Executive Summary and Cash Flow Analysis of Multifamily and Commercial Properties

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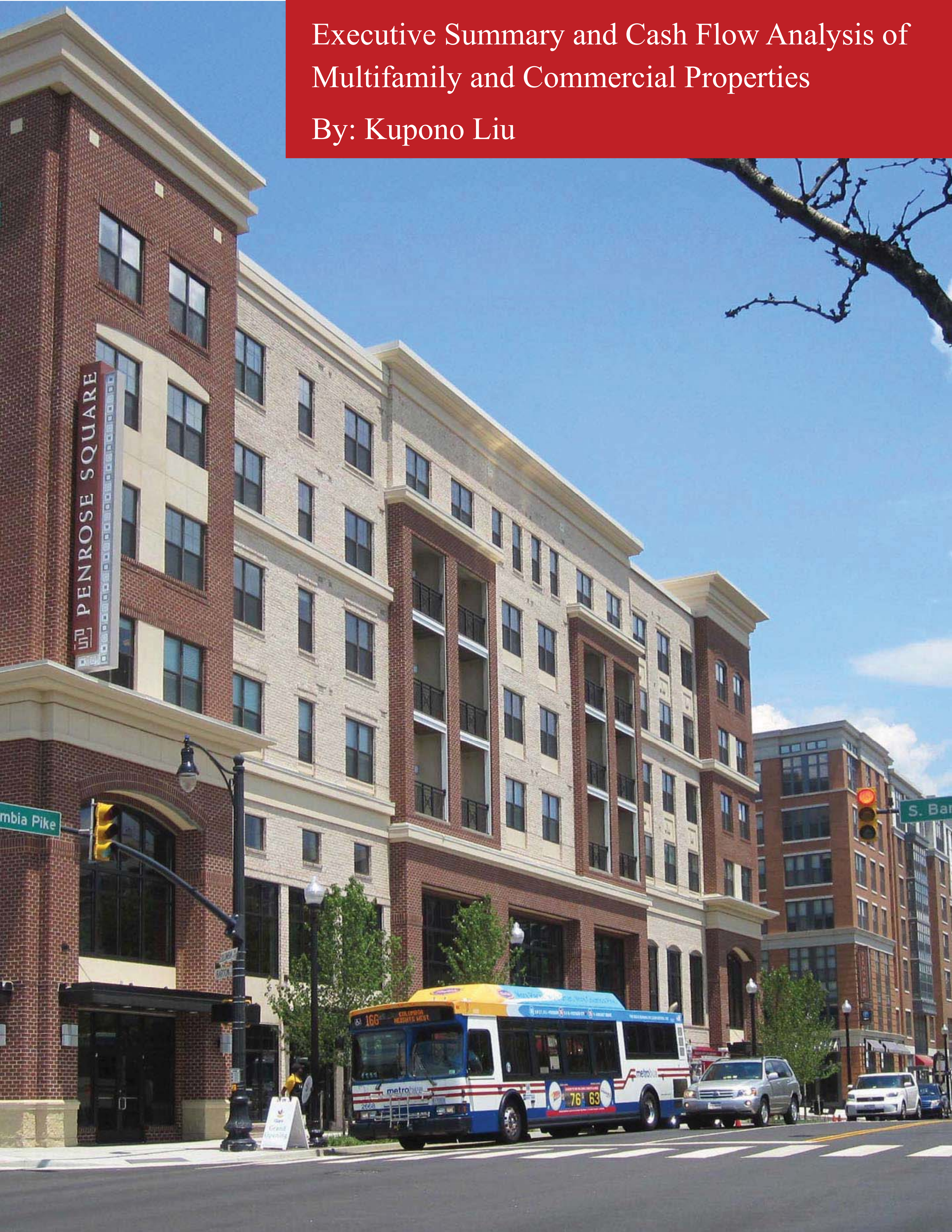

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Executive Summary

Problem Statement

Two cousins, John and Judy DeRight, want to purchase each of their own properties. They have hired Angus Cartwright to help. **Cartwright's challenge is to select properties (one for each cousin) that match each cousin's level of risk aversion and return objectives.** John DeRight is risk averse such that he is retired and wants steady income beginning in the early holding years. For John, Cartwright must find a property that produces steady cash flows early on. Judy DeRight can handle more risk since she is currently working as president of her own company. She would like to minimize her current income taxes. Hence, she emphasizes capital gains which will be taxed at a lower capital gains tax rate. For Judy, Cartwright must find a property that produces a relatively higher return from sale compared to income.

Alternatives

To solve this problem, Cartwright can select from the following four properties: Alison Green, 900 Stony Walk, Ivy Terrace and Fowler Building.

<u>Alison Green:</u> Alison Green is a 100-unit apartment building that can be purchased at $9.6 million. It was completed in 2000, and is located in Montgomery County, Maryland. This property requires an initial equity payment of $3,600,000 and financing at 6% annual interest is available on a $6,000,000 mortgage. This loan will be amortized over a 30-year period (10-year term). It has a high occupancy rate at 95%. It does not have short-term rent competition since it's located in the part of the county with a building moratorium.

<u>900 Stony Walk:</u> Stony Walk is an office building that has 67,000 square feet of rentable area and five stories. It was completed in 1998, and it is also located in the same part of Montgomery County that has the building moratorium. It can be purchased at $11,500,000, and financing is available at 6.5% interest on a $8,000,000 mortgage (20 year amortization period; 10-year term). Stony Walk also has no foreseeable short term competition due to the building moratorium, and it also has a high occupancy of 95%. It also has a relatively stable and mature tenant mix of lawyers, small service firms and accountants.

