

## Real Estate Investment Opportunities



For:

**John DeRight and Judy DeRight**

Analysis By:  
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**Dear John and Judy,**

We are pleased to present four investment opportunities in commercial real estate. These opportunities bring with them healthy returns consisting of both growth and income while minimizing risk through diversifying your portfolio. Our analysis assumes a 10-year holding period, 39.6% marginal income tax rate, 25% depreciation recapture, 20% capital gains tax and selling the property based on direct capitalization of eleventh year net operating income. Net operating income is assumed to grow at an average of 3% per year through the holding period.

**Properties**

**Alison Green**

A 100-unit garden apartment complex nestled in Montgomery County, Maryland and fairly new, with completion in 2009, meaning large capital expenditures will be rare. The Alison Green proforma shows this property returned around 13% equity after tax cash flows on an assumed equity position of \$6,000,000. This position was deduced from the ability to leverage this property at 70% loan to value and a purchase price of \$20,000,000. The other \$14,000,000 will come from a loan with 4.00% ENAR, monthly compounding, and 30-year amortization schedule. Alison is operating at 95% occupancy with a projected year 1 net operating income of \$1,450,000 allowing for a debt coverage ratio of 1.81. At this 5% vacancy level this property is situated in a healthy market. If needed this property could be leveraged even higher to increase equity returns, however I believe with this mixture of equity and leverage presents an optimal return for risk. The net present value of this property is \$2,074,341.74 with a 10% discount rate.

**Stony Walk**

Located in Maryland, Stony Walk is a five-story, 80,000 square foot office building with 67,000 square feet of rentable space and it is located near Alison Green and was constructed in 2010 while operating at a 95% occupancy level since it was released to the market. This property rents long term to lawyers, accountants, and small service firms, ensuring that turnover rates and vacancy rates are low. The purchase price for the property is \$15 million, with a loan-to-value of 81.67% and a resale value of \$17 million at the end of 10 years. The mortgage is \$12.25 million with a fixed interest rate 4.75% and a 25-year amortization period. To maximize the proceeds to the seller, the property has a mortgage backed by a CMBS. CMBS's generally have no recourse, meaning that if the loan were to default, the lender could only go after the property and the borrower's personal assets would not be liable. Real estate taxes for this property are like Alison Green and are taxed at a rate of 12% of gross rental income. At the end of the 10-year holding period, the property will have a NPV of \$1,267,103.05 and an IRR 15.02%. (Stony Walk Proforma)

### *Ivy Terrace*

This property is a 75-unit garden apartment project located in Arlington, Virginia and is currently under construction. There is a guaranteed cash flow assuming a 93% occupancy rate upon completion of the project for the first 3 years. The purchase price for the property is \$11 million and it has a loan-to-value of 63.63%. A 10 year, \$7 million mortgage with 4.25% interest rate will be put in place upon purchase. The loan will be amortized for 30 years. The land will be leased for 99 years with annual payments of \$100,000. Unlike other land leases, the owner agreed to keep it constant for the first 10 years. The property taxes are about 10% of gross rents. The property will generate a before financing cash flow of \$900,000. The property has a sale price of \$14 million at the end of the 10-year holding period and has a NPV \$955,836.81 and an IRR 13.10%. (Ivy Terrace Proforma)

### *The Fowler Building*

Currently under construction in Arlington is a two-story, 135,000 square foot office building with 110,000 square feet of rentable space. This space is already 60% leased thanks to small technology and consulting companies. Furthermore, the developer has guaranteed the property to cash flow as if it were 93% leased for the first 3 years. Purchase price is \$27,500,000 with an equity stake of \$6,500,000 and a loan of \$21,000,000 with the following terms: 4.5% ENAR, amortization over 30 years, and monthly compounding. This gives you a loan to value ratio of 76.36%. This property is expected to produce gross rents of \$2,950,000 and a net operating income of \$1,865,000. At the end of the 10th year we expect to sell the property for \$35,713,139.18 and capture an equity after tax cash flow IRR of 14.55% and a net present value \$2,710,927.17 with a discount rate of 10%.

### *Suggestions*

#### *John DeRight*

John is retired and is planning to live off his \$750,000 of stock dividends as well as \$250,000 of other income. He also recently just sold his business for \$35 million of company's stock. He is planning on selling half of his stock and reinvesting in real estate assets and other entities.

After looking at each of the properties in detail and reviewing what type of investor he is, we suggest that Alison Green is the best investment. John has just entered retirement and this causes him to be risk averse. He is not looking to be actively managing the property. The property is new enough to not need major repairs, so it will not need a lot of hands on management. However, the building is old enough to not be risky. Ivy Terrace is new and has not stabilized yet, causing there to be too great of a risk for John to invest. Upon further analysis, John would need to decide when he could put in a capital expenditure to get more benefits. Currently, we are allotting \$25,000 a year for ten years to spend at the end of ten years before the resale, however, if he were to invest the \$250,000 earlier he could benefit by avoiding the 39.6% marginal tax rate put on the \$25,000 per year.

