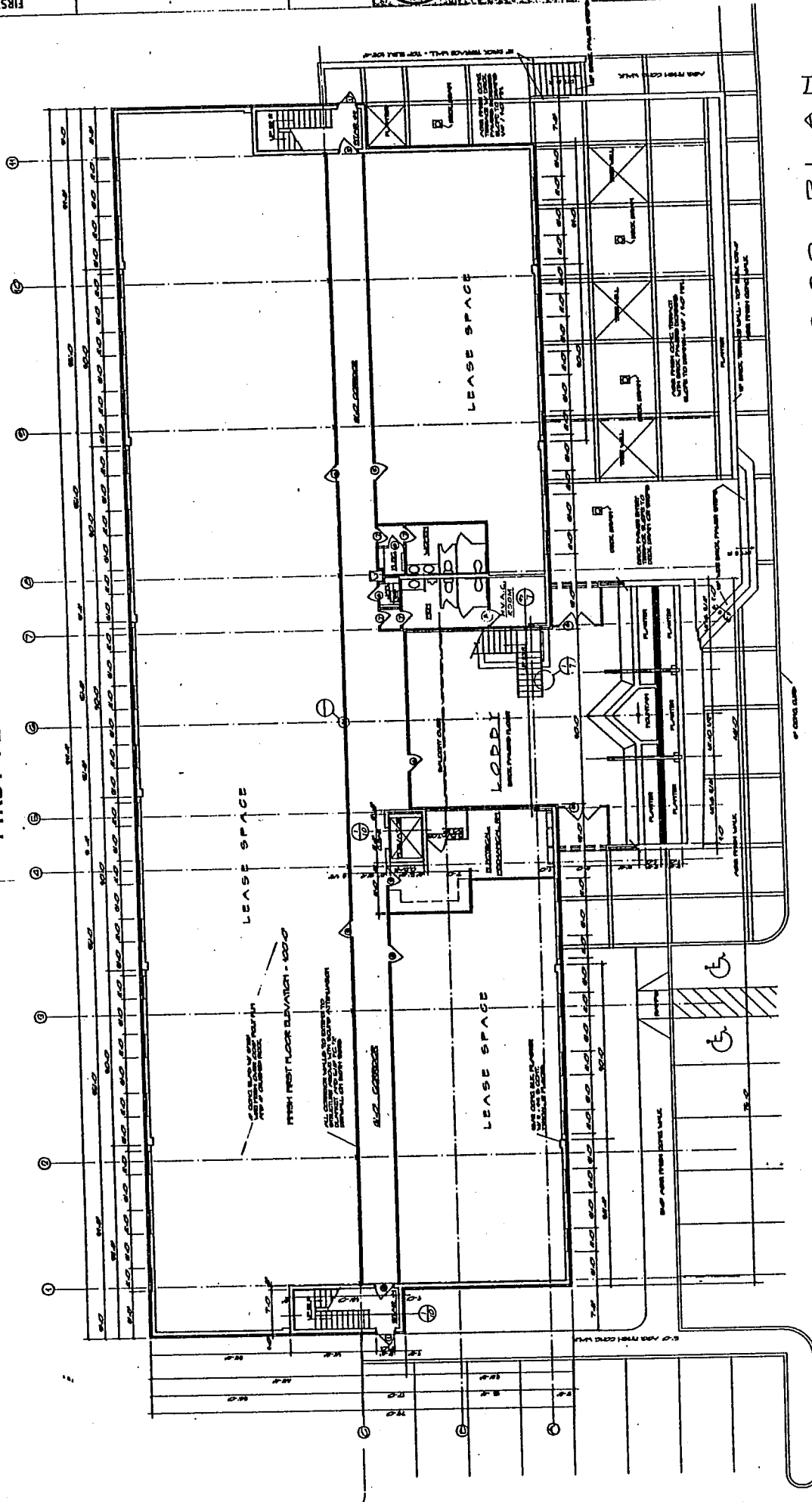
C.C. Brumley - architects, inc.  
1001 S. Third Street  
Louisville, Kentucky 40203



AMERICAN FITNESS PARTNERS  
9913 SHELBYVILLE RD.  
LOUISVILLE KENTUCKY

8524

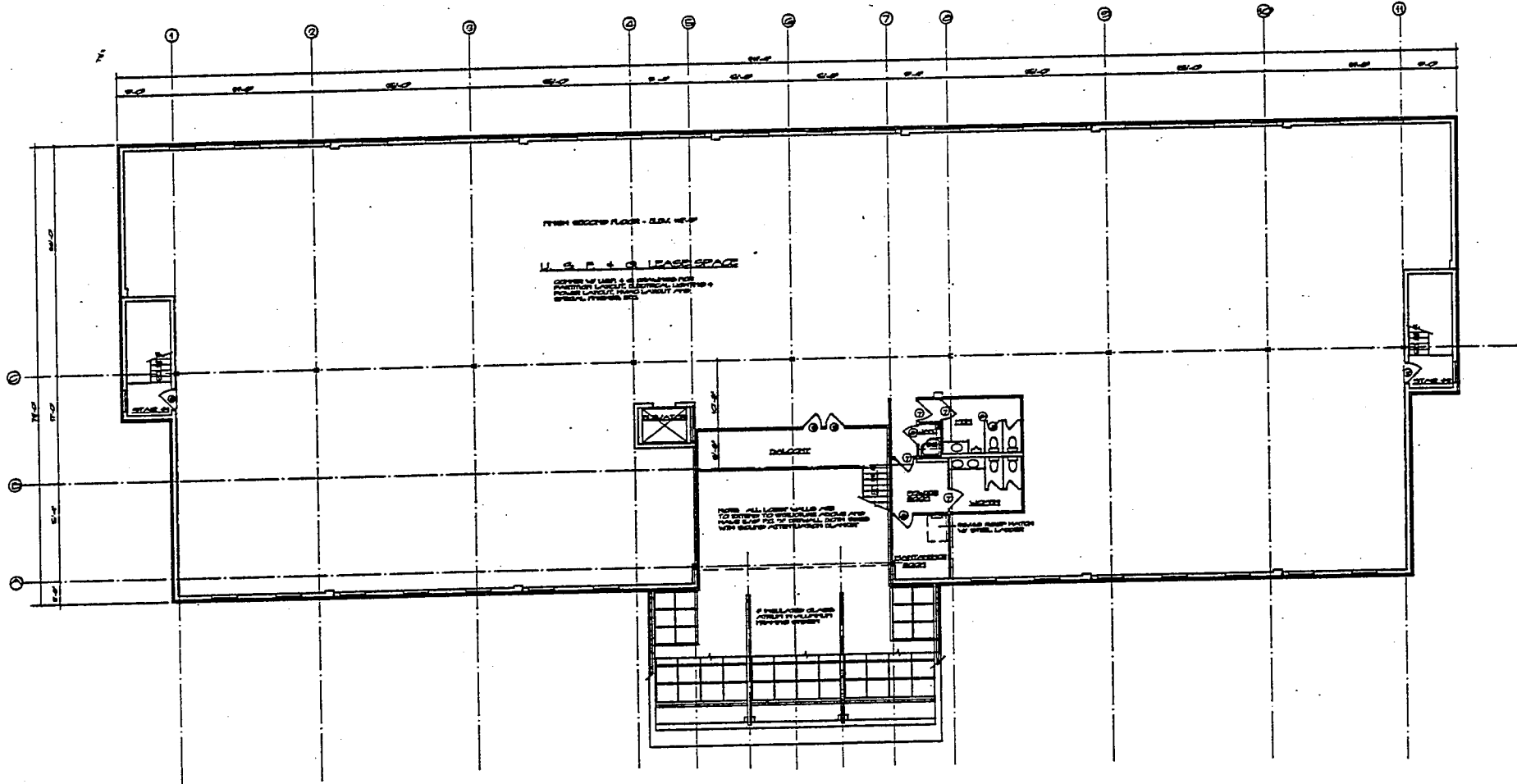
# Exhibit II-7B FIRST FLOOR PLAN



FIRST FLOOR PLAN  
SCALE 1/8" = 1'-0"

15,412.44 SQ. FT. FIRST FLOOR GROSS AREA

# Exhibit II-7C SECOND FLOOR PLAN



SECOND FLOOR PLAN  
SCALE 1/8" = 1'-0"  
14,161.97 SQ. FT. SECOND FLOOR GROSS AREA

Exhibit II - 8

DEVELOPMENT BUDGET

DIRECT COSTS		TOTAL	P.S.F.
Land Acquisition	\$400,000		
Shell Improvements	1,028,900	1,428,900	\$54.95
		-----	
INDIRECT COSTS			
Engineering & Architect	30,000		
Legal & Accounting	15,000		
Taxes & Insurance	15,600		
Construction Interest	50,000		
Development Fee	35,000		
Loan Origination Fees	57,000		
Lease - up Reserves	63,000		
Contingencies	100,000	365,600	14.06
		-----	
TENANT OCCUPANCY COSTS			
Tenant Finish			
USF&G @ \$15.00 /sq.ft.	217,500		
Other @ \$12.00 /sq.ft.	138,000		
Leasing Commissions	100,000	455,500	17.52
		-----	-----
TOTAL PROJECT COSTS		\$2,250,000	\$86.53

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



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

#### **A. INTRODUCTION**

The Louisville Metropolitan Area is experiencing moderate population and economic growth. The population in the seven-county metropolitan statistical area is 971,000, an increase of 7.1% over the 1970 population. The unemployment rate in the area is currently 7% (equal to the national average), down from 7.7% in the previous year. The median family income is \$23,280 compared to the national average of \$19,983.

The demand for new office space is primarily from expansion of the existing employment base which is characterized by large industrial firms, health care institutions, insurance and banking institutions and tobacco and packaging corporations. A partial list of the largest Louisville employers include: Brown & Williamson Tobacco Corp., Humana, Inc., Citizens Fidelity Corp., and Blue Cross and Blue Shield. The success of the USF&G Building will depend on attracting two or three small tenants to fill the remaining 11,500 square feet.