<u>Ivy Terrace:</u> Ivy Terrace is located near Arlington, Virginia. It is an 80-unit apartment building that is currently under construction. It can be purchased at $8,400,000, and financing is available at 6% annual interest on a $5,500,000 loan (10-year term; 30-year amortization period). The land has a 99 year lease and requires $30,000 in annual leasehold payments Currently, there is a rising supply of construction in the county, and the developer hasn't started pre-leasing the building. For the first three years, the developer is guaranteeing rental returns based on a 93% occupancy level. This guarantee will end when the building leases up to 93% occupancy or when three years is up—whichever one comes first. A positive is that this building offers tax benefits since the leasehold payments are tax deductible.

<u>Fowler Building:</u> Fowler Building is a two-story office building that has a rentable space of 50,000 square feet. It is also located in Arlington, Virginia, and is currently under construction. It can be purchased at $9,400,000 and financing is available at 7.5% annual interest on a $7,000,000 mortgage (10-year term; 25-year amortization period). The land has a 99-year lease and requires annual payments of $70,000. This building is currently pre-leased to 60% occupancy. Its tenant mix includes small computing and consulting firms. Computers are in a younger industry that have some volatility. To expedite the leasing process, the developer assigned below market rents. Just like Ivy Terrace, it also has a three-year return guarantee until 93% occupancy is reached.

Qualitative Criteria

Investor Profiles

John DeRight: John was the former president of his own company, but he is now retired. When he sold his company, he received $18 million in the purchasing company's stock, and he originally intended to live off of the $500,000 in dividends. He decided he wanted to develop a more diversified portfolio. Since he is retired, he is more risk averse. He prioritizes steady income that starts immediately upon ownership. Since he is towards the end of his life, he wants income earlier on in his holding period. He wants to have a cash-on-cash return that is greater than the 2.8% return that he could have earned on the company stock dividends. He also has a minimum 12% leveraged after tax return on investment. John does not want to actively manage his properties.

Judy DeRight: As president of her own chemical company, Judy is focused on growing her business. She has amounted $16 million in short-term securities. She now wants to diversify her portfolio and invest in real estate. Since she is still working, she is not as risk averse as John is. Since she isn't as late in her life cycle as John is and is still working, she prioritizes the gain on future sales. She wants to lower her income tax if possible, and she wants to take advantage of the lower capital gains tax. Like John, she doesn't want to actively manage her own property, and she wants a minimum 12% leveraged after tax return on investment.

Qualitative Property Characteristics

Table A: Qualitative Property Characteristics

	Alison Green	900 Stony Walk	Ivy Terrace	Fowler Building
Moratorium	(+) No Short-term price competition; stabilize/increase short term rents	(+) No Short-term price competition; stabilize/ increase short term rents	NA	NA
New Construction	(+) Existing building; no construction/cost delays; immediate ownership	(+) Existing building, no construction/cost delays; immediate ownership	(-) New Construction; potential construction delays; delayed ownership	(-) New Construction; potential construction delays; delayed ownership
Type of Property	(+/-) Apartment; more renters; higher turnover	(+/-) Office; larger tenants/ vacancies; longer lease periods	(+/-) Apartment; more renters; higher turnover	(+/-) Office; larger tenants/ vacancies; longer lease periods
Land Leasehold	NA	NA	(+/-) Additional tax deductibility; fixed costs	(+/-) Additional tax deductibility; fixed costs
Building Age	(+/-) Built in 2000; maintenance and repair costs; immediate ownership	(+/-) Built in 1998; maintenance and repair costs; immediate ownership	(+) New; no refurbishing in early years	(+) New; no refurbishing in early years
Cash Flow Guarantees	NA	NA	(+) First 3-years, 93% occupancy rent returns	(+) First 3-years, 93% occupancy rent returns
Rents	(+) Can raise rents due to moratorium; helps income	(+) Can raise rents due to moratorium; helps income	(-) Below market rents to lease up space; hurts income; active effort to lease up	(-) Below market rents to lease up space; hurts income; active effort to lease up
Number & Type of Tenants	(+/-) 100 units; large tenant base; higher turnover	(+/-) Fewer but larger tenants; higher certainty of cash flows since tenant occupation is not prone to cyclical downturns (lawyers, accountants, small service firms)	(+/-) 80 units; large tenant base; higher turnover	(+/-) Fewer but larger tenants; relatively less certainty of cash flows since tenant occupation is in fast changing computing industries

The previous table displays the qualitative factors that affect the four properties' risk and return measures. The qualitative factors include: moratorium, new construction, type of property, land leasehold, building age, cash flow guarantee, rents and number and type of tenants (Table A). A (+) sign means that this qualitative factor is good for a property's risk and return metrics. A (-) sign means that this qualitative factor will negatively impact risk and return. A (+/-) sign means this factor could both help and hurt property returns. A property suitable for John would allow him to maintain or increase rents with little competition (moratorium) and have immediate ownership/ cash flows (building age). The ideal property for Judy would have more of its return in the form of price appreciation and gain on sale because she wants to take advantage of the capital gains tax.

Quantitative Criteria

Baseline Discounted Cash Flow Analysis

Table B: After-tax Baseline Results (Calculated in Excel)

	Alison Green	900 Stony Walk	Ivy Terrace	The Fowler Building
Equity Required	$3,600,000.00	$3,500,000.00	$2,900,000.00	$ 2,400,000.00
Simple Return Measures				
Capitalization Rate---Purchase	9.06%	9.19%	9.12%	8.39%
Capitalization Rate---Sale	9.08%	9.51%	9.51%	8.44%
Cash-on-Cash Return (year 1)	12.06%	9.46%	11.59%	3.76%
Increase in Capital Value	30.21%	26.09%	25.00%	41.49%
Discounted Return Measures				
Internal Rate of Return	14.93%	14.54%	15.13%	15.38%
Net Present value @ 12% (000s)	$ 734.29	$ 699.92	$ 619.68	$ 688.85
Profitability Index (NPV/Initial Equity)	20.40%	20.00%	21.37%	28.70%
Partitioning of IRR				
Before Tax Cash Flow	73.98%	65.28%	72.20%	42.58%
Tax Benefits	-18.35%	-26.65%	-13.24%	-8.26%
Future Value	44.37%	61.37%	41.03%	65.68%
Risk Measures				
Current or Projected Occupancy	95.00%	95.00%	93.00%	93.00%
Added Margin	30.16%	19.01%	25.94%	7.08%
Break-even Occupancy	64.84%	75.99%	67.06%	85.92%
Loan to Value	62.50%	69.57%	65.48%	74.47%
Debt Coverage Ratio	2.00	1.46	1.92	1.26