This would also reduce his taxable income through depreciation and delay his tax burden until disposition where it would be reduced to the 25% depreciation recapture rate. We suggest investing capital as soon as possible.

Other reasons this is a safe investment is breakeven occupancy and the occupancy rate. With the occupancy rate being at 95%, this is a stable investment. The rents being as high as they are, a 95% occupancy rate will produce strong cash flows. The breakeven occupancy is the lowest of all 4 properties so losing tenants will not hurt as bad. Even though this is a good investment it still comes with risks. It will be competing with newer construction properties, and with the age that it is, it has the possibility of incurring unanticipated repairs and maintenance.

### Judy DeRight

Judy DeRight owns a small chemical company and is looking to grow the company internally. She has \$45 million invested in stocks, bonds, and short term securities which are available for investment. She is now looking to diversify her portfolio and has a great opportunity to do so with one of these properties.

Through analysis of each property and looking over the investment objectives of Judy and her position. We determined the Fowler Building would be best suited for her portfolio for many reasons. This property needs a ready supply of cash which is great for your diversification needs. Capital could be crucial not only for the equity investment of \$6,500,000, but also in case this property doesn't capture the market as predicted. This property does have its risk, however with the 3 year 93% occupancy cash flow guarantee, break even occupancy of around 77%, and pre-leasing at 60% risks are greatly reduced.

Tax benefits are abundant in this property as well. You could leverage higher as loan to value is 76% and take on more interest reducing taxable income. Capital can also be invested soon adding to the already large depreciable basis reducing taxable income further and delaying and reducing the tax burden all together.

There are some risks with this property though if carefully measured this property will bring returns north of 14%. You also have the pocket depth to weather a misfortune and take losses as tax shelters against other income.

### Summary

In conclusion, after thorough analysis of both John and Judy DeRight financial objectives; risk tolerance we felt that these properties would serve as good vehicles of diversification with their current financial holdings. After several talks between and the realization of their limited understanding of real estate it was important that we broke down our assumptions within models to test their sensitivity and show them their impact in value but we also conducted market research on similar assets to show John and Judy how their investments would compete, insuring our assumptions were within market trends. We feel that the four properties we analyzed will be suitable for their real estate portfolio