#### **B. THE LOUISVILLE OFFICE MARKET**

The Louisville office market contains more than 11 million square feet. Downtown office space totals nearly 7 million square feet with a vacancy rate of 11.3% while the suburban areas contain 4.5 million square feet with a vacancy rate of 17.2% (see Exhibit III-1). The relatively soft office market is experiencing several positive trends: increasing absorption, increasing rental rates, decreasing free rent concessions, and a slow-down of new construction. In 1985, the Louisville MSA absorbed 800,000 square feet of office space (up from 450,000 in 1984), and absorption figures for the first half of 1986 are already over 500,000 square feet. Contract rental rates in the metropolitan area have increased over the past six months. Current net rental rates range from \$10.00 to \$12.00 per square foot downtown, and \$8.00 to \$12.50 in the suburbs (see Exhibit III-2). Typically, free rent concessions are given only to tenants with five year leases or longer. Generally, free rent concessions range to 15 months but have been decreasing over the past six months. The construction of new office space in Louisville is beginning to slow down which should improve the market.

#### **C. COMPETITIVE PROPERTIES**

Piedmont Realty Advisors identified and surveyed 30 existing competitive properties and ten proposed or under construction properties in Jefferson County (see Exhibits III-2, III-3, III-4, and III-5). The existing properties contain over 2,000,000 square feet of office space and have an average vacancy of 15.5%. Leases in this market are generally on a gross basis with an operating expense stop. For purposes of comparison the rents on competitive properties are expressed on a net basis.

The buildings in Hurstbourne Forum, (1/4 mile west of the site) are

most comparable to the site because of their location, design, and quality of construction. These properties are located at the key intersection in Jefferson County, Hurstbourne Lane and Shelbyville Road. Hurstbourne Forum I contains 66,000 square feet and was completed in 1984 by STM Development Company. It is currently 100% leased with net rental rates of \$10.00 per square foot. Hurstbourne Forum II also contains 66,000 square feet, was completed in 1985, and is 91% leased with net rental rates of \$11.00 per square foot. Hurstbourne Forum III is scheduled to open in October 1986 with another 66,000 square feet and Hurstbourne IV is planned for 1987. Hurstbourne Forum III is currently 61% pre-leased with quoted net rental rates of \$11.75 per square foot. The pro forma net rental rates at the USF&G Building are \$9.75 per square foot.

STM and NTS Development Companies have developed the majority of office space in this market. Together these two companies have 747,845 existing square feet with an average vacancy of less than 11%. In addition, these companies have plans for another 566,000 square feet. The majority of their space is on Linn Station Road (just off Hurstbourne Lane, north of I-64). The location of these buildings is inferior to the subject because Linn Station Road is currently a dead-end street. Consequently, traffic congestion is a problem due to the concentration of space and the road configuration (one lane in and one lane out).

One-quarter mile west of the subject is Paragon Place, an 81,831 square foot building developed by the Paragon Group which was completed in 1984 and is currently 100% leased with net rental rates between \$10.75 and \$11.00 per square foot. This property is a landmark building in Louisville because of its unique design and quality construction. The Paragon Group is currently developing a 130,000 square foot building on Dutchman's Lane (1-1/2 miles southeast of subject) which has been 30% pre-leased with net rental rates between \$11.25 and \$12.25 per square foot, assuming occupancy in September 1986. Paragon has one other project planned for 1987 or 1988 which will contain approximately 150,000 square feet of office space on Brownsboro Road (two miles northwest of the subject).

Four miles further west on Shelbyville Road at I-264 is the Executive Park developed by Harry Rosen in 1973. This building contains 100,000 square feet and is 88% leased with net rental rates of \$10.00 per square foot. Trammell Crow developed the Summit Building (one mile west of Executive Park) on Brownsboro Road in 1985. This building contains 53,315 square feet and is currently 70% leased with net rental rates of \$11.35 per square foot. Trammell Crow is planning another building adjacent to The Summit in 1986 or early 1987 which will contain approximately 55,000 square feet.

Thurman Development Company has two buildings approximately 1/4 mile east of the site on Shelbyville Road, The Ten Thousand Buildings I and II. Phase I contains 24,000 square feet which is 92% leased at \$10.00 per square foot. Phase II is a recent office conversion containing 26,000 square feet which is 100% vacant. Leasing has just begun at Phase II, and the net rental rates are \$10.00 per square foot.

Two miles further east on Shelbyville Road are two buildings developed by First Development Company: Lexington Square Office Park I and II. Each contains 22,000 square feet and is 100% leased with net rental rates of \$10.00 per square foot. Phase I was completed in 1980, and Phase II was completed in 1982. Currently under construction is Phase III which will also contain 22,000 square feet and is 33% pre-leased.

Robert Wood developed two sites approximately two miles southwest of the subject site on Dutchman's Lane. The One Thousand Building, completed in 1982, contains 44,580 square feet and is 98% leased with net rental rates of \$10.00 per square foot. The Lincoln Income Tower, renovated in 1985, has 85,000 square feet which is 82% leased and has rents between \$7.50 and \$10.00 per square foot.

#### **D. CONCLUSION**

The Louisville office market is going through a period of stabilization which is evidenced by increasing absorption, rising rental rates, decreasing free rent concessions, and a decreasing amount of new construction. Consequently, the subject property with its excellent location and quality construction should have little difficulty leasing the remaining 11,500 square feet over the next 18 months at the pro forma rental rates.

Exhibit III - 1

HISTORIC OFFICE MARKET ACTIVITY  
LOUISVILLE, KENTUCKY

YEAR	DOWNTOWN				SUBURBAN				COMBINED			
	TOTAL OFFICE SPACE	OFFICE SPACE VACANT	PERCENT VACANT	ANNUAL ABSORPTION	TOTAL OFFICE SPACE	OFFICE SPACE VACANT	PERCENT VACANT	ANNUAL ABSORPTION	TOTAL OFFICE SPACE	OFFICE SPACE VACANT	PERCENT VACANT	ANNUAL ABSORPTION
1976	4,216,252	685,415	16.26%		2,632,282	805,947	30.62%		6,848,534	1,491,362	21.78%	
1977	4,672,499	832,124	17.81%	309,538	2,974,532	618,118	20.78%	530,079	7,647,031	1,450,242	18.96%	839,617
1978	4,755,788	329,885	6.94%	585,528	3,118,323	407,273	13.06%	354,636	7,874,111	737,158	9.36%	940,164
1979	4,784,288	425,146	8.89%	(66,761)	3,647,389	537,416	14.73%	398,923	8,431,677	962,562	11.42%	332,162
1980	4,793,059	364,272	7.60%	69,645	4,158,630	590,525	14.20%	458,132	8,951,689	954,797	10.67%	527,777
1981	5,249,188	534,227	10.18%	286,174	4,405,543	1,144,638	25.98%	(307,200)	9,654,731	1,678,865	17.39%	(21,026)
1982	6,042,688	937,133	15.51%	390,594	4,291,204	659,939	15.38%	370,360	10,333,892	1,597,072	15.45%	760,954
1983	6,126,465	748,702	12.22%	272,208	4,102,287	793,273	19.34%	(322,251)*	10,228,752	1,541,975	15.07%	(50,043)
1984	6,415,463	929,131	14.48%	108,569	4,459,628	811,403	18.19%	339,211	10,875,091	1,740,534	16.00%	447,780
1985	6,935,480	781,915	11.27%	667,233	4,559,382	784,813	17.21%	126,344	11,494,862	1,566,728	13.63%	793,577

\* The 1983 negative absorption is due, in part, to a major suburban tenant relocating (Mercer - Meidinger moved 60,000 Sq.Ft. from 1 bldg.)

Note : The above figures consist only of office space available for immediate occupancy. Office space under construction is not included.

Source : Louisville Chamber of Commerce  
Piedmont Realty Advisors

Exhibit III - 2  
COMPETITIVE PROPERTY SURVEY  
Existing Office Space in  
Jefferson County

PROJECT NAME	ADDRESS	DEVELOPER	TOTAL SQUARE FEET	SQUARE FEET AVAILABLE	PERCENT VACANT	RENTAL RATES	FREE RENT CONCESSIONS	OPERATING EXPENSES	YEAR BUILT / RENOVATED	CONTACT
[1] Houstbourne Forum One	301 Hurstbourne Ln.	STM	66,100	0	0.00%	\$13.50	1 Yr. Minimum	\$3.50	1984	Mark Wardlaw STM Development Co. (502)426-4300
[2] Houstbourne Forum Two	303 Hurstbourne Ln.	STM	66,000	6,000	9.09%	\$14.50	1 Yr. Minimum	\$3.50	1985	Mark Wardlaw STM Development Co. (502)426-4300
[3] STM Plaza	10101 Linn Station Rd.	STM	90,669	4,000	4.41%	\$11.50	1 Yr. Maximum	\$3.25	1978	Mark Wardlaw STM Development Co. (502)426-4300
[4] Triad West	10180 Linn Station Rd.	STM	59,120	10,000	16.91%	\$12.50	3 - 9 Months	\$3.25	1980	Mark Wardlaw STM Development Co. (502)426-4300
[5] Atrium Center	10400 Linn Station Rd.	NTS	95,584	23,896	25.00%	\$14.00	1 Yr. Maximum	\$2.90 * *Built-in \$3.75, Actual \$2.90	1984	Larry Fuller NTS Development Co. (502)426-4800
[6] NTS Plaza	10172 Linn Station Rd.	NTS	112,384	8,000	7.12%	\$13.50	1 Yr. Maximum	\$2.90	1978	Larry Fuller NTS Development Co. (502)426-4800
[7] Plainview Point	10507 Timberwood Circle	NTS	53,292	1,200	2.25%	\$13.50	1 Yr. Maximum	\$3.10	1980	Larry Fuller NTS Development Co. (502)426-4800
[8] Triad North	10401 Linn Station Rd.	NTS	90,196	10,000	11.09%	\$13.50	1 Yr. Maximum	\$3.10	1980	Larry Fuller NTS Development Co. (502)426-4800
[9] Commonwealth Business Ctr. I	Bluegrass Parkway & Waterson Trail	NTS	57,000	6,000	10.53%	\$13.50	1 Yr. Maximum	\$3.25	1983	Larry Fuller NTS Development Co. (502)426-4800
[10] Commonwealth Business Ctr. II	Bluegrass Parkway & Waterson Trail	NTS	57,500	11,500	20.00%	\$14.50	1 Yr. Maximum	\$3.50	1985	Larry Fuller NTS Development Co. (502)426-4800

bit III - 2  
COMPETITIVE PROPERTY SURVEY  
Existing Office Space in  
Jefferson County  
(Continued)