Based on this after-tax baseline analysis, Alison Green appears to be the safest investment that provides steady income earlier on in the holding period (Table B) . It has the highest cash-on-cash returns in year 1. Based on its partitioning, most of its returns come from before tax cash flow (73.98%). Out of the four properties, Alison Green has the highest proportion of IRR attributable to cash flows. In terms of risk measures, Alison Green's occupancy can decrease the most (30.16%) before its before-tax cash flows are erased. It also is the most solvent with a debt coverage ratio of 2.00. The Fowler Building provides the highest IRR out of the four properties. However, it is also one of the riskiest properties. Its debt coverage ratio of 1.26 is barely over the lender's 1.25 minimum ratio, and if conditions worsen, this building may not qualify for

Table C: Before-tax Baseline Results (Calculated in Argus)

Assumptions	Alison Green	900 Stony	Ivy Terrace	Fowler Building
Vacancy Rate	5%	5%	7%	7%
Rent Growth	3%	3%	3%	4%
Cash Flow				
Operating Expeses	20.83%	21.16%	22.38%	20.00%
Interest Rate	6%	7%	6%	8%
Loan Amount	$ 6,000,000.00	$ 8,000,000.00	$ 5,500,000.00	$ 7,000,000.00
Purchase Price	$ 9,600,000.00	$ 11,500,000.00	$ 8,400,000.00	$ 9,400,000.00
Property Taxes	12%	12%	10%	10%
Selling Price	$12,500,000.00	$ 14,500,000.00	$10,500,000.00	$13,300,000.00
Holding Period	10	10	10	10
Output				
Leveraged IRR	18.90%	19.13%	18.57%	17.90%
Leveraged NPV (@18.46%)	$ 89,577.00	$ 144,902.00	$ 17,565.00	$ (92,325.00)
Profitability Index	2.49%	4.14%	0.61%	-3.85%
Cash on Cash	12.06%	9.46%	11.59%	3.76%
Risk Metrics				
Added Margin	30.16%	19.01%	25.94%	7.08%
Breakeven	64.84%	75.99%	67.06%	85.92%
Debt Coverage Ratio	2.00	1.46	1.92	1.26
Partitioning IRR				
Cash from Operations (before Taxes)	55.63%	38.63%	58.97%	34.32%
Equity Buildup	44.37%	61.37%	41.03%	65.68%

a loan in year one. Any solvency issues may be attributable to its high loan to value ratio of 74.47% (highest of all four properties). For investors who want a large gain on sale, Fowler's main appeal is that it has the highest proportion of its IRR coming from future value (65.68%). What's especially concerning is that a 7.08% drop in occupancy will mean that the Fowler Building can't cover its expenses and financing. Fowler Building is in a location with growing supply and can expect some price competition and increase in vacancies.

Still referring to Table B, Stony Walk and Ivy Terrace are also still profitable and viable solutions. After Fowler, Stony Walk is the next riskiest. It has the second highest break-even occupancy at 75.99% and the second lowest debt coverage ratio at 1.46. A large part of its IRR returns is attributable to the future sale value. Ivy Terrace provides steady cash flows with 72.20% of its IRR attributable to before tax cash flow. It also doesn't appear to have solvency issues. It has a debt coverage ratio of 1.92 (Table B).

Table C shows us the baseline risk and returns for all four properties on a before tax basis. Argus does not factor in income taxes. When we test more than two variables at a time in our Argus analysis, we compare our new risk and returns to the baseline returns found in Table C. The minimum cash-on-cash returns of 2.8% and debt coverage ratio of 1.25 still stand. However, the minimum leveraged after tax return of 12% must now be converted to a before-tax basis. In our Argus analysis, we use a minimum leveraged before tax return of 18.46% {12%/ (1-Income Tax Rate)}. Also, the IRR partitioning is different and now excludes income tax.

Exhibit 20a: Baseline Argus Projected Cash Flows (Alison Green)