## Stony Walk Proforma Analysis

RETURN FOR PAST 5 YEARS											
Data Input Box:											
Purchase Price / Property Value	\$ 15,000,000.00	Depreciable Life (in years)	39								
Land Value	\$ 3,500,000.00	Capital Gains Rate	20%								
Building Value	\$ 11,500,000.00	Marginal Tax Rate	39.60%								
Price per Sq'ft	\$ 26.12	Depreciation Recapture	25%								
Rentable Sq'ft	67,000										
Vacancy	5%										
Real Estate Taxes	12%										
Operating Expenses % of NOI	22%										
Capital Reserve per Sq'ft	\$ 0.30										
NOI Growth	3%										
Loan-to-Value	51.67%										
Loan Amount / Current Balance	\$ 12,250,000.00										
Interest Rate	4.75%										
Loan Amortization	25										
Payments per Year	12										
Holding Period	10										
Selling Costs	6%										
Going Out Capitalization Rate	5.06%										
Rentale Value Year 10	\$ 17,000,000.00										
Equity	\$ 2,750,000.00										
Loan	\$ 12,250,000.00										
Annual Loan Payment	\$ 635,072.52										
Mortgage Balance	\$ 5,975,723 year 10										
SUMMARY LOAN INFORMATION:											
End of Year	1	2	3	4	5	6	7	8	9	10	11
Payment	\$ 635,072.52	635,073	635,073	635,073	635,073	635,073	635,073	635,073	635,073	635,073	635,073
Mortgage Balance	\$ 11,955,150.59	11,713,559	11,425,695	11,123,530	10,807,305	10,475,419	10,127,417	9,762,521	9,379,910	8,975,723	8,555,060
Interest	\$ 576,223.11	563,511	550,151	536,205	521,550	506,153	490,071	473,176	455,461	436,556	417,410
Principal	\$ 261,549.41	274,562	287,591	301,565	316,523	331,559	345,002	358,896	372,611	401,156	420,663
CASH FLOW FROM OPERATIONS:											
Year	1	2	3	4	5	6	7	8	9	10	11
Gross Rent	\$ 1,730,040.00	\$ 1,802,541.20	\$ 1,886,617.44	\$ 1,972,315.96	\$ 1,969,655.44	\$ 2,035,776.00	\$ 2,059,639.25	\$ 2,152,325.46	\$ 2,216,595.31	\$ 2,253,405.26	\$ 2,351,907.42
Vacancy	\$ 57,502.00	\$ 90,127.06	\$ 92,630.67	\$ 95,615.60	\$ 95,454.27	\$ 101,435.60	\$ 104,451.96	\$ 107,616.42	\$ 110,544.92	\$ 114,170.26	\$ 117,595.37
Net Rent	\$ 1,662,538.00	\$ 1,712,414.14	\$ 1,793,986.77	\$ 1,876,700.36	\$ 1,874,201.17	\$ 1,934,340.40	\$ 1,955,187.29	\$ 2,044,712.04	\$ 2,106,050.39	\$ 2,169,235.00	\$ 2,234,312.05
Real Estate Taxes	\$ 210,004.00	\$ 216,304.94	\$ 222,794.09	\$ 229,477.92	\$ 236,362.25	\$ 243,453.12	\$ 250,756.71	\$ 258,279.42	\$ 266,027.60	\$ 274,005.63	\$ 282,235.69
Less Operating Expenses	\$ 352,576.24	\$ 364,053.53	\$ 376,575.14	\$ 389,105.13	\$ 401,692.93	\$ 414,350.72	\$ 428,086.04	\$ 441,909.52	\$ 455,820.14	\$ 469,817.22	\$ 483,900.45
Capital Reserves	\$ 20,100.00	\$ 20,100.00	\$ 20,100.00	\$ 20,100.00	\$ 20,100.00	\$ 20,100.00	\$ 20,100.00	\$ 20,100.00	\$ 20,100.00	\$ 20,100.00	\$ 20,100.00
Net Operating Income	\$ 1,049,556.96	\$ 1,051,955.66	\$ 1,115,017.33	\$ 1,149,070.65	\$ 1,154,145.95	\$ 1,220,273.36	\$ 1,257,454.56	\$ 1,295,512.10	\$ 1,335,259.46	\$ 1,375,951.14	\$ 1,417,532.65
Less Debt Service	\$ 635,072.52	\$ 635,073	\$ 635,073	\$ 635,073	\$ 635,073	\$ 635,073	\$ 635,073	\$ 635,073	\$ 635,073	\$ 635,073	\$ 635,073
EBITDA	\$ 211,764.43	\$ 245,682.14	\$ 276,944.61	\$ 310,096.33	\$ 346,073.46	\$ 386,200.64	\$ 419,412.04	\$ 457,759.56	\$ 497,216.94	\$ 537,676.62	\$ 579,760.16
NOI	\$ 1,049,556.96	\$ 1,051,955.66	\$ 1,115,017.33	\$ 1,149,070.65	\$ 1,154,145.95	\$ 1,220,273.36	\$ 1,257,454.56	\$ 1,295,512.10	\$ 1,335,259.46	\$ 1,375,951.14	\$ 1,417,532.65
Less: Interest	\$ 576,223.11	\$ 563,510.55	\$ 550,151.49	\$ 536,204.99	\$ 521,549.96	\$ 506,153.46	\$ 490,070.95	\$ 473,176.22	\$ 455,461.27	\$ 436,556.31	\$ 417,409.57
Depreciation	\$ 294,671.79	\$ 294,671.79	\$ 294,671.79	\$ 294,671.79	\$ 294,671.79	\$ 294,671.79	\$ 294,671.79	\$ 294,671.79	\$ 294,671.79	\$ 294,671.79	\$ 294,671.79
Capital Reserve	\$ 20,100.00	\$ 20,100.00	\$ 20,100.00	\$ 20,100.00	\$ 20,100.00	\$ 20,100.00	\$ 20,100.00	\$ 20,100.00	\$ 20,100.00	\$ 20,100.00	\$ 20,100.00
Taxable Income (Loss)	\$ 195,562.05	\$ 243,672.99	\$ 290,084.03	\$ 335,024.07	\$ 357,924.22	\$ 439,316.10	\$ 492,041.61	\$ 547,554.09	\$ 605,056.39	\$ 664,293.04	\$ 725,651.32
Tax	\$ 76,749.57	\$ 96,494.30	\$ 114,663.36	\$ 133,663.23	\$ 153,376.39	\$ 173,969.57	\$ 195,086.16	\$ 216,934.16	\$ 239,602.33	\$ 263,060.04	\$ 287,537.32
Before-Tax Cash Flow	\$ 211,754.43	\$ 243,553	\$ 276,945	\$ 310,995	\$ 346,073	\$ 392,201	\$ 419,412	\$ 457,740	\$ 497,217	\$ 537,579	\$ 579,760
Less Tax	\$ 76,749.57	\$ 96,495	\$ 114,663	\$ 133,663	\$ 153,376	\$ 173,970	\$ 195,086	\$ 216,934	\$ 239,602	\$ 263,060	\$ 287,535
BAITDA	\$ 135,005.06	\$ 147,059	\$ 162,079	\$ 177,113	\$ 192,495	\$ 206,231	\$ 224,326	\$ 240,765	\$ 257,615	\$ 274,519	\$ 292,402
CASH FLOW FROM SALE:											
Sale Price (received by investor)			\$ 17,590,976.15								
Sales Costs			\$ -								
Mortgage Balance			\$ 5,975,723.45								
Before-tax Equity Reversion			\$ 5,612,252.71								
Sale Price		\$ 17,590,976.15									
Sales Costs		\$ -									
Original Cost Base	\$ 15,000,000.00										
Accumulated Depreciation	\$ 2,945,717.95										
Capital Expenditures	\$ 20,100.00										
Adjusted Base (Book Value)		\$ 12,252,282.05									
Gain on Sale		\$ 5,338,694.10									
Depreciation Recapture		\$ 2,945,717.95		\$ 737,179.49							
Capital Gain		\$ 2,392,976.15		\$ 477,995.23							
After-tax Equity Reversion			\$ 7,397,077.99								
CASH FLOW SUMMARY:											
End of Year	1	2	3	4	5	6	7	8	9	10	
After-Tax Cash Flow	(2,750,000)	133,035	147,359	162,079	177,113	192,495	206,231	224,326	240,765	257,615	274,519
After-tax IRR		15.02%									
After-tax NPV at 10%		\$ 1,367,103.05									