PROJECT NAME	ADDRESS	DEVELOPER	TOTAL SQUARE FEET	SQUARE FEET AVAILABLE	PERCENT VACANT	RENTAL RATES	FREE RENT CONCESSIONS	OPERATING EXPENSES	YEAR BUILT / RENOVATED	CONTACT
[11] Paragon Place	9100 Shelbyville Rd.	Paragon Group, Inc.	81,831	0	0.00%	\$14.25 - \$15.00	9 Month Maximum	\$3.50	1984	Sue Ault Paragon Group, Inc. (502)426-6110
[12] The Summit	4350 Brownsboro Rd.	Trammell Crow	53,315	16,000	30.01%	\$14.75	1 Yr. Maximum	\$3.40	1985	John Kessler Trammell Crow Co. (502)361-0101
[13] Ten Thousand Building I	10000 Shelbyville Rd.	Thurman Development Co.	24,000	2,000	8.33%	\$10.00	None	Full Pass Thru	1979	Janet Barnett Thurman Development Co. (502)245-2166
[14] Ten Thousand Building II	10002 Shelbyville Rd.	Thurman Development Co.	26,000	26,000	100.00%	\$10.00	None	Full Pass Thru	1983	Janet Barnett Thurman Development Co. (502)245-2166
[15] Hurstbourne Place	9300 Shelbyville Rd.	Prudential	228,300	55,000	24.09%	\$9.75 - \$10.25 Plus Expenses	1 Yr. Maximum	\$3.90	1983	Sam English Cushman & Wakefield (502)589-5150
[16] Hurstbourne Park	9200 Shelbyville Rd.	Prudential	98,254	5,800	5.90%	\$11.50 - \$12.50 Plus Expenses	None	\$2.00	1985	Sam English Cushman & Wakefield (502)589-5150
[17] The Wren Building	420 Hurstbourne Ln.	Fletcher , Berling & Gradison	38,400	0	0.00%	\$10.50 - \$11.25	1 Yr. Maximum	\$2.50	1979	John Grey Cushman & Wakefield (502)589-5150
[18] Jefferson Building	420 Hurstbourne Ln.	Fletcher , Berling & Gradison	28,919	0	0.00%	\$9.00 - \$9.50 Net of Utilities (\$1.25)	1 Yr. Maximum	Included	1979	John Grey Cushman & Wakefield (502)589-5150
[19] Hurstbourne Office Park	312 Whittington Pkwy.	Robert A. McNeil Corp	136,051 * (7 Bldg's.)	40,000	29.40%	\$8.50 - \$10.00 Plus Expenses	1 Yr. Maximum	\$2.60	1976	Harry Bounnell Robert A. McNeil Corp. (502)426-0598
[20] One Thousand Bldg.	6200 Dutchmans Ln.	Robert F. Wood	44,580	1,051	2.36%	\$13.50	3 Month Maximum	\$3.50	1982	Robert F. Wood Rbt. Wood R.E. Co. (502)589-4661

Exhibit III - 2  
 COMPREHENSIVE PROPERTY SURVEY  
 Existing Office Space in  
 Jefferson County  
 (Continued)

PROJECT NAME	ADDRESS	DEVELOPER	TOTAL SQUARE FEET	SQUARE FEET AVAILABLE	PERCENT VACANT	RENTAL RATES	FREE RENT CONCESSIONS	OPERATING EXPENSES	YEAR BUILT / RENOVATED	CONTACT
[21] Lincoln Tower	6100 Dutchmans Ln.	Robert F. Wood	85,000	16,000	18.82%	\$10.50 - \$13.50	1 Yr. Maximum	\$3.00	1985	Robert F. Wood Rbt. Wood R.E.Co. (502)589-4661
[22] Lexington Square Office Park I	12700 Shelbyville Rd.	First Development Co.	22,000	0	0.00%	\$13.50	15 Month Max.	\$3.50	1980	Samuel Pollitt First Development Co. (502)244-0100
[23] Lexington Square Office Park II	12701 Shelbyville Rd.	First Development Co.	22,000	0	0.00%	\$13.50	15 Month Max.	\$3.50	1982	Samuel Pollitt First Development Co. (502)244-0100
[24] Executive Park	123 Executive Park	Harry Rosen	100,000	12,000	12.00%	\$13.10	1 Yr. Maximum	\$3.10	1973	Adolph H. Horwitz First Realty (502)895-4221
[25] Centre Building	10100 Linn Station Rd.	NA	95,900	11,000	11.47%	\$13.75	1 Yr. Maximum	\$3.25	1981	Jim Wilson Cushman & Wakefield (502)589-5150
[26] Embassy Square	Embassy Square Blvd.	Sycamore Group	105,600	40,000	37.88%	\$8.00 - \$10.00 Plus Expenses	1 Yr. Maximum	\$2.25	1972	Doug Garrett Harold W. Cates & Co. (502)569-2700
[27] 9000 Wessex Place	Williamsburg Plaza	Ralph E. Williams	43,298	10,000	23.10%	\$12.50 - \$14.00	1 Yr. Maximum	\$3.00	1979	Doug Garrett Harold W. Cates & Co. (502)569-2700
[28] The Randolph Bldg.	420 Hurstbourne Ln.	NA	24,000	0	0.00%	NA	NA	NA	1979	Doug Garrett Harold W. Cates & Co. (502)569-2700
[29] Xerox Building	10001 Linn Station Rd.	Carl Smith & Co.	44,600	3,000	6.73%	\$11.50 - \$12.50	None	\$2.25	1973	Carl R. Smith Carl R. Smith & Co. (502)423-1000
[30] 9800 Building	9800 Shelbyville Rd.	Allen Blacketer Co.	23,280	2,550	10.95%	\$11.75 - \$13.75	1 Yr. Maximum	Included	1985	George Hunter Blacketer Co. (502)423-9300
TOTALS			2,073,173	320,997	15.48%					

Exhibit III-3  
COMPETITIVE PROPERTY SURVEY MAP

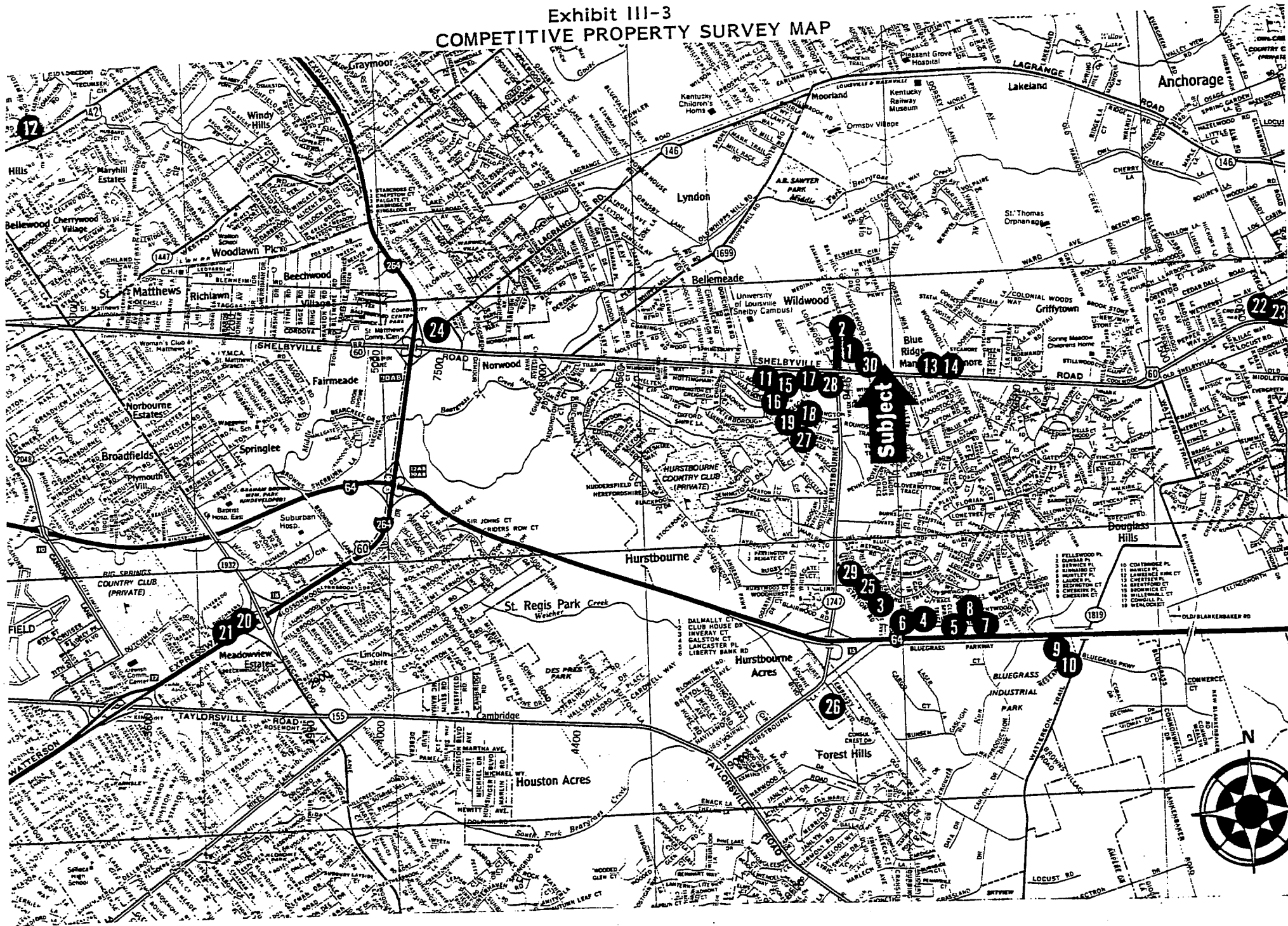
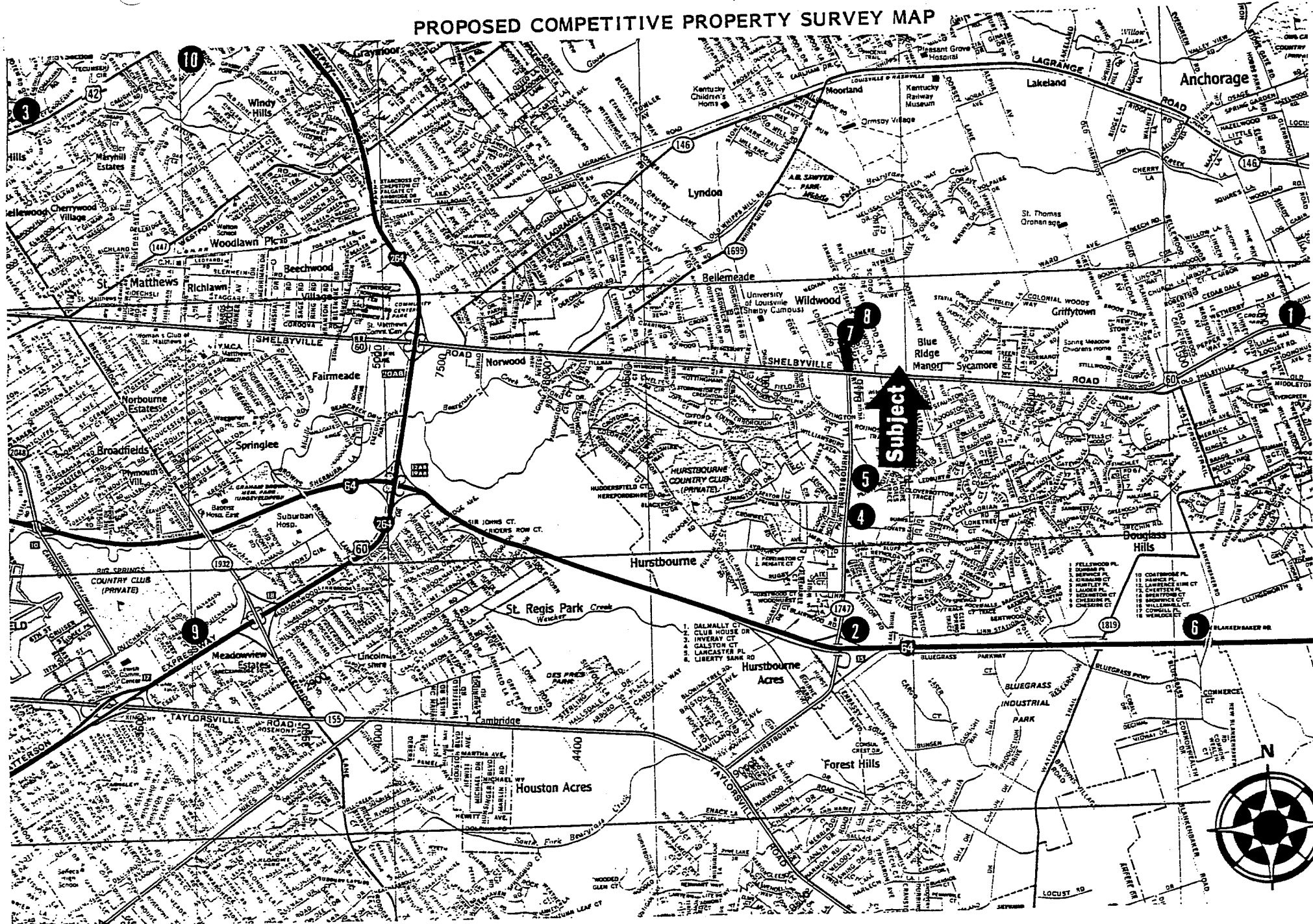