Cash Flow Report
Alison Green (Use) (Amounts in USD)
Jan, 2004 through Dec, 2014
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	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
For the Years Ending	Year 1 Dec-2004	Year 2 Dec-2005	Year 3 Dec-2006	Year 4 Dec-2007	Year 5 Dec-2008	Year 6 Dec-2009	Year 7 Dec-2010	Year 8 Dec-2011	Year 9 Dec-2012	Year 10 Dec-2013	Year 11 Dec-2014	Total
Rental Revenue												
Potential Base Rent	1,440,000	1,483,200	1,527,696	1,573,527	1,620,733	1,669,355	1,719,435	1,771,018	1,824,149	1,878,873	0	16,507,986
Scheduled Base Rent	1,440,000	1,483,200	1,527,696	1,573,527	1,620,733	1,669,355	1,719,435	1,771,018	1,824,149	1,878,873	0	16,507,986
Total Rental Revenue	1,440,000	1,483,200	1,527,696	1,573,527	1,620,733	1,669,355	1,719,435	1,771,018	1,824,149	1,878,873	0	16,507,986
Total Tenant Revenue	1,440,000	1,483,200	1,527,696	1,573,527	1,620,733	1,669,355	1,719,435	1,771,018	1,824,149	1,878,873	0	16,507,986
Potential Gross Revenue	1,440,000	1,483,200	1,527,696	1,573,527	1,620,733	1,669,355	1,719,435	1,771,018	1,824,149	1,878,873	0	16,507,986
Vacancy & Credit Loss												
Vacancy Allowance	-72,000	-74,160	-76,385	-78,676	-81,037	-83,468	-85,972	-88,551	-91,207	-93,944	0	-825,399
Total Vacancy & Credit Loss	-72,000	-74,160	-76,385	-78,676	-81,037	-83,468	-85,972	-88,551	-91,207	-93,944	0	-825,399
Effective Gross Revenue	1,368,000	1,409,040	1,451,311	1,494,851	1,539,696	1,585,887	1,633,464	1,682,467	1,732,941	1,784,930	0	15,682,587
Operating Expenses												
Real Estate Taxes	172,800	177,984	183,324	188,823	194,488	200,323	206,332	212,522	218,898	225,465	0	1,980,958
Other Operating Expenses	300,000	309,000	318,270	327,818	337,653	347,782	358,216	368,962	380,031	391,432	403,175	3,842,339
Capital Reserve	25,000	25,750	26,523	27,318	28,138	28,982	29,851	30,747	31,669	32,619	33,598	320,195
Total Operating Expenses	497,800	512,734	528,116	543,960	560,278	577,087	594,399	612,231	630,598	649,516	436,773	6,143,492
Net Operating Income	870,200	896,306	923,195	950,891	979,418	1,008,800	1,039,064	1,070,236	1,102,343	1,135,414	-436,773	9,539,095
Cash Flow Before Debt Service	870,200	896,306	923,195	950,891	979,418	1,008,800	1,039,064	1,070,236	1,102,343	1,135,414	-436,773	9,539,095
Debt Service												
Interest												
Loan	360,000	355,446	350,620	345,503	340,080	334,331	328,237	321,778	314,930	307,674	0	3,358,599
Total Interest	360,000	355,446	350,620	345,503	340,080	334,331	328,237	321,778	314,930	307,674	0	3,358,599
Principal												
Loan	75,893	80,448	85,273	90,391	95,813	101,563	107,656	114,116	120,963	128,220	0	1,000,336
Total Principal	75,893	80,448	85,273	90,391	95,813	101,563	107,656	114,116	120,963	128,220	0	1,000,336
Total Debt Service	435,893	435,894	435,893	435,894	435,893	435,894	435,893	435,894	435,893	435,894	0	4,358,935
Cash Flow After Debt Service	434,307	460,412	487,302	514,997	543,525	572,906	603,171	634,342	666,450	699,520	-436,773	5,180,160

	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
For the Years Ending	Year 1 Dec-2004	Year 2 Dec-2005	Year 3 Dec-2006	Year 4 Dec-2007	Year 5 Dec-2008	Year 6 Dec-2009	Year 7 Dec-2010	Year 8 Dec-2011	Year 9 Dec-2012	Year 10 Dec-2013	Year 11 Dec-2014	Total
Financing												
Proceeds												
Loan	6,000,000	0	0	0	0	0	0	0	0	0	0	6,000,000
Total Proceeds	6,000,000	0	0	0	0	0	0	0	0	0	0	6,000,000
Total Financing (Net)	6,000,000	0	0	0	0	0	0	0	0	0	0	6,000,000
Cash Flow Available for Distribution	6,434,307	460,412	487,302	514,997	543,525	572,906	603,171	634,342	666,450	699,520	-436,773	11,180,160

Exhibit 20b: Baseline Argus Executive Summary (Alison Green)

Executive Summary Report

Alison Green (Use) (Amounts in USD, Measures in SF)
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Property Information

Property Name	Alison Green (Use)
Property ID #	
Property Type	Office
Building Area	100
City, State	Montgomery County / Maryland
Zip / Postal Code	
Country	United States

Purchase Price / Acquisition

Acquisition / Valuation Date	1/1/2004
Purchase Price	9,600,000
Closing Costs	0 / 0.00%
Total Purchase Price	9,600,000
Total Debt (% LTC)	6,000,000 / 62.50%
Total Equity	3,600,000

Property Assumptions (Year 1)

General Inflation (Year 2)	0.00%
Market Inflation (Year 2)	0.00%
Expense Inflation (Year 2)	0.00%
CPI Inflation (Year 2)	0.00%
Capital Expenditures ($/SF)	0.00
General Vacancy (%)	5.00%
Credit Loss Reserve (%)	0.00%

Operations (Year 1)

Effective Gross Revenue (% EGR)	1,368,000 (100.00%)
Operating Expenses (% EGR/$/SF)	497,800 (36.39% / 4,978.00)
Ground Lease Expenses (% EGR/$/SF)	0 (0.00% / 0.00)
Net Operating Income (% EGR)	870,200 (63.61%)
Total Leasing & Capital Costs	0
Cash Flow Before Debt Service	870,200
Debt Service (DSC)	435,893 (2.00)
Cash Flow after Debt Service	434,307
Investment (Net)	6,000,000
Cash Flow Available for Distribution	6,434,307

Occupancy Summary (Year 1)

Average Occupancy - NRA / %	100 / 100.00%
Available SF for Absorption as of 1/1/2004	0
Net Absorption - NRA / %	0 / 0.00%

WALE (as of PV/IRR Date)

WALE (Area)	10 Years
WALE (Income)	10 Years

Debt Overview (As of Loan Start Date)	**Loan**
Loan Start Date	1/1/2004
Loan Term	360 Months
Amortization Term	360 Months
Interest Rate	6.00%
Debt Service Payment	0 Monthly

Valuation and Returns

Unleveraged Cash Flow Rate	18.46%
Unleveraged Resale Rate	18.46%
Leveraged Cash Flow Rate	18.46%
Leveraged Resale Rate	18.46%
Exit Cap. Rate	10.00%
Present Value (Unleveraged)	6,535,728
Direct Capitalization Value @ 12.00 %	7,251,667
NOI Yield (Yr. 1)	9.06%
Cash on Cash Return (Yr. 1)	12.06%
IRR (Unleveraged)	11.85%
IRR (Leveraged)	18.90%
Optimal Sale Date and IRR	December 2004[39.27%]

Exhibit 21a: Baseline Argus Projected Cash Flows (900 Stony Walk)