## Ivy Terrace Proforma Analysis

		Data Input Box:																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																															
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## Alison Green Proforma Analysis

		Data Input Box:											
Purchase Price / Property Value		\$ 27,500,000.00	Less Concessions:										
Land Value		\$ 6,500,000.00	Depreciable Life (in years)		39								
Building Value		\$ 21,000,000.00	Capital Gains Rate		20%								
Price per Sq/ft		\$ 26.52	Marginal Tax Rate		39.60%								
Rentable Sq/ft		110,000	Depreciation Recapture		25%								
Vacancy		7%											
Real Estate Taxes		10%											
Operating Expenses % of NOI		19%											
Capital Reserve per Sq/ft		\$ 0.30											
NOI Growth		3%											
Loan-to-Value		75.35%											
Loan Amount / Current Balance		\$ 21,000,000.00											
Interest Rate		4.50%											
Loan Amortization		25											
Payments per Year		12											
Holding Period		10											
Selling Costs		6%											
Going Out Capitalization Rate		7.05%											
Reise Value Year 10		\$ 35,713,139.15											
Equity													
Loan	\$ 6,500,000.00												
Annual Loan Payment	\$ 21,000,000.00												
Mortgage Balance	\$ 1,400,697.54												
	15,255,250	year 10											
SUMMARY LOAN INFORMATION:													
End of Year	1	2	3	4	5	6	7	8	9	10	11		
Payment	\$ 1,400,697.54	1,400,695	1,400,695	1,400,695	1,400,695	1,400,695	1,400,695	1,400,695	1,400,695	1,400,695	1,400,695	1,400,695	1,400,695
Mortgage Balance	\$ 20,54,754.91	20,045,195	19,539,257	19,036,936	18,450,180	17,987,505	17,255,695	16,621,605	15,955,250	15,255,250	14,529,292	13,795,292	13,061,292
Interest	\$ 955,452.75	914,111	891,757	865,576	845,922	815,544	791,590	765,605	734,540	703,725	671,708	639,292	606,875
Principal	\$ 465,215.09	486,587	508,941	532,321	556,773	582,354	609,105	637,090	666,355	696,970	725,985	755,403	784,417
CASH FLOW FROM OPERATIONS:													
Year	1	2	3	4	5	6	7	8	9	10	11		
Gross Rent	\$ 2,949,950.00	\$ 3,035,479.40	\$ 3,129,633.75	\$ 3,223,522.50	\$ 3,320,225.45	\$ 3,419,535.35	\$ 3,522,430.39	\$ 3,626,103.51	\$ 3,736,948.40	\$ 3,849,054.50	\$ 3,964,526.44	\$ 4,083,563.44	\$ 4,206,286.44
Vacancies	\$ 205,495.60	\$ 212,693.56	\$ 219,074.36	\$ 225,646.60	\$ 232,415.99	\$ 239,365.47	\$ 246,570.15	\$ 253,987.23	\$ 261,566.25	\$ 269,335.54	\$ 277,216.55	\$ 285,219.55	\$ 293,355.55
Net Rent	\$ 2,743,454.40	\$ 2,822,785.84	\$ 2,910,559.42	\$ 2,997,875.20	\$ 3,087,809.46	\$ 3,180,169.88	\$ 3,275,860.27	\$ 3,372,116.28	\$ 3,470,382.15	\$ 3,570,718.96	\$ 3,673,309.89	\$ 3,778,346.89	\$ 3,885,930.89
Real Estate Taxes	\$ 294,995.00	\$ 305,647.94	\$ 312,963.35	\$ 322,353.25	\$ 332,032.55	\$ 341,963.55	\$ 352,243.04	\$ 362,910.33	\$ 373,694.64	\$ 384,903.45	\$ 396,452.64	\$ 408,356.44	\$ 420,626.44
Less Operating Expenses	\$ 550,466.27	\$ 566,950.26	\$ 583,969.66	\$ 601,509.35	\$ 619,554.63	\$ 638,141.27	\$ 657,265.51	\$ 677,004.05	\$ 697,514.20	\$ 718,233.63	\$ 739,760.63	\$ 762,035.63	\$ 784,985.63
Capital Reserve	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00