Exhibit III - 4  
PROPOSED OFFICE SPACE AND / OR  
OFFICE SPACE UNDER CONSTRUCTION  
in Jefferson County

PROJECT NAME	ADDRESS	DEVELOPER	TOTAL SQUARE FEET	SQUARE FEET AVAILABLE	PERCENT VACANT	RENTAL RATES	FREE RENT CONCESSIONS	OPERATING EXPENSES	YEAR BUILT / RENOVATED	CONTACT
[11] Lexington Square Office Park III	12702 Shelbyville Rd.	First Development Co.	22,000 U/C	14,000	63.64%	\$13.50	15 Month Max.	\$3.50	1986	Samuel Pollitt First Development Co. (502)244-0100
[21] NA	Hurstbourne Ln. South of I-64	Webb - Silliman	216,000 1st of 3 Phases will be 70,000	N/A	N/A	NA	N/A	NA	Proposed 1987	Ben Parker Webb - Silliman (502)425-7611
[31] NA	4351 Brownsboro Rd. (Next to Summit Bldg.)	Trammell Crow	55,000	N/A	N/A	NA	N/A	NA	Proposed 1986 - 1987	John Kessler Trammell Crow (502)361-0101
[41] Hurstbourne Corp.Center	Hurstbourne Ln.	Radice Corp.	360,000 120,000 Ft.Phase I	N/A	N/A	NA	N/A	NA	Proposed 1987	Gary Jarhraus Radice Corporation (502)493-5003
[51] NA	Hurstbourne Ln.	NTS	100,000	N/A	N/A	NA	N/A	NA	Proposed 1987	Larry Fuller NTS Development Co. (502)426-4800
[61] Lincoln - Baker Crossing	Blankenbaker & I-64	NTS	300,000 Industrial Park Conversion	N/A	N/A	NA	N/A	NA	Proposed 1987	Larry Fuller NTS Development Co. (502)426-4800
[71] Hurstbourne Forum III	305 Hurstbourne Ln.	STM	66,000 U/C	66,000	100.00%	\$15.00	NA	NA	1986	Mark Wardlaw STM Development Co. (502)426-4300
[81] Hurstbourne Forum IV	307 Hurstbourne Ln.	STM	100,000	N/A	N/A	NA	N/A	NA	Proposed 1987 - 1988	Mark Wardlaw STM Development Co. (502)426-4300
[91] Paragon Center	6060 Dutcheans Ln.	Paragon Group, Inc.	130,000 U/C	90,000	69.23%	\$15.00 - \$16.00	NA	\$3.75	1986	Sue Ault Paragon Group, Inc. (502)426-6110
[101] Glenridge	Brownsboro Rd.	Paragon Group, Inc.	150,000	N/A	N/A	NA	N/A	NA	Proposed 1987 - 1988	Sue Ault Paragon Group, Inc. (502)426-6110
TOTAL SPACE UNDER CONSTRUCTION			218,000	170,000	77.98%					
TOTAL SPACE PROPOSED (1987)			895,000	NA	NA					

# PROPOSED COMPETITIVE PROPERTY SURVEY MAP



#### **IV. THE PARTNER/DEVELOPER**

#### IV. PARTNER/DEVELOPER

##### A. INTRODUCTION

The proposed joint venture for the USF&G Building will be a general partnership with an affiliate of USF&G owning 75% of the partnership interest and J.T. Sims owning 25% of the partnership (see Exhibit I-1). The co-general partner's ability to meet the financial guarantees and the development team's ability to build and lease the property as projected is evaluated in this section (see Exhibits IV-1 and IV-2).

##### B. THE DEVELOPER

The developing entity will be J.T. Sims and an affiliate of USF&G. The responsibility for any and all personal guarantees will be borne by Sims who has a net worth of \$690,000 as of June 1, 1986.

J.T. Sims has been involved with the formation of several limited partnerships since 1976 when he graduated from Louisiana State University with a degree in business. Sims served as the Marketing Director in a partnership which developed the Lexington Tennis Club in Lexington, Kentucky in 1976. In 1977, he formed a limited partnership to build and operate the Plainview Racquetball Club in Plainview, Kentucky. This partnership was known as the BNS Company. In addition to the development activities, Sims served as the property manager for this project until it was sold in March of 1984. The new owners recently completed an office conversion on the building which is now known as the Crawford Building. In 1979 Sims formed another partnership to build and operate the Okolona Racquetball Club in Louisville. In 1981 a partnership was formed to acquire another racquetball club (the Jefferson Racquetball Club). In 1983 the three remaining limited partnerships (Plainview, Okolona, and Jefferson Racquetball Clubs) were merged into Fitness Partners, Ltd. which has assets of \$2,100,000 and liabilities of \$1,500,000. In 1984, Sims acquired his partners' interests making him the sole general partner owning 50% of the partnership.

##### C. DEVELOPMENT TEAM

Architect: C.C. Brumley, Louisville, Kentucky. The firm was founded in 1976 and has served as architects for the following Louisville projects: Seelback Hotel Restoration, Downtown; 1400 Willow-Highrise Office Building; Crawford Building conversion, Raceland; and Westland Shopping Malls; and Indian Hills Village Condominiums.

Engineer: Daugherty & Trautwein, Louisville, Kentucky. Founded in 1979, the firm currently employs approximately nine professionals and has engineered the following major projects: Paragon Center; Paragon Place; Hurstbourne Forum I, II, and III; and Martin Marrietta Quarry Designs.

**Contractor:** Robert Mattingly & Sons, Louisville, Kentucky  
or  
Marksbury Cornett, Louisville, Kentucky

Robert Mattingly & Sons was formed in 1941 and currently employs over 90 people. Major projects are: Huntington Place (shopping center at Hurstbourne Lane and I-64); several office buildings at Huntington Place; Phase I of Jefferson Trade Center (approximately 1 million square feet of office space); and the Levy Building (a major downtown renovation).

Marksbury Cornett is a relatively new firm founded in 1983 with more than 85 employees. This firm has completed many of the landmark office buildings in Jefferson County, such as: Hurstbourne Forums I, II, and III; Paragon Center; Paragon Place; and Hurstbourne Forum Shopping Center.

**Leasing Agent:** Harry K. Moore & Son, Louisville, Kentucky. This firm has leased a total of 300,000 square feet of office space in Louisville from June 1985 to 1986. Michael Shroering (leasing agent for the USF&G Building) has personally leased approximately 175,000 square feet during the same time frame.

#### **D. CONCLUSION**

J.T. Sims, a successful young man with a moderate net worth, has been involved with the development and management of health club facilities since he graduated from college in 1976. He has demonstrated his ability to plan, organize, and manage these projects successfully. The size of the subject property and required financial guarantees are consistent with his present abilities and capabilities. USF&G will be the prime tenant in this property as well as the majority general partner so that J.T. Sims will be closely monitored at all times.