Cash Flow Report
900 Stony Walk (Amounts in USD)
Jan, 2004 through Dec, 2014
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	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
For the Years Ending	Year 1 Dec-2004	Year 2 Dec-2005	Year 3 Dec-2006	Year 4 Dec-2007	Year 5 Dec-2008	Year 6 Dec-2009	Year 7 Dec-2010	Year 8 Dec-2011	Year 9 Dec-2012	Year 10 Dec-2013	Year 11 Dec-2014	Total
Assured Revenue												
Rental Revenue												
Potential Base Rent	1,742,000	1,794,260	1,848,088	1,903,530	1,960,636	2,019,455	2,080,039	2,142,440	2,206,713	2,272,915	0	19,970,078
Scheduled Base Rent	1,742,000	1,794,260	1,848,088	1,903,530	1,960,636	2,019,455	2,080,039	2,142,440	2,206,713	2,272,915	0	19,970,078
Total Rental Revenue	1,742,000	1,794,260	1,848,088	1,903,530	1,960,636	2,019,455	2,080,039	2,142,440	2,206,713	2,272,915	0	19,970,078
Other Tenant Revenue												
Total Assured Revenue	1,742,000	1,794,260	1,848,088	1,903,530	1,960,636	2,019,455	2,080,039	2,142,440	2,206,713	2,272,915	0	19,970,078
Speculative Revenue												
Rental Revenue												
Potential Base Rent	0	0	0	0	0	0	0	0	0	0	0	0
Scheduled Base Rent	0	0	0	0	0	0	0	0	0	0	0	0
Total Rental Revenue	0	0	0	0	0	0	0	0	0	0	0	0
Other Tenant Revenue												
Total Speculative Revenue	0	0	0	0	0	0	0	0	0	0	0	0
Total Tenant Revenue	1,742,000	1,794,260	1,848,088	1,903,530	1,960,636	2,019,455	2,080,039	2,142,440	2,206,713	2,272,915	0	19,970,078
Potential Gross Revenue	1,742,000	1,794,260	1,848,088	1,903,530	1,960,636	2,019,455	2,080,039	2,142,440	2,206,713	2,272,915	0	19,970,078
Vacancy & Credit Loss												
Vacancy Allowance	-87,100	-89,713	-92,404	-95,177	-98,032	-100,973	-104,002	-107,122	-110,336	-113,646	0	-998,504
Total Vacancy & Credit Loss	-87,100	-89,713	-92,404	-95,177	-98,032	-100,973	-104,002	-107,122	-110,336	-113,646	0	-998,504
Effective Gross Revenue	1,654,900	1,704,547	1,755,683	1,808,354	1,862,605	1,918,483	1,976,037	2,035,318	2,096,378	2,159,269	0	18,971,574
Operating Expenses												
Real Estate Taxes	209,040	215,311	221,771	228,424	235,276	242,335	249,605	257,093	264,806	272,750	0	2,396,409
Other Operating Expenses	368,500	379,555	390,942	402,670	414,750	427,192	440,008	453,209	466,805	480,809	495,233	4,719,673
Capital Reserve	20,100	20,703	21,324	21,964	22,623	23,301	24,000	24,720	25,462	26,226	27,013	257,437
Total Operating Expenses	597,640	615,569	634,036	653,057	672,649	692,829	713,613	735,022	757,072	779,785	522,246	7,373,519
Net Operating Income	1,057,260	1,088,978	1,121,647	1,155,297	1,189,955	1,225,654	1,262,424	1,300,296	1,339,305	1,379,484	-522,246	11,598,055
Cash Flow Before Debt Service	1,057,260	1,088,978	1,121,647	1,155,297	1,189,955	1,225,654	1,262,424	1,300,296	1,339,305	1,379,484	-522,246	11,598,055

	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
For the Years Ending	Year 1 Dec-2004	Year 2 Dec-2005	Year 3 Dec-2006	Year 4 Dec-2007	Year 5 Dec-2008	Year 6 Dec-2009	Year 7 Dec-2010	Year 8 Dec-2011	Year 9 Dec-2012	Year 10 Dec-2013	Year 11 Dec-2014	Total
Debt Service												
Interest												
Finance Payments	520,000	506,607	492,343	477,151	460,974	443,743	425,393	405,850	385,038	362,871	0	4,479,970
Total Interest	520,000	506,607	492,343	477,151	460,974	443,743	425,393	405,850	385,038	362,871	0	4,479,970
Principal												
Finance Payments	206,051	219,444	233,708	248,901	265,077	282,308	300,658	320,201	341,013	363,181	0	2,780,542
Total Principal	206,051	219,444	233,708	248,901	265,077	282,308	300,658	320,201	341,013	363,181	0	2,780,542
Total Debt Service	726,051	726,051	726,051	726,052	726,051	726,051	726,051	726,051	726,051	726,052	0	7,260,512
Cash Flow After Debt Service	331,209	362,927	395,596	429,245	463,904	499,603	536,373	574,245	613,254	653,432	-522,246	4,337,543
Financing												
Proceeds												
Finance Payments	8,000,000	0	0	0	0	0	0	0	0	0	0	8,000,000
Total Proceeds	8,000,000	0	0	0	0	0	0	0	0	0	0	8,000,000
Total Financing (Net)	8,000,000	0	0	0	0	0	0	0	0	0	0	8,000,000
Cash Flow Available for Distribution	8,331,209	362,927	395,596	429,245	463,904	499,603	536,373	574,245	613,254	653,432	-522,246	12,337,543

Exhibit 21b: Baseline Argus Executive Summary (900 Stony Walk)

Executive Summary Report

900 Stony Walk (Amounts in USD, Measures in SF)
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Property Information

Property Name	900 Stony Walk
Property ID #	900 Stony Walk
Property Type	Industrial
Building Area	67,000
City, State	Montgomery County / Maryland
Zip / Postal Code	
Country	United States