Net Operating Income	\$ 1,565,017.13	\$ 1,921,957.65	\$ 1,950,605.35	\$ 2,041,014.57	\$ 2,103,235.00	\$ 2,167,322.05	\$ 2,233,531.72	\$ 2,301,321.67	\$ 2,371,351.32	\$ 2,443,451.66	\$ 2,517,776.31	\$ 2,594,335.66	\$ 2,673,195.66
Less Debt Service	\$ 1,400,697.54	1,400,695	1,400,695	1,400,695	1,400,695	1,400,695	1,400,695	1,400,695	1,400,695	1,400,695	1,400,695	1,400,695	1,400,695
EBITD	\$ 464,319.29	\$ 521,259.60	\$ 579,909.55	\$ 640,316.72	\$ 702,539.16	\$ 766,624.21	\$ 832,633.67	\$ 900,625.62	\$ 970,653.47	\$ 1,042,754.01	\$ 1,117,076.47	\$ 1,193,640.47	\$ 1,272,495.47
NOI	\$ 1,565,017.13	\$ 1,921,957.65	\$ 1,950,605.35	\$ 2,041,014.57	\$ 2,103,235.00	\$ 2,167,322.05	\$ 2,233,531.72	\$ 2,301,321.67	\$ 2,371,351.32	\$ 2,443,451.66	\$ 2,517,776.31	\$ 2,594,335.66	\$ 2,673,195.66
Less: Interest	\$ 955,452.75	\$ 914,110.65	\$ 891,757.13	\$ 865,576.45	\$ 845,921.73	\$ 815,543.53	\$ 791,590.28	\$ 765,607.95	\$ 734,540.19	\$ 703,727.53	\$ 671,709.15	\$ 639,291.15	\$ 606,873.15
Depreciation	\$ 555,461.54	\$ 555,461.54	\$ 555,461.54	\$ 555,461.54	\$ 555,461.54	\$ 555,461.54	\$ 555,461.54	\$ 555,461.54	\$ 555,461.54	\$ 555,461.54	\$ 555,461.54	\$ 555,461.54	\$ 555,461.54
Capital Reserve	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00
Taxable Income (loss)	\$ 424,072.54	\$ 502,555.26	\$ 553,387.71	\$ 607,176.55	\$ 753,651.73	\$ 843,516.95	\$ 936,279.90	\$ 1,032,252.14	\$ 1,131,549.59	\$ 1,234,292.49	\$ 1,340,605.62	\$ 1,450,520.62	\$ 1,564,035.62
Tax	\$ 167,932.65	\$ 196,944.56	\$ 231,021.53	\$ 264,201.91	\$ 296,525.29	\$ 334,032.72	\$ 370,766.64	\$ 406,771.65	\$ 442,093.64	\$ 486,779.62	\$ 530,679.62	\$ 573,835.62	\$ 616,195.62
Before-Tax Cash Flow	\$ 464,319.29	\$ 521,260	\$ 579,909	\$ 640,317	\$ 702,537	\$ 766,624	\$ 832,634	\$ 900,624	\$ 970,653	\$ 1,042,754	\$ 1,117,076	\$ 1,193,640	\$ 1,272,495
Less Tax	\$ 167,932.65	\$ 196,945	\$ 231,022	\$ 264,202	\$ 296,525	\$ 334,033	\$ 370,767	\$ 406,772	\$ 442,094	\$ 486,780	\$ 530,680	\$ 573,836	\$ 616,196
EBITD	\$ 296,386.44	\$ 322,315	\$ 348,887	\$ 376,115	\$ 404,012	\$ 432,591	\$ 461,867	\$ 493,852	\$ 527,560	\$ 554,004	\$ 586,396	\$ 616,804	\$ 646,299
CASH FLOW FROM SALE:													
Sale Price (received by investor)			\$ 35,713,139.15										
Sales Costs			-										
Mortgage Balance			\$ 15,255,250.31										
Before-Tax Equity Reversion			\$ 20,458,888.84										
Sale Price		\$ 35,713,139.15											
Sales Costs		\$ -											
Original Cost Basis	\$ 27,500,000.00												
Accumulated Depreciation	\$ 5,554,615.35												
Capital Expenditures	\$ 330,000.00												
Adjusted Gain (Book Value)		\$ 22,445,554.82											
Gain on Sale		\$ 13,267,754.56											
Depreciation Recapture		\$ 5,554,615.35	\$ 1,346,153.65										
Capital Gain		\$ 7,553,139.15	\$ 1,576,627.54										
After-Tax Equity Reversion			\$ 17,522,077.16										
CASH FLOW SUMMARY:													
End of Year	0	1	2	3	4	5	6	7	8	9	10		
After-Tax Cash Flow	(6,500,000)	296,386	322,315	348,667	376,115	404,012	432,591	461,867	491,652	522,560	554,004	586,396	616,804
After-Tax IRR		14.55%											
After-Tax NPV at 10%		\$1,540,345.17											