**Exhibit IV-1**  
**DEVELOPMENT TEAM**

<b>Developer:</b>	<b>J.T. Sims</b>
<b>Architect:</b>	<b>C.C. Brumley</b> <b>Louisville, Kentucky</b>
<b>Engineer:</b>	<b>Daugherty &amp; Trautwein</b> <b>Louisville, Kentucky</b>
<b>Contractor:</b>	<b>Robert Mattingly &amp; Sons</b> <b>Louisville, Kentucky</b> <b>or</b> <b>Marksbury Cornett</b> <b>Louisville, Kentucky</b>
<b>Leasing:</b>	<b>Harry K. Moore &amp; Son</b> <b>Louisville, Kentucky</b>
<b>Property Management:</b>	<b>J.T. Sims Real Estate Co.</b> <b>Owner/Principal:</b> <b>J.T. Sims</b>

Exhibit IV - 2

J. T. Sims  
DEVELOPER'S TRACK RECORD

Lexington Tennis Club -- Lexington , Kentucky

Sims served as the Marketing Director in the development of the Lexington Tennis Club from 1976 to 1977 . This Club was developed on a fee basis for Town Properties .

Plainview Racquetball Club -- Plainview , Kentucky

In August 1977 Sims formed a limited partnership to build and operate this racquetball facility . The partnership obtained construction financing from Liberty National Bank in the amount of \$562,500 which was later paid off by a permanent loan from Future Federal Savings & Loan for \$625,000 . This Club was sold in March '84 for \$650,000 and was converted into a 24,000 sq.ft. office building known as The Crawford Building .

Okolona Racquetball Club -- Louisville , Kentucky

In April 1979 Sims formed a limited partnership to build and operate a second racquetball facility . Permanent financing was obtained from Future Federal Savings & Loan in the amount of \$637,500 . Construction was completed in November '78 and appraised by William Lippy , M.A.I. , for \$850,000 . This property was merged into Fitness Partners , LTD . in March 1984 .

BNS Management Company --

In April 1979 Sims formed a Management Company to oversee Club operations and future development of the racquetball business . In March 1984 , Sims purchased his partners interests and currently retains 100 % ownership . BNS Company also developed & managed the Crawford Building before selling it in 1984 .

1253 Eastern Parkway --

In February 1979 , Sims purchased a duplex apartment building and carriage house for \$75,000 with a permanent mortgage obtained from the previous owner for \$65,000 . The property is currently 100 % occupied .

Racquetball Plus Conditioning Center --

In September 1981 Sims formed a limited partnership to purchase another racquetball facility called the Jefferson Racquetball Club for \$485,000 . The partnership assumed a mortgage in the amount of \$403,000 from Citizens Fidelity Mortgage Company . The Club was remodeled and expanded during '83 and was appraised for \$1,400,000 .

Fitness Partners Ltd . --

In January 1983 , the three limited partnerships ( Plainview , Okolona , and Racquetball Plus ) were merged into one limited partnership called Fitness Partners Ltd . . The partnership was capitalized with assets of \$2,700,000 and liabilities of \$2,100,000 . The partnership sold Plainview in 1984 for \$630,000 leaving assets of \$2,100,000 and liabilities of \$1,500,000 . In March '84 , Sims acquired his partners interests making Sims the sole General Partner owning 50 % of the partnership . Sims also owns 50 % of American Fitness Centers of Kentucky and AFC of Kentucky , Inc. -- subdivisions of Fitness Partners Ltd .

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



## V. RISK AND RETURN

### A. INTRODUCTION

The equity joint venture, when structured properly, is a relatively safe and high yielding investment, particularly in today's low interest rate environment. The proposed joint venture with J.T. Sims is structured as a general partnership with USF&G owning 75% and Sims 25%. Sims will have the responsibility of managing the property which he will do under the name of J.T. Sims Real Estate Company for an annual fee of \$.55 per square foot or \$14,300.

Construction is expected to begin the later part of September, 1986. The building is currently 56% pre-leased to USF&G and Sims has secured construction financing at 1% over prime (currently 8%) for a two year term in the amount of \$1,625,000 (see Appendix B).

### B. VALUATION

#### 1. Pro Forma Income and Expenses

The USF&G Building will be rented on a gross rent basis with a \$3.25 stop on operating expenses. The pro forma rental rates are projected as follows:

	<u>Gross</u>	<u>Net</u>
USF&G Rent, Years 1 thru 5	\$11.50	\$ 8.25
USF&G Rent, Years 6 thru 10	\$13.75	10.25
Other Rent, Years 1 thru 5	\$13.00	9.75

These rents are currently supported in the marketplace and should easily be achieved over the next 27 months (9 months for construction and 18 months for lease-up).

Operating Expenses are estimated as follows:

	<u>Total</u>	<u>P.S.F.</u>
Management Fee	\$14,300	\$ .55
Real Estate Taxes	13,000	.50
Insurance	2,600	.10
Utilities	33,800	1.30
Repairs & Maintenance	2,600	.10
Janitorial	13,000	.50
Miscellaneous	<u>5,200</u>	<u>.20</u>
Total Operating Expenses	\$84,500	\$ 3.25

The projected net operating income in the stabilized year (second year of operations) at 95% occupancy is \$224,275 which provides a debt coverage ratio of 1.37 for a \$1,625,000 loan at 9.5% interest and 30 year amortization (see Exhibit V-1).

## **2. Valuation Methodology**

Piedmont evaluated the subject property using the three approaches to value accepted by the American Institute of Real Estate Appraisers (see Exhibit V-2). Correlating these value estimates, Piedmont estimates the market value of the subject property to be \$2,350,000 when the building is built and leased to 95% occupancy.

### **C. RETURN**

The detailed terms of the proposed joint venture agreement are summarized in Exhibit I-1. Exhibits A and B of Exhibit I-1 present a schematic diagram of the distribution of cash flows and cash proceeds from sale.

#### **1. Projected Net Operating Income**

The projected annual net operating incomes from the property are presented in Exhibit V-3. These projections are based on the following assumptions:

- \* The terms of USF&G's lease are in effect for 10 years (see Appendix C.)
- \* The remaining space is leased for \$13.00 per square foot gross on a five year lease.
- \* The remaining space is 25% vacant in the first year of operation and 5% vacant thereafter.
- \* Operating expenses are capped at \$3.25 per square foot.
- \* Market rental rates, operating expenses, and property values increase at the rate of inflation, 5%.

#### **2. Projected Equity Cash Flows**

The projected equity cash flows from the property are presented in Exhibit V-4. These projections are based on the assumption that a permanent loan is obtained for \$1,625,000 at 9-1/2% interest with a 30-year amortization schedule. At this time, a permanent loan proposal has been received providing for this amount and rate. However, the economic holdback requirements are too severe. Consequently, the property will be developed with a 24-month construction loan. When additional leasing has occurred and immediate permanent loan funding can occur, a permanent loan will be secured. In the current market, the interest rates for bullet loans with immediate funding are more favorable than the rates projected in this analysis.

#### **3. Yield Analysis**

USF&G will receive 99% of the annual cash flows and cash proceeds from sale until it receives an annual cumulative preferred return of 8% on

the outstanding equity capital, and it is repaid all its equity capital. After USF&G is repaid its equity capital, Sims is repaid any equity capital he may have outstanding. When both partners are made whole, all cash flows and proceeds are split 75% to USF&G and 25% to Sims.

The cash flow distribution is shown in Exhibit V-5 along with USF&G's equity balances which reflect the cumulative preferred return and the repayment of capital.

USF&G's equity capital is paid in over the first 12 months of the partnership as the building is constructed and leased. The initial contribution, made at the partnership closing is \$475,000, \$400,000 for land acquisition and \$75,000 for closing costs. USF&G will make a \$115,000 equity contribution when the property is ready for occupancy, and the last equity contribution of \$35,000 will be paid to Sims as a developer's fee when the property achieves breakeven occupancy.

Exhibit V-5 is a summary of the equity contribution made and the cash benefits received from the proposed joint venture. With these assumptions the expected equity yield is 15.3%. This yield could be as high as 16% if the remaining space is leased at \$13.50 per square foot, or it could be as low as 14.4% if the permanent mortgage interest rate is 10.25%. Exhibit V-6 is a summary of the sensitivity analysis which demonstrates the effect of varying rental rates and interest rates on yields, cash returns, and debt coverage ratios.

#### **D. RISKS**

In this investment proposal, USF&G will be exposed to all the general partnership risks associated with developing, owning, and operating an office building. Generally, these risks fall into four broad categories: developmental risks, financial risks, operational risks, and partnership risks.

##### **1. Developmental Risks**

The major developmental risk is that the actual costs to build and lease the project exceed the development budget. This risk will be minimized in several ways. First, the competing general contractors have reviewed the preliminary plans and specifications and concur that the estimated building costs are reasonable and accurate. Also, the construction contract will have a fixed maximum price. Secondly, the construction interest and lease-up reserve have been conservatively estimated using a 10% interest rate and 24-month lease-up assumptions. The construction interest reserve is based on a 10% interest rate during construction when the most likely rate will be 8-1/2% to 9-1/2%. Thirdly, the lease-up reserve is based on a twenty-four month period which is very conservative since only 11,500 square feet of unleased space remains in the building. Finally, a contingency reserve of \$100,000 is effectively increased because Sims must pay the first \$62,500 of cost overruns or cash flow deficits.

## **2. Financial Risks**

The primary financial risk is that a permanent loan for \$1,625,000 cannot be obtained at affordable rates. Piedmont recommends that the joint venture accept this risk at this time for several reasons. The anticipated loan to value ratio of 69% is very low, so the likelihood of not obtaining a loan for \$1,625,000 is quite small. An interest rate premium of 50 to 100 basis points is required for a forward commitment, and substantial economic holdbacks are imposed on properties that are not leased to breakeven. Finally, the construction interest rate is currently 50 to 100 basis points below the current long term rates. Consequently, since the construction loan is for 24 months and there is no prepayment fee, the interest rate risk can be eliminated by accepting a permanent mortgage when additional leasing occurs or when the short-term/long-term rate differential is reduced.

## **3. Operational Risks**

The operational risk is that the property is not efficiently operated. This risk is reduced in several ways. The property manager, J.T. Sims, is experienced in operating small buildings and has his offices adjacent to the subject. If he does not efficiently manage the property, he can be removed by the majority partner, USF&G. Also, all of the leases will contain an operating expense stop of \$3.25. Finally, the operation of the property will be monitored daily by the major tenant, USF&G, and monthly by Piedmont Realty Advisors.

## **4. Partnership Risk**

As a general partner in the proposed joint venture, USF&G will be exposed to a higher degree of liability than their typical exposure as a lender. Under the proposed joint venture, J.T. Sims would be the managing general partner, and USF&G would have the right to review and approve all contracts, leases, and operating budgets. Sims can be removed as managing general partner at any time by USF&G. Furthermore, if Sims does not cover the first \$62,500 of cost overruns and operating deficits, he forfeits his interest in the partnership.