Purchase Price / Acquisition

Acquisition / Valuation Date	1/1/2004
Purchase Price	11,500,000
Closing Costs	0 / 0.00%
Total Purchase Price	11,500,000
Total Debt (% LTC)	8,000,000 / 69.57%
Total Equity	3,500,000

Property Assumptions (Year 1)

General Inflation (Year 2)	0.00%
Market Inflation (Year 2)	0.00%
Expense Inflation (Year 2)	0.00%
CPI Inflation (Year 2)	0.00%
Capital Expenditures ($/SF)	0.00
General Vacancy (%)	5.00%
Credit Loss Reserve (%)	0.00%

Operations (Year 1)

Effective Gross Revenue (% EGR)	1,654,900 (100.00%)
Operating Expenses (% EGR/$/SF)	597,640 (36.11% / 8.92)
Ground Lease Expenses (% EGR/$/SF)	0 (0.00% / 0.00)
Net Operating Income (% EGR)	1,057,260 (63.89%)
Total Leasing & Capital Costs	0
Cash Flow Before Debt Service	1,057,260
Debt Service (DSC)	726,051 (1.46)
Cash Flow after Debt Service	331,209
Investment (Net)	8,000,000
Cash Flow Available for Distribution	8,331,209

Occupancy Summary (Year 1)

Average Occupancy - NRA / %	67,000 / 100.00%
Available SF for Absorption as of 1/1/2004	0
Net Absorption - NRA / %	0 / 0.00%

WALE (as of PV/IRR Date)

WALE (Area)	10 Years
WALE (Income)	10 Years

Debt Overview (As of Loan Start Date)	**Finance Payments**
Loan Start Date	1/1/2004
Loan Term	240 Months
Amortization Term	240 Months
Interest Rate	6.50%
Debt Service Payment	0 Monthly

Valuation and Returns

Unleveraged Cash Flow Rate	18.46%
Unleveraged Resale Rate	18.46%
Leveraged Cash Flow Rate	18.46%
Leveraged Resale Rate	18.46%
Exit Cap. Rate	10.00%
Present Value (Unleveraged)	7,814,405
Direct Capitalization Value @ 10.00 %	10,572,600
NOI Yield (Yr. 1)	9.19%
Cash on Cash Return (Yr. 1)	9.46%
IRR (Unleveraged)	11.76%
IRR (Leveraged)	19.13%
Optimal Sale Date and IRR	December 2004[35.28%]

Exhibit 22a: Baseline Argus Projected Cash Flows (Ivy Terrace)

Cash Flow Report
Ivy Terrace (Amounts in USD)
Jan, 2004 through Dec, 2014
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	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
For the Years Ending	Year 1 Dec-2004	Year 2 Dec-2005	Year 3 Dec-2006	Year 4 Dec-2007	Year 5 Dec-2008	Year 6 Dec-2009	Year 7 Dec-2010	Year 8 Dec-2011	Year 9 Dec-2012	Year 10 Dec-2013	Year 11 Dec-2014	Total
Rental Revenue												
Potential Base Rent	1,296,000	1,334,880	1,374,926	1,416,174	1,458,659	1,502,419	1,547,492	1,593,917	1,641,734	1,690,986	0	14,857,188
Scheduled Base Rent	1,296,000	1,334,880	1,374,926	1,416,174	1,458,659	1,502,419	1,547,492	1,593,917	1,641,734	1,690,986	0	14,857,188
Total Rental Revenue	1,296,000	1,334,880	1,374,926	1,416,174	1,458,659	1,502,419	1,547,492	1,593,917	1,641,734	1,690,986	0	14,857,188
Total Tenant Revenue	1,296,000	1,334,880	1,374,926	1,416,174	1,458,659	1,502,419	1,547,492	1,593,917	1,641,734	1,690,986	0	14,857,188
Potential Gross Revenue	1,296,000	1,334,880	1,374,926	1,416,174	1,458,659	1,502,419	1,547,492	1,593,917	1,641,734	1,690,986	0	14,857,188
Vacancy & Credit Loss												
Vacancy Allowance	-90,720	-93,442	-96,245	-99,132	-102,106	-105,169	-108,324	-111,574	-114,921	-118,369	0	-1,040,003
Total Vacancy & Credit Loss	-90,720	-93,442	-96,245	-99,132	-102,106	-105,169	-108,324	-111,574	-114,921	-118,369	0	-1,040,003
Effective Gross Revenue	1,205,280	1,241,438	1,278,682	1,317,042	1,356,553	1,397,250	1,439,167	1,482,342	1,526,813	1,572,617	0	13,817,184
Operating Expenses												
Real Estate Taxes	129,600	133,488	137,493	141,617	145,866	150,242	154,749	159,392	164,173	169,099	0	1,485,719
Other Operating Expenses	289,980	298,679	307,640	316,869	326,375	336,166	346,251	356,639	367,338	378,358	378,358	3,702,654
Capital Reserve	20,000	20,600	21,218	21,855	22,510	23,185	23,881	24,597	25,335	26,095	26,878	256,156
Total Operating Expenses	439,580	452,767	466,350	480,341	494,751	509,594	524,882	540,628	556,847	573,552	405,236	5,444,529
Net Operating Income	765,700	788,671	812,331	836,701	861,802	887,656	914,286	941,714	969,966	999,065	-405,236	8,372,656
Capital Expenditures												
Leashold	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	330,000
Total Capital Expenditures	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	330,000
Total Leasing & Capital Costs	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	330,000
Cash Flow Before Debt Service	735,700	758,671	782,331	806,701	831,802	857,656	884,286	911,714	939,966	969,065	-435,236	8,042,656
Debt Service												
Interest												
Enter Item Name	330,000	325,826	321,401	316,711	311,740	306,470	300,884	294,963	288,687	282,033	0	3,078,715
Total Interest	330,000	325,826	321,401	316,711	311,740	306,470	300,884	294,963	288,687	282,033	0	3,078,715
Principal												