## Fowler Proforma Analysis

RETURN FOR PAST 5 YEARS											
Data Input Box:											
Purchase Price / Property Value	\$ 27,500,000.00	Tax Considerations:									
Land Value	\$ 6,500,000.00	Depreciable Life (in years)						39			
Building Value	\$ 21,000,000.00	Capital Gain Rate						20%			
Price per Sq'ft	\$ 26.52	Marginal Tax Rate						39.60%			
Rentable Sq'ft	110,000	Depreciation Recapture						25%			
Vacancy	7%										
Real Estate Taxes	10%										
Operating Expenses % of NOI	19%										
Capital Reserve per Sq'ft	\$ 0.30										
NOI Growth	3%										
Loan-to-Value	76.36%										
Loan Amount / Current Balance	\$ 21,000,000.00										
Interest Rate	4.50%										
Loan Amortization	25										
Payments per Year	12										
Holding Period	10										
Selling Costs	6%										
Gross Out Capitalization Rate	7.05%										
Resale Value Year 10	\$ 35,713,139.15										
Equity	\$ 6,500,000.00										
Loan	\$ 21,000,000.00										
Annual Loan Payment	\$ 1,400,697.64										
Mortgage Balance	15,255,250 year 10										
SUMMARY LOAN INFORMATION:											
End of Year	1	2	3	4	5	6	7	8	9	10	11
Payment	\$ 1,400,697.64	1,400,695	1,400,695	1,400,695	1,400,695	1,400,695	1,400,695	1,400,695	1,400,695	1,400,695	1,400,695
Mortgage Balance	\$ 20,534,754.91	20,045,195	19,539,257	19,006,936	18,450,160	17,867,605	17,255,695	16,621,605	15,955,250	15,255,250	14,529,292
Interest	\$ 935,452.75	914,111	891,757	866,376	843,922	816,344	791,590	763,605	734,340	703,726	671,709
Principal	\$ 465,215.09	486,587	508,941	532,321	556,776	582,354	609,105	637,090	666,355	696,970	728,989
CASH FLOW FROM OPERATIONS:											
Year	1	2	3	4	5	6	7	8	9	10	11
Gross Rent	\$ 2,949,950.00	\$ 3,035,479.40	\$ 3,129,633.75	\$ 3,233,532.50	\$ 3,330,235.45	\$ 3,419,635.33	\$ 3,522,430.39	\$ 3,635,103.31	\$ 3,735,945.40	\$ 3,849,054.50	\$ 3,964,526.44
Vacancies	\$ 205,495.60	\$ 212,693.56	\$ 219,074.36	\$ 225,646.60	\$ 232,415.99	\$ 239,356.47	\$ 246,570.13	\$ 253,967.23	\$ 261,566.25	\$ 269,433.64	\$ 277,516.65
Net Rent	\$ 2,743,454.40	\$ 2,822,785.84	\$ 2,910,559.42	\$ 3,007,885.90	\$ 3,097,819.46	\$ 3,180,278.86	\$ 3,275,860.27	\$ 3,374,136.07	\$ 3,475,380.16	\$ 3,579,620.86	\$ 3,687,009.79
Real Estate Taxes	\$ 294,995.00	\$ 303,547.94	\$ 312,963.36	\$ 322,352.26	\$ 332,022.55	\$ 341,953.53	\$ 352,243.04	\$ 362,610.33	\$ 373,094.64	\$ 384,803.45	\$ 396,452.64
Less Operating Expenses	\$ 550,466.27	\$ 566,960.26	\$ 583,959.66	\$ 601,509.35	\$ 619,554.63	\$ 638,141.27	\$ 657,265.51	\$ 677,004.05	\$ 697,314.20	\$ 718,233.63	\$ 739,790.63
Capital Reserve	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00
Net Operating Income	\$ 1,565,017.13	\$ 1,921,957.63	\$ 1,950,606.36	\$ 2,041,014.57	\$ 2,103,235.00	\$ 2,167,322.05	\$ 2,233,331.72	\$ 2,301,321.67	\$ 2,371,351.32	\$ 2,443,451.66	\$ 2,517,776.31
Less Debt Service	\$ 1,400,697.64	1,400,695	1,400,695	1,400,695	1,400,695	1,400,695	1,400,695	1,400,695	1,400,695	1,400,695	1,400,695
EBITDA	\$ 464,319.29	\$ 521,259.60	\$ 579,906.53	\$ 640,316.72	\$ 702,537.16	\$ 766,624.21	\$ 832,635.67	\$ 900,623.62	\$ 970,653.47	\$ 1,042,764.01	\$ 1,117,076.47
NOI	\$ 1,565,017.13	\$ 1,921,957.63	\$ 1,950,606.36	\$ 2,041,014.57	\$ 2,103,235.00	\$ 2,167,322.05	\$ 2,233,331.72	\$ 2,301,321.67	\$ 2,371,351.32	\$ 2,443,451.66	\$ 2,517,776.31
Less: Interest	\$ 935,452.75	\$ 914,110.55	\$ 891,757.13	\$ 866,376.45	\$ 843,921.73	\$ 816,343.53	\$ 791,590.25	\$ 763,607.95	\$ 734,340.19	\$ 703,727.63	\$ 671,709.15
Depreciation	\$ 535,461.54	\$ 535,461.54	\$ 535,461.54	\$ 535,461.54	\$ 535,461.54	\$ 535,461.54	\$ 535,461.54	\$ 535,461.54	\$ 535,461.54	\$ 535,461.54	\$ 535,461.54
Capital Reserve	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00	\$ 33,000.00
Taxable Income (Loss)	\$ 424,072.54	\$ 502,355.26	\$ 563,367.71	\$ 665,717.55	\$ 753,851.73	\$ 843,516.98	\$ 935,279.90	\$ 1,032,252.14	\$ 1,131,549.59	\$ 1,234,292.49	\$ 1,340,605.62
Tax	\$ 167,932.65	\$ 196,944.56	\$ 221,021.53	\$ 264,201.91	\$ 296,525.29	\$ 334,032.72	\$ 370,766.64	\$ 406,771.65	\$ 446,093.64	\$ 486,779.62	\$ 530,679.63
Before-Tax Cash Flow	\$ 464,319.29	\$ 521,260	\$ 579,909	\$ 640,317	\$ 702,537	\$ 766,624	\$ 832,634	\$ 900,624	\$ 970,653	\$ 1,042,764	\$ 1,117,076
Less Tax	\$ 167,932.65	\$ 196,945	\$ 221,022	\$ 264,202	\$ 296,525	\$ 334,033	\$ 370,767	\$ 406,772	\$ 446,094	\$ 486,780	\$ 530,680
EAIGF	\$ 296,386.44	\$ 322,315	\$ 346,687	\$ 376,115	\$ 404,012	\$ 432,591	\$ 461,867	\$ 491,652	\$ 522,560	\$ 554,004	\$ 586,199
CASH FLOW FROM SALE:											
Sale Price (received by investor)			\$ 35,713,139.15								
Sales costs			\$ -								
Mortgage Balance			\$ 15,255,250.31								
Before-tax Equity Reversion			\$ 20,454,655.67								
Sale Price		\$ 35,713,139.15									
Sales Costs		\$ -									
Original Cost Basis	\$ 27,500,000.00										
Accumulated Depreciation	\$ 3,354,615.35										
Capital Expenditures	\$ 330,000.00										
Adjusted Basis (Book Value)		\$ 22,445,354.62									
Gain on Sale		\$ 13,267,754.56									
Depreciation Recapture		\$ 5,354,615.35	\$ 1,346,153.65								
Capital Gain		\$ 7,863,139.15	\$ 1,576,627.64								
After-tax Equity Reversion			\$ 17,522,077.16								
CASH FLOW SUMMARY:											
End of Year	0	1	2	3	4	5	6	7	8	9	10
After-Tax Cash Flow	(6,500,000)	296,386	322,315	346,687	376,115	404,012	432,591	461,867	491,652	522,560	554,051
After-tax IRR		14.55%									
After-tax NPV @ 10%		\$ 2,719,927.17									