## **E. CONCLUSIONS AND RECOMMENDATIONS**

The proposed equity investment in the USF&G Office Building in Louisville, Kentucky provides USF&G with an adequate return for the risks associated with this development. The major development risks are minimized by a strengthening office market, 24-month construction loan, and USF&G's lease for 56% of the property. The equity investment also complements USF&G's leasehold in the property by giving USF&G virtually complete control of its office environment, future space needs, and the development of the adjacent land parcel. Finally, this investment will enhance the geographical diversification of USF&G's real estate portfolio. Therefore, Piedmont Realty Advisors recommends that the Real Estate Investment Committee of the United States Fidelity & Guaranty Company approve a \$625,000 equity investment in the proposed joint venture under the terms and conditions outlined in this report.

Exhibit V - 1

PRO FORMA INCOME AND EXPENSES  
( 2nd Year of Operations )

TENANTS	Square Feet	Rental Rates	Totals	P.S.F.
-----	-----	-----	-----	-----
USF&G	14,500 Sq.Ft. @	\$11.50	\$166,750	
Other	11,500 Sq.Ft. @	\$13.00	149,500	
			-----	
Total	26,000 Sq.Ft. @			
GROSS INCOME			316,250	12.16
less : Vacancy Allowance (Other) @		5.00%	(7,475)	
			-----	
EFFECTIVE GROSS INCOME			308,775	11.88
less : Operating Expenses				
Management		14,300		
Utilities		33,800		
Real Estate Taxes		13,000		
Insurance		2,600		
Repairs & Maintenance		2,600		
Janitorial		13,000		
Miscellaneous		5,200	(84,500)	3.25
			-----	
NET OPERATING INCOME			224,275	8.63
less : Mortgage Payment			(163,967)	6.31
			-----	
CASH FLOW			60,308	2.32
Indicated Debt Coverage Ratio			1.37	

Exhibit V-2A  
VALUATION ANALYSIS

Cost Approach:

Improvements Cost (Exhibit II-8)	\$1,850,000
Land Value (Exhibit V-2B)	400,000
<u>Developer's Profit @ 10%</u>	<u>185,000</u>
Estimated Value	\$2,435,000

Sales Comparison Approach:

Gross Income (Exhibit V-1)	\$ 316,250
Times: <u>Gross Rent Multiplier (Exhibit V-2C)</u>	<u>6.62</u>
Estimated Value	\$2,093,575

Capitalized Income Approach:

Present Value of Cash Flow @ 14%	\$ 347,967
Plus: <u>Present Value of Proceeds from Sale @ 14%</u>	<u>396,228</u>
Equals: Equity Value	\$ 744,195
Plus: <u>Original Mortgage Amount</u>	<u>1,625,000</u>
Estimated Value	\$2,369,195

Correlation of Value Estimates

The three approaches to value indicate a range of values from \$2,093,575 to \$2,435,000. In the correlation of value estimates, little weight is given to the cost approach because it reflects primarily historic costs. The direct sales comparison approach is generally a good indication of value since it reflects market activity in terms of direct conversion ratios. However in this case, the relatively inactive office market and the dearth of sales information causes the direct sales comparison approach to be less accurate and reliable. The capitalized income or discounted cash flow approach is considered the best indication of value because it reflects a reasonable estimate of the property's earning power on an annual cash basis over the next 10 years. The capitalized income estimate is further supported because it indicates an overall capitalization rate of 9.5% which is very reasonable in today's office market. Therefore the value of the subject property when it is built and leased is estimated to be:

\$2,350,000  
Indicated Loan to Value Ratio: 69%  
(\$1,625,000/\$2,350,000)

Exhibit V-2B  
LAND APPRAISAL

Telephone (502) 893-8893

THE *Harry Lewman* CO.  
REALTORS

APPRAISALS • COUNSELING • MANAGEMENT • SALES

HARRY LEWMAN, SREA • MAI

Suite 300  
125 Chenoweth Lane  
LOUISVILLE, KENTUCKY 40207

September 18, 1985

Mr. J. T. Sims, President  
A.F.C. of Kentucky, Inc.  
9913 Shelbyville Road  
Louisville, Ky. 40223

Re: Appraisal  
1.93 acre commercial site  
9913 Shelbyville Road  
Louisville, Kentucky

Dear Mr. Sims:

At your request I have inspected the referenced site for the purpose of estimating its fair market value.

My inspection and analysis of pertinent market data indicates a value of FOUR HUNDRED THOUSAND (\$400,000) DOLLARS.

Respectfully Submitted,

Harry Lewman, MAI-SREA

Exhibit V-2C  
SUMMARY OF AREA SALES DATA

Sale No. -----	Location -----	Sale Date ----	Sales Price -----	Total Square Feet -----	Unit Sale Price -----	
					Price P.S.F. -----	Gross Rent Multiplier -----
1	304 Whittingham Pkwy.	1/79	\$1,165,275	28,000	\$41.62	6.24
2	312 Whittingham Pkwy.	1/79	\$2,152,700	49,860	\$38.64	6.79
3	200 Whittingham Pkwy.	3/79	\$465,000	12,000	\$38.75	5.81
4	310 Whittingham Pkwy.	1/79	\$1,563,925	42,000	\$37.24	5.56
5	9504 Williamsburg Plaza	11/80	\$1,347,445	24,000	\$56.14	7.20
6	320 Whittingham Pkwy.	3/82	\$1,951,640	36,000	\$54.21 -----	8.13 -----
Mean					\$44.43	6.62



### PROJECTED NET OPERATING INCOME

**\$11.50**  
**5.00%**  
**5.00%**  
**25.00%**

### Inflation Rate

**\$13.00 Other Rental Rates Years 1 Thru 5**

**Vacancy Rate Year 1 -- Other Leases Only**

	Year	sq ft	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
USF&G Lease		14,500	166,750	166,750	166,750	166,750	166,750	199,375	199,375	199,375	199,375	99,688
Other Leases		11,500	149,500	149,500	149,500	149,500	149,500	190,804	190,804	190,804	190,804	190,804
Gross Income		26,000	316,250	316,250	316,250	316,250	316,250	390,179	390,179	390,179	390,179	290,492
- Vacancy Allowance			37,375	7,475	7,475	7,475	7,475	9,540	9,540	9,540	9,540	9,540
= Effective Gross			278,875	308,775	308,775	308,775	308,775	380,639	380,639	380,639	380,639	280,951
- Oper. Exp.	\$3.25 /N.R.S.F.		84,500	84,500	84,500	84,500	84,500	107,846	107,846	107,846	107,846	107,846
= Net Operating Income			194,375	224,275	224,275	224,275	224,275	272,793	272,793	272,793	272,793	173,106
 Projected Property Value @ OCR = 10.00%			2,242,750	2,354,888	2,472,632	2,596,263	2,726,077	2,862,380	3,005,499	3,155,774	3,313,563	3,479,241

**Exhibit V - 4**

**EQUITY CAPITAL ANALYSIS**

**Projected Cash Flows**  
-----

	Year of Operation	1	2	3	4	5	6	7	8	9	10
Net Operating Income		194,375	224,275	224,275	224,275	224,275	272,793	272,793	272,793	272,793	173,106
- Mortgage Payment		163,967	163,967	163,967	163,967	163,967	163,967	163,967	163,967	163,967	163,967
+ Lease - up Reserves (If needed)		0	0	0	0	0	0	0	0	0	0
= Cash Flow To Split		30,408	60,308	60,308	60,308	60,308	108,827	108,827	108,827	108,827	9,139
USF&G Percent		99.00%	99.00%	99.00%	99.00%	99.00%	99.00%	99.00%	99.00%	99.00%	99.00%
= USF&G Cash Flow		30,104	59,705	59,705	59,705	59,705	107,738	107,738	107,738	107,738	9,048

**Cumulative Equity Balances**  
-----

	Year of Operation	1	2	3	4	5	6	7	8	9	10
	Constr. Year										
Beginning USF&G Balance	475,000	663,000	685,936	681,105	675,888	670,254	664,169	609,564	550,591	486,900	418,114
+ Preferred Return @	8.00% 38,000	53,040	54,875	54,488	54,071	53,620	53,134	48,765	44,047	38,952	33,449
+ Equity Contributions	150,000	0	0	0	0	0	0	0	0	0	0
- Cash Return	0	30,104	59,705	59,705	59,705	59,705	107,738	107,738	107,738	107,738	9,048
= Ending USF&G Balance	663,000	685,936	681,105	675,888	670,254	664,169	609,564	550,591	486,900	418,114	442,515

**Exhibit V - 5**

**INVESTOR'S YIELD SUMMARY**

Partnership Year	Year of Operations	Equity Contributions	Cash Flow Operations	Cash Proceeds from Sale	Total
0		(475,000)			(475,000)
1	0	(150,000)	0		(150,000)
2	1	0	30,104		30,104
3	2	0	59,705		59,705
4	3	0	59,705		59,705
5	4	0	59,705		59,705
6	5	0	59,705		59,705
7	6	0	107,738		107,738
8	7	0	107,738		107,738
9	8	0	107,738		107,738
10	9	0	107,738		107,738
11	10	0	9,048	3,374,864 (1)	3,383,912

**Estimated Equity Yield -- 15.3% (2)**

(1) Net Sales Price of \$ 3,374,864 less outstanding loan balance of \$ 1,374,122 equals a residual of \$ 2,000,742 . USF&G receives 75% of remaining net proceeds assuming preferred returns and capital contributions have been repaid . See Exhibit C of the Application Letter for distribution of Sale Proceeds .

(2) Internal Rate of Return calculated using \$475,000 as the investor's initial investment and \$150,000 contributed in the first year of the partnership .