	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
For the Years Ending	Year 1 Dec-2004	Year 2 Dec-2005	Year 3 Dec-2006	Year 4 Dec-2007	Year 5 Dec-2008	Year 6 Dec-2009	Year 7 Dec-2010	Year 8 Dec-2011	Year 9 Dec-2012	Year 10 Dec-2013	Year 11 Dec-2014	Total
Enter Item Name	69,569	73,743	78,168	82,858	87,829	93,099	98,685	104,606	110,882	117,536	0	916,975
Total Principal	69,569	73,743	78,168	82,858	87,829	93,099	98,685	104,606	110,882	117,536	0	916,975
Total Debt Service	399,569	399,569	399,569	399,569	399,569	399,569	399,569	399,569	399,569	399,569	0	3,995,690
Cash Flow After Debt Service	336,131	359,102	382,762	407,132	432,233	458,087	484,717	512,145	540,397	569,496	-435,236	4,046,966
Financing												
Proceeds												
Enter Item Name	5,500,000	0	0	0	0	0	0	0	0	0	0	5,500,000
Total Proceeds	5,500,000	0	0	0	0	0	0	0	0	0	0	5,500,000
Total Financing (Net)	5,500,000	0	0	0	0	0	0	0	0	0	0	5,500,000
Cash Flow Available for Distribution	5,836,131	359,102	382,762	407,132	432,233	458,087	484,717	512,145	540,397	569,496	-435,236	9,546,966

Exhibit 22b: Baseline Argus Executive Summary (Ivy Terrace)

Executive Summary Report

Ivy Terrace (Amounts in USD, Measures in SF)
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Property Information

Property Name	Ivy Terrace
Property ID #	Ivy Terrace
Property Type	Office
Building Area	80
City, State	Arlington / Virginia
Zip / Postal Code	
Country	United States

Purchase Price / Acquisition

Acquisition / Valuation Date	1/1/2004
Purchase Price	8,400,000
Closing Costs	0 / 0.00%
Total Purchase Price	8,400,000
Total Debt (% LTC)	5,500,000 / 65.48%
Total Equity	2,900,000

Property Assumptions (Year 1)

General Inflation (Year 2)	0.00%
Market Inflation (Year 2)	0.00%
Expense Inflation (Year 2)	0.00%
CPI Inflation (Year 2)	0.00%
Capital Expenditures ($/SF)	375.00
General Vacancy (%)	7.00%
Credit Loss Reserve (%)	0.00%

Operations (Year 1)

Effective Gross Revenue (% EGR)	1,205,280 (100.00%)
Operating Expenses (% EGR/$/SF)	439,580 (36.47% / 5,494.75)
Ground Lease Expenses (% EGR/$/SF)	0 (0.00% / 0.00)
Net Operating Income (% EGR)	765,700 (63.53%)
Total Leasing & Capital Costs	30,000
Cash Flow Before Debt Service	735,700
Debt Service (DSC)	399,569 (1.92)
Cash Flow after Debt Service	336,131
Investment (Net)	5,500,000
Cash Flow Available for Distribution	5,836,131

Occupancy Summary (Year 1)

Average Occupancy - NRA / %	80 / 100.00%
Available SF for Absorption as of 1/1/2004	0
Net Absorption - NRA / %	0 / 0.00%

WALE (as of PV/IRR Date)

WALE (Area)	10 Years
WALE (Income)	10 Years

Debt Overview (As of Loan Start Date)	**Enter Item Name**
Loan Start Date	1/1/2004
Loan Term	360 Months
Amortization Term	360 Months
Interest Rate	6.00%
Debt Service Payment	0 Monthly

Valuation and Returns

Unleveraged Cash Flow Rate	18.46%
Unleveraged Resale Rate	18.46%
Leveraged Cash Flow Rate	18.46%
Leveraged Resale Rate	18.46%
Exit Cap. Rate	9.51%
Present Value (Unleveraged)	5,526,536
Direct Capitalization Value @ 10.00 %	7,657,000
NOI Yield (Yr. 1)	9.12%
Cash on Cash Return (Yr. 1)	11.59%
IRR (Unleveraged)	11.30%
IRR (Leveraged)	18.57%
Optimal Sale Date and IRR	December 2004[33.76%]

Exhibit 23a: Baseline Argus Projected Cash Flows (Fowler Building)