## IRR Analysis

### Alison Green

Year	BTCF	Discounted	Income Tax	Discounted	Futures	Discounted	Total	Discounted
1	\$ 648,042.30	\$ 566,507.13	\$ (148,156.61)	\$ (129,515.89)	\$ -	\$ -	\$ 499,885.69	\$ 436,991.23
2	\$ 692,295.30	\$ 529,048.42	\$ (169,658.47)	\$ (129,652.11)	\$ -	\$ -	\$ 522,636.83	\$ 399,396.31
3	\$ 737,875.89	\$ 492,934.69	\$ (191,848.12)	\$ (128,163.27)	\$ -	\$ -	\$ 546,027.78	\$ 364,771.41
4	\$ 784,823.90	\$ 458,332.13	\$ (214,747.91)	\$ (125,411.40)	\$ -	\$ -	\$ 570,075.99	\$ 332,920.72
5	\$ 833,180.35	\$ 425,352.62	\$ (238,380.99)	\$ (121,697.51)	\$ -	\$ -	\$ 594,799.36	\$ 303,655.11
6	\$ 882,987.49	\$ 394,063.91	\$ (262,771.21)	\$ (117,270.80)	\$ -	\$ -	\$ 620,216.28	\$ 276,793.11
7	\$ 934,288.85	\$ 364,498.13	\$ (287,943.28)	\$ (112,336.55)	\$ -	\$ -	\$ 646,345.57	\$ 252,161.58
8	\$ 987,129.24	\$ 336,658.96	\$ (313,922.67)	\$ (107,062.86)	\$ -	\$ -	\$ 673,206.57	\$ 229,596.10
9	\$ 1,041,554.85	\$ 310,527.68	\$ (340,735.74)	\$ (101,586.47)	\$ -	\$ -	\$ 700,819.11	\$ 208,941.21
10	\$ 1,097,613.23	\$ 286,068.16	\$ (368,409.70)	\$ (96,017.69)	\$ 11,528,802.76	\$ 3,004,722.74	\$ 12,258,006.28	\$ 3,194,773.21
<b>Total</b>	\$ 8,639,791.41	\$ 4,163,991.83	\$ (2,536,574.70)	\$ (1,168,714.57)	\$ 11,528,802.76	\$ 3,004,722.74	\$ 17,632,019.47	\$ 6,000,000.00
		<b>69.40%</b>		<b>-19%</b>		<b>50.08%</b>		<b>100.00%</b>