**Exhibit V - 6**

**SENSITIVITY ANALYSIS**

**CASE A**

**Assumptions:**

Interest Rate @ 9.5% , 30 Yrs. Am., 10 Yr.Call  
 Loan Amount @ \$1,625,000  
 Equity Capital @ \$625,000

	Conservative	Most Likely	Optimistic
Rental Rates	\$13.00	\$13.25	\$13.50
Debt Coverage Ratio (2nd Yr.)	1.37	1.38	1.40
2nd Year Cash on Cash	9.6%	10.1%	10.5%
10th Year Equity Balance	442,515	400,100	357,684
Equity Yield	15.3%	15.7%	16.0%

**CASE B**

**Assumptions:**

Interest Rate @ 9.75% , 30 Yrs. Am., 10 Yr.Call  
 Loan Amount @ \$1,625,000  
 Equity Capital @ \$625,000

	Conservative	Most Likely	Optimistic
Rental Rates	\$13.00	\$13.25	\$13.50
Debt Coverage Ratio (2nd Yr.)	1.34	1.35	1.37
2nd Year Cash on Cash	9.1%	9.5%	10.0%
10th Year Equity Balance	493,694	451,279	408,863
Equity Yield	15.0%	15.4%	15.7%

**CASE C**

**Assumptions:**

Interest Rate @ 10% , 30 Yrs. Am., 10 Yr.Call  
 Loan Amount @ \$1,625,000  
 Equity Capital @ \$625,000

	Conservative	Most Likely	Optimistic
Rental Rates	\$13.00	\$13.25	\$13.50
Debt Coverage Ratio (2nd Yr.)	1.31	1.33	1.34
2nd Year Cash on Cash	8.5%	8.9%	9.4%
10th Year Equity Balance	545,200	502,785	460,369
Equity Yield	14.7%	15.1%	15.4%

**CASE D**

**Assumptions:**

Interest Rate @ 10.25% , 30 Yrs. Am., 10 Yr.Call  
 Loan Amount @ \$1,625,000  
 Equity Capital @ \$625,000

	Conservative	Most Likely	Optimistic
Rental Rates	\$13.00	\$13.25	\$13.50
Debt Coverage Ratio (2nd Yr.)	1.28	1.30	1.31
2nd Year Cash on Cash	7.9%	8.4%	8.8%
10th Year Equity Balance	598,639	545,606	512,190
Equity Yield	14.4%	14.8%	15.1%

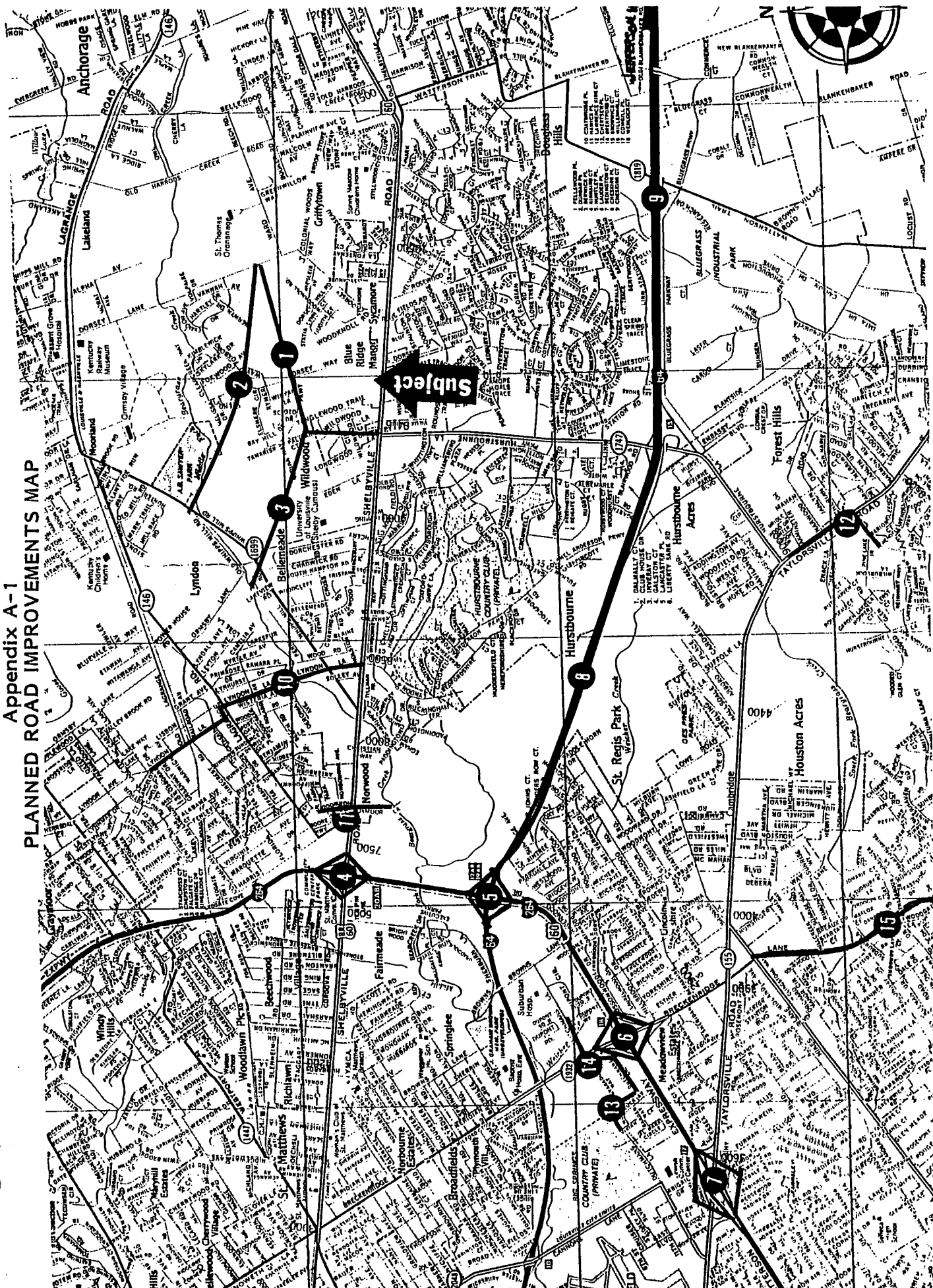
**Appendix A**

**PLANNED ROAD IMPROVEMENTS IN JEFFERSON COUNTY**

Appendix A  
PLANNED ROAD IMPROVEMENTS IN JEFFERSON COUNTY

- (1) Extend Hurstbourne Lane from Shelbyville Road to Dorsey Lane, letting date - winter of 1986.
- (2) Extend Hurstbourne Lane from Dorsey Lane to Old Whipps Road, letting date - 1987.
- (3) Extend Hurstbourne Lane from Shelbyville Road to Old Whipps Mill Road, letting date - 1988.
- (4) Reconstruct the Shelbyville Road intersection at I-264, letting date - 1987.
- (5) Reconstruct the I-64 intersection at I-264, letting date - 1987.
- (6) Reconstruct the Breckinridge Road intersection at I-264, letting date - 1987.
- (7) Reconstruct the Taylorsville Road intersection at I-264, letting date - 1987.
- (8) Add third lane on I-64 from I-264 to Hurstbourne Lane, letting date - 1986.
- (9) Add third lane on I-64 from Hurstbourne Lane to Jefferson Freeway, letting date - 1986.
- (10) Widen Lyndon Lane from Lyndon Avenue to Shelbyville Road, letting date - 1989.
- (11) Reconstruct intersection on Shelbyville Road at Oxmoor Lane and Norwood Drive, letting date - 1987.
- (12) Reconstruct intersection on Taylorsville Road at six mile lane, letting date - 1987.
- (13) Reconstruct Dutchman's Lane at Vivian Lane, letting date - 1987.
- (14) Reconstruct Dutchman's Lane at Breckinridge Lane, letting date-1987.
- (15) Widen Breckinridge Lane from Hikes Lane to Six Mile Lane, letting date - 1989.

This is a detailed black and white map of the Louisville, Kentucky area, showing planned road improvements. The map includes major highways like I-75, I-64, and I-275, and numerous local streets. A thick black line with numbered circles (1-15) indicates the proposed road improvement route. A large black arrow labeled 'Subject' points to the area around the University of Louisville. The map also shows various landmarks, parks, and residential areas.



**Appendix B**

**CONSTRUCTION FINANCING AGREEMENT**



Appendix B  
CONSTRUCTION FINANCING AGREEMENT



FIRST NATIONAL BANK  
OF LOUISVILLE

P. O. Box 36000 Louisville, Kentucky 40233 - Telephone (502) 581-4200

July 28, 1986

Mr. J. T. Sims  
American Fitness Center  
9913 Shelbyville Road  
Louisville, Kentucky 40223

RE: U.S.F. & G. Building

Dear J. T.:

We are pleased to advise you that First National Bank of Louisville (FNBL) has approved your request for construction financing relative to an office building to be located at 9913 Shelbyville Road in Louisville, Kentucky. As a condition of this commitment, FNBL reserves the right to approve the general contractor selected for the project. This commitment is subject, but not necessarily limited, to the following terms:

1. AMOUNT: \$1,625,000.

2. INTEREST RATE: FNBL will provide two pricing options of which the borrower may select his preference.

(A) The interest rate will be 1% above FNBL's prime rate and will be subject to change as FNBL's prime interest rate changes.

or

(B) A fixed rate loan of 10 1/4% will be in effect for the first 18 months of the term of the loan. After 18 months, the loan will convert to 1% above FNBL's floating prime rate for the remaining 6 months of the term of the loan.

3. COMMITMENT FEE: A \$16,250 commitment fee will be due and payable at loan closing.

4. INTEREST PAYMENTS: Interest payments will be due monthly and will be calculated on a 360-day basis and on the actual number of days elapsed or partial days thereof.