Cash Flow Report
The Fowler Building (Amounts in USD)
Jan, 2004 through Dec, 2014
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	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
For the Years Ending	Year 1 Dec-2004	Year 2 Dec-2005	Year 3 Dec-2006	Year 4 Dec-2007	Year 5 Dec-2008	Year 6 Dec-2009	Year 7 Dec-2010	Year 8 Dec-2011	Year 9 Dec-2012	Year 10 Dec-2013	Year 11 Dec-2014	Total
Rental Revenue												
Potential Base Rent	1,275,000	1,326,000	1,379,040	1,434,202	1,491,570	1,551,232	1,613,282	1,677,813	1,744,926	1,814,723	0	15,307,787
Scheduled Base Rent	1,275,000	1,326,000	1,379,040	1,434,202	1,491,570	1,551,232	1,613,282	1,677,813	1,744,926	1,814,723	0	15,307,787
Total Rental Revenue	1,275,000	1,326,000	1,379,040	1,434,202	1,491,570	1,551,232	1,613,282	1,677,813	1,744,926	1,814,723	0	15,307,787
Total Tenant Revenue	1,275,000	1,326,000	1,379,040	1,434,202	1,491,570	1,551,232	1,613,282	1,677,813	1,744,926	1,814,723	0	15,307,787
Potential Gross Revenue	1,275,000	1,326,000	1,379,040	1,434,202	1,491,570	1,551,232	1,613,282	1,677,813	1,744,926	1,814,723	0	15,307,787
Vacancy & Credit Loss												
Vacancy Allowance	-89,250	-92,820	-96,533	-100,394	-104,410	-108,586	-112,930	-117,447	-122,145	-127,031	0	-1,071,545
Total Vacancy & Credit Loss	-89,250	-92,820	-96,533	-100,394	-104,410	-108,586	-112,930	-117,447	-122,145	-127,031	0	-1,071,545
Effective Gross Revenue	1,185,750	1,233,180	1,282,507	1,333,807	1,387,160	1,442,646	1,500,352	1,560,366	1,622,781	1,687,692	0	14,236,242
Operating Expenses												
Real Estate Taxes	127,500	132,600	137,904	143,420	149,157	155,123	161,328	167,781	174,493	181,472	0	1,530,779
Other Operating Expenses	255,000	265,200	275,808	286,840	298,314	310,246	322,656	335,563	348,985	362,945	377,462	3,439,020
Capital Reserve	15,000	15,600	16,224	16,873	17,548	18,250	18,980	19,739	20,529	21,350	22,204	202,295
Total Operating Expenses	397,500	413,400	429,936	447,133	465,019	483,620	502,964	523,083	544,006	565,766	399,666	5,172,094
Net Operating Income	788,250	819,780	852,571	886,674	922,141	959,027	997,388	1,037,283	1,078,775	1,121,926	-399,666	9,064,148
Capital Expenditures												
Leasehold	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	770,000
Total Capital Expenditures	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	770,000
Total Leasing & Capital Costs	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	770,000
Cash Flow Before Debt Service	718,250	749,780	782,571	816,674	852,141	889,027	927,388	967,283	1,008,775	1,051,926	-469,666	8,294,148
Debt Service												
Interest												
Loan	525,000	517,277	508,974	500,050	490,455	480,141	469,054	457,135	444,321	430,548	0	4,822,955
Total Interest	525,000	517,277	508,974	500,050	490,455	480,141	469,054	457,135	444,321	430,548	0	4,822,955
Principal												

	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
For the Years Ending	Year 1 Dec-2004	Year 2 Dec-2005	Year 3 Dec-2006	Year 4 Dec-2007	Year 5 Dec-2008	Year 6 Dec-2009	Year 7 Dec-2010	Year 8 Dec-2011	Year 9 Dec-2012	Year 10 Dec-2013	Year 11 Dec-2014	Total
Loan	102,975	110,697	119,001	127,925	137,520	147,833	158,921	170,840	183,653	197,427	0	1,456,792
Total Principal	102,975	110,697	119,001	127,925	137,520	147,833	158,921	170,840	183,653	197,427	0	1,456,792
Total Debt Service	627,975	627,974	627,975	627,975	627,975	627,974	627,975	627,975	627,974	627,975	0	6,279,747
Cash Flow After Debt Service	90,275	121,806	154,596	188,699	224,166	261,053	299,413	339,308	380,801	423,951	-469,666	2,014,401
Financing												
Proceeds												
Loan	7,000,000	0	0	0	0	0	0	0	0	0	0	7,000,000
Total Proceeds	7,000,000	0	0	0	0	0	0	0	0	0	0	7,000,000
Total Financing (Net)	7,000,000	0	0	0	0	0	0	0	0	0	0	7,000,000
Cash Flow Available for Distribution	7,090,275	121,806	154,596	188,699	224,166	261,053	299,413	339,308	380,801	423,951	-469,666	9,014,401

Exhibit 23b: Baseline Argus Executive Summary (Fowler Building)

Executive Summary Report

The Fowler Building (Amounts in USD, Measures in SF)
11/20/2016 2:31:14 PM

Property Information

Property Name	The Fowler Building
Property ID #	The Fowler Building
Property Type	Office
Building Area	50,000
City, State	Arlington / Virginia
Zip / Postal Code	
Country	

Purchase Price / Acquisition

Acquisition / Valuation Date	1/1/2004
Purchase Price	9,400,000
Closing Costs	0 / 0.00%
Total Purchase Price	9,400,000
Total Debt (% LTC)	7,000,000 / 74.47%
Total Equity	2,400,000

Property Assumptions (Year 1)

General Inflation (Year 2)	0.00%
Market Inflation (Year 2)	0.00%
Expense Inflation (Year 2)	0.00%
CPI Inflation (Year 2)	0.00%
Capital Expenditures ($/SF)	1.40
General Vacancy (%)	7.00%
Credit Loss Reserve (%)	0.00%

Operations (Year 1)

Effective Gross Revenue (% EGR)	1,185,750 (100.00%)
Operating Expenses (% EGR/$/SF)	397,500 (33.52% / 7.95)
Ground Lease Expenses (% EGR/$/SF)	0 (0.00% / 0.00)
Net Operating Income (% EGR)	788,250 (66.48%)
Total Leasing & Capital Costs	70,000
Cash Flow Before Debt Service	718,250
Debt Service (DSC)	627,975 (1.26)
Cash Flow after Debt Service	90,275
Investment (Net)	7,000,000
Cash Flow Available for Distribution	7,090,275

Occupancy Summary (Year 1)

Average Occupancy - NRA / %	50,000 / 100.00%
Available SF for Absorption as of 1/1/2004	0
Net Absorption - NRA / %	0 / 0.00%

WALE (as of PV/IRR Date)

WALE (Area)	10 Years
WALE (Income)	10 Years

Debt Overview (As of Loan Start Date)	**Loan**
Loan Start Date	1/1/2004
Loan Term	300 Months
Amortization Term	300 Months
Interest Rate	7.50%
Debt Service Payment	0 Monthly

Valuation and Returns

Unleveraged Cash Flow Rate	18.46%
Unleveraged Resale Rate	18.46%
Leveraged Cash Flow Rate	18.46%
Leveraged Resale Rate	18.46%
Exit Cap. Rate	10.00%
Present Value (Unleveraged)	6,103,020
Direct Capitalization Value @ 10.00 %	7,882,500
NOI Yield (Yr. 1)	8.39%
Cash on Cash Return (Yr. 1)	3.76%
IRR (Unleveraged)	11.41%
IRR (Leveraged)	17.90%
Optimal Sale Date and IRR	December 2004[49.13%]