5. TERM: This loan will mature two years from the date of closing.

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Mr. J. T. Sims

July 28, 1986

6. SECURITY: This loan shall be secured by (a) a first mortgage lien upon 1.93 acres of land located at 9913 Shelbyville Road, Louisville, Kentucky, (b) any and all improvements to the property consisting of, but not limited to, a 29,500 square foot office building with 26,000 square feet of net rentable area, (c) a security agreement, (d) a financing statement, (e) an assignment of rents and leases, (f) an assignment of a 14,500 square foot lease with United States Fidelity and Guaranty Company, and (g) any other document deemed necessary by FNBL to service the loan.
7. DISBURSEMENTS: This loan will be disbursed on a monthly basis for advances of direct and indirect costs incurred in construction of the project in accordance with the terms and provisions of the loan agreement. Disbursement requests will comply with requirements of FNBL. Disbursement for materials stored off-site shall be at FNBL's discretion. Under no circumstances shall funds be advanced for stored materials unless the following conditions are met: (a) satisfactory evidence that the borrower owns the materials free and clear of any liens, (b) provide certificates of insurance against theft and vandalism, and (c) that materials be stored in a separated secured area.
8. CHANGE ORDERS: All proposed changes in the construction contract or in the plans and specifications shall be submitted to the permanent lender (if any) and FNBL with each monthly request for disbursement. FNBL and the permanent lender shall have the right to approve all change orders. Said approval will not be unreasonably withheld.
9. REPAYMENT: This loan is to be repaid from the proceeds of a permanent take-out commitment to be negotiated prior to the expiration of the FNBL loan. No penalty for prepayment will be charged if the loan pays off prior to maturity.
10. CONSTRUCTION LOAN AGREEMENT: Within 15 days of closing, FNBL will provide to the borrower(s) a copy of the construction loan agreement which will outline in detail the complete terms and conditions of this loan. This document will be prepared by FNBL counsel and reviewed by borrower's counsel, and will be executed at closing. This agreement will contain, but not necessarily be limited to, the conditions discussed herein.
11. TITLE AND TITLE INSURANCE: Title to the above-described property shall be vested in the borrower. FNBL shall require title insurance and mechanics lien coverage (when available). The terms and conditions of the policy and the title company must be acceptable to FNBL. Prior to closing, borrower shall provide to FNBL a commitment to issue title for our review. Title downdates will be required prior to each disbursement of funds to insure that no mechanics liens are in place. All expenses incurred for issuance of title commitment and insurance shall be paid for by the borrower. Title in said property shall be preliminarily approved by the permanent lender prior to closing.

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Mr. J. T. Sims  
July 28, 1986

12. LIEN WAIVERS: Prior to the monthly disbursements, deferred lien waivers shall be required from the general contractor and all of the subcontractors who received payment from the previous disbursement.
13. PERMITS: Prior to closing, a building permit and demolition permit (if applicable) shall be required in the full amount of the construction contract.
14. DEED: Borrower shall provide, prior to closing, a copy of the deed indicating actual cost.
15. BUILDER'S RISK INSURANCE: Prior to the closing, the borrower shall provide to FNBL evidence of builder's risk insurance from an acceptable issuing company in an amount and with terms and conditions all acceptable to FNBL. The policy must indicate FNBL as the first mortgagee of record and prohibit cancellation of said insurance without ten (10) days' prior written notice to FNBL.
16. LIABILITY INSURANCE: Borrower shall provide, prior to closing, a copy of liability insurance on said property, minimum coverage of \$1,625,000 single limit.
17. HAZARD INSURANCE: Hazard insurance shall be required upon completion of the construction in an amount and by a company satisfactory to FNBL.
18. FLOOD INSURANCE: Flood insurance shall be required or evidence that subject property is not located in a flood plain.
19. SURVEY: Prior to closing, the borrower, will provide to FNBL a current certified engineers' survey showing all boundaries, easements, improvements, and special details, etc., associated with the property. This survey should be prepared in such detail as to eliminate any and all survey exceptions from the title policy. A foundation survey will be required once the foundation(s) are in place. An "as built" survey will be required at the completion of construction. The boundary survey shall be approved by the permanent lender prior to closing.
20. PLOT PLAN: A plot plan will be required, prior to closing, showing the proposed location of the building and all other proposed improvements. This plot plan shall be approved by the permanent lender prior to closing.
21. PLANS AND SPECIFICATIONS: Plans and specifications must be approved by FNBL and any changes thereto must have the prior written approval of FNBL. Said approval will not be unreasonably withheld. FNBL shall also require the approval of plans and specifications by the permanent lender (if any) prior to closing.
22. CONTRACTS: Borrower shall provide architects', contractors', subcontractors' and engineers' contracts relating to the construction of the project to FNBL and assign said contracts to FNBL.

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Mr. J. T. Sims  
July 28, 1986

23. REVIEW: Prior to closing, an independent inspector chosen by FNBL will review the soils reports, plans and specifications, construction contracts, and construction budget, including a list of all subcontractors and a detailed cost breakdown. FNBL reserves the right to approve or disapprove any contracts and/or contractors. Approval will not be unreasonably withheld. The review shall include such things as the completeness of plans and specifications, estimate of time for completion, adherence to local codes and/or subdivision covenants and zoning. Expense for this review will be borne by the borrower.
24. INSPECTIONS: FNBL shall retain an independent inspector to inspect the property and verify that the building and improvements are being constructed according to plans and specifications. The inspector will review all construction draw requests from borrower, certify the cost of construction and work in place. Copies of said reports will be sent to FNBL, the borrower, and permanent lender (if any). All expenses associated with services provided by the inspector will be borne by the borrower.
25. GUARANTY: FNBL will require the joint and several guaranties of J. T. Sims, Jr. and Cheri Sims.
26. UTILITIES, ZONING, AND COMPLIANCE: Prior to closing, FNBL will be provided with evidence that adequate utilities (electricity, gas, telephone, water, sewers) are available to the site, that there is acceptable and proper zoning, and that there is compliance with all land use regulations. Letters from the supplying company, zoning board or commission will suffice.
27. RESOLUTIONS: All necessary resolutions will be supplied prior to closing.
28. CLOSING COSTS: All costs for the closing and servicing of this loan, such as legal expenses, bank's inspector expenses, etc., shall be paid by the borrower.
29. LEASES: Prior to closing, FNBL must be in receipt and approve a minimum 14,500 square foot lease between the borrower and United States Fidelity and Guaranty Company. In addition, FNBL must approve the lease form to be used by the borrower for any subsequent lease transactions. The borrower agrees to assign any and all leases to FNBL.
30. SUFFICIENT FUNDS: Sufficient funds shall be withheld at all times for completion of the property as determined by FNBL.
31. EQUITY CONTRIBUTION: The borrower's equity contribution based on the total estimated project cost analysis of \$2,250,000 is \$625,000. Up-front equity of \$400,000 will be provided prior to closing. The remaining equity will be injected upon issuance of the certificate of occupancy, less the \$35,000 development fee.

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Mr. J. T. Sims  
July 28, 1986

32. FINANCIAL STATEMENTS: The guarantors shall provide personal financial statements as required by FNBL. Current statements will be defined as those that have been prepared no longer than six months from the date of presentation.
33. RELATIONSHIP OF BORROWER AND LENDER: Throughout the term of the loan, it is agreed that FNBL has not made the borrower its agent and that their relationship is merely one between a lender and a borrower. It is agreed that FNBL is in no way responsible for the construction of this project and shall have no liability of any kind arising from the construction financed by this loan and that the borrower shall hold FNBL harmless from any and all claims asserted against it in connection with said construction, including payment of all costs and reasonable attorney fees incurred by FNBL in defending any action taken against it.
34. BORROWER'S OPINION LETTER: Following the closing of this loan, the borrower's attorney will provide to FNBL an opinion letter in regard to the transaction.
35. SIGN: First National Bank reserves the right to erect a sign on the site at a mutually agreeable location identifying FNBL as the construction lender.
36. CERTIFICATE OF SUBSTANTIAL COMPLETION AND OCCUPANCY: Upon completion and prior to occupancy, FNBL shall require a Certificate of Substantial Completion certified by the architect and an occupancy permit from the appropriate agency.
37. TIME OF ESSENCE: It is hereby understood that time is of the essence in the closing of this loan and the start of construction.

This commitment will be construed under the laws of the Commonwealth of Kentucky and may not be assigned or transferred without the written consent of FNBL. This commitment shall expire on September 15, 1986, unless the loan is closed prior to that date. In order for this commitment to be in full force and effect, it must be accepted by you no later than August 15, 1986. Please indicate your acceptance of the commitment by signing the enclosed copy of this letter in the space indicated below and returning it to me at your earliest convenience.

Sincerely,

James M. Schrader  
Construction Loan Representative

JMS/28-127

Enclosure

FIRST NATIONAL BANK  
OF LOUISVILLE

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Mr. J. T. Sims  
July 28, 1986

Accepted \_\_\_\_\_ day of \_\_\_\_\_, 1986.

BY: \_\_\_\_\_  
J. T. Sims, Jr., General Partner  
U.S.F. & G. of Kentucky, Ltd. or Nominee

cc: J. W. Smith

COPY

**Appendix C**  
**EXECUTIVE LEASE SUMMARY**

Appendix C  
EXECUTIVE LEASE SUMMARY

**Building:** USF&G Building, a to-be-constructed building containing 29,000 gross square feet.

**Location:** 9913 Shelbyville Road  
Louisville, Jefferson County, Kentucky

**Lessor:** J.T. Sims

**Lessee:** United States Fidelity & Guaranty Company

**USF&G Space:** 14,500 Rentable Square Feet (the entire second floor of the building).

**Initial Term:** 10 Years with one five-year renewal option.

**Rental Rate:** Years 1-5: \$11.50 per rentable square foot.  
Years 6-10: \$13.75 per rentable square foot.  
Renewal term at market rates.

**Rent Concessions:** 3 Months free rent in Year 1.  
6 Months free rent in Year 10.

**Operating Expense Stop:** \$3.25 per year.

**Additional Space:** USF&G has the right to lease an additional 4,000 square feet at the end of Year 5 and to lease an additional 4,000 square feet at the end of Year 10 if the renewal option is exercised.

**Parking:** There will be 160 total parking spaces at the building of which 15 designated spaces will be reserved for USF&G on a 24 hour basis. One additional parking space will be designated for every additional 1,000 square feet rented, up to a maximum of 20 spaces.

**Option to Purchase:** USF&G has the right to purchase the land and the building from Sims at anytime during the 10 year of the lease.

**Right of First Refusal:** USF&G has the right of first refusal if a bonifide offer to purchase land and building is submitted to Sims. USF&G will have 15 days to accept the terms of the offer for the gross purchase price.



USF&G has the right to review and approve the following:

- (1) Floor Plans
- (2) Project Schedule - Building
- (3) Construction Plans and Specifications
- (4) Layout Drawings - Premises
- (5) Common Area Materials and Designs
- (6) Construction Financing
- (7) Permanent Financing
- (8) Subsequent Leases
- (9) Standard Lease Forms
- (10) Sims' books and records regarding additional rent related to operating expenses
- (11) Inspection of premises prior to commencement of lease
- (12) Architect's Certificate of Occupancy
- (13) All details concerning construction of an office building on the "Meddis Tract". See special note.

Special Note: Sims reserves the right to move the location of the proposed building to the adjacent site referred to as "The Meddis Tract". If Sims obtains approval to construct an office building on the Meddis Tract Sims must notify USF&G of his intent to build on the Meddis Tract no later than September 1, 1986.