### Stony Walk

Year	BTCF	Discounted	Income Tax	Discounted	Futures	Discounted	Total	Discounted
1	\$ 211,784.43	\$ 184,133.50	\$ (78,749.37)	\$ (68,467.72)	\$ -	\$ -	\$ 133,035.06	\$ 115,665.78
2	\$ 243,883.14	\$ 184,356.87	\$ (96,494.50)	\$ (72,942.41)	\$ -	\$ -	\$ 147,388.64	\$ 111,414.46
3	\$ 276,944.81	\$ 182,015.99	\$ (114,865.36)	\$ (75,492.78)	\$ -	\$ -	\$ 162,079.45	\$ 106,523.22
4	\$ 310,998.33	\$ 177,710.52	\$ (133,885.25)	\$ (76,504.65)	\$ -	\$ -	\$ 177,113.08	\$ 101,205.88
5	\$ 346,073.46	\$ 171,934.15	\$ (153,578.39)	\$ (76,299.90)	\$ -	\$ -	\$ 192,495.07	\$ 95,634.25
6	\$ 382,200.84	\$ 165,091.33	\$ (173,969.97)	\$ (75,146.18)	\$ -	\$ -	\$ 208,230.87	\$ 89,945.15
7	\$ 419,412.04	\$ 157,511.51	\$ (195,086.16)	\$ (73,265.22)	\$ -	\$ -	\$ 224,325.88	\$ 84,246.29
8	\$ 457,739.58	\$ 149,461.26	\$ (216,954.18)	\$ (70,839.94)	\$ -	\$ -	\$ 240,785.40	\$ 78,621.32
9	\$ 497,216.94	\$ 141,154.54	\$ (239,602.33)	\$ (68,020.53)	\$ -	\$ -	\$ 257,614.61	\$ 73,134.02
10	\$ 537,878.62	\$ 132,761.45	\$ (263,060.04)	\$ (64,929.58)	\$ 7,397,077.99	\$ 1,825,777.77	\$ 7,671,896.57	\$ 1,893,609.64
<b>Total</b>	\$ 3,684,132.20	\$ 1,646,131.14	\$ (1,666,245.56)	\$ (721,908.91)	\$ 7,397,077.99	\$ 1,825,777.77	\$ 9,414,964.63	\$ 2,750,000.00
		<b>59.86%</b>		<b>-26.25%</b>		<b>66.39%</b>		<b>100.00%</b>

**Ivy Terrace**

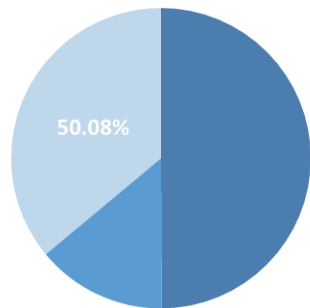
<u>Year</u>	<u>BTCF</u>	<u>Discounted</u>	<u>Income Tax</u>	<u>Discounted</u>	<u>Futures</u>	<u>Discounted</u>	<u>Total</u>	<u>Discounted</u>
1	\$ 382,520.83	\$ 338,212.84	\$ (86,835.47)	\$ (76,777.18)	\$ -	\$ -	\$ 295,685.37	\$ 261,435.66
2	\$ 409,955.84	\$ 320,484.53	\$ (99,725.00)	\$ (77,960.39)	\$ -	\$ -	\$ 310,230.85	\$ 242,524.13
3	\$ 438,213.90	\$ 302,894.32	\$ (113,028.23)	\$ (78,125.34)	\$ -	\$ -	\$ 325,185.68	\$ 224,768.99
4	\$ 467,319.71	\$ 285,597.28	\$ (126,758.74)	\$ (77,467.20)	\$ -	\$ -	\$ 340,560.97	\$ 208,130.08
5	\$ 497,298.68	\$ 268,715.23	\$ (140,930.57)	\$ (76,151.80)	\$ -	\$ -	\$ 356,368.11	\$ 192,563.43
6	\$ 528,177.03	\$ 252,341.96	\$ (155,558.23)	\$ (74,319.53)	\$ -	\$ -	\$ 372,618.80	\$ 178,022.43
7	\$ 559,981.73	\$ 236,547.74	\$ (170,656.73)	\$ (72,088.90)	\$ -	\$ -	\$ 389,324.99	\$ 164,458.84
8	\$ 592,740.56	\$ 221,383.17	\$ (186,241.59)	\$ (69,559.53)	\$ -	\$ -	\$ 406,498.98	\$ 151,823.64
9	\$ 626,482.16	\$ 206,882.45	\$ (202,328.83)	\$ (66,814.80)	\$ -	\$ -	\$ 424,153.34	\$ 140,067.64
10	\$ 661,236.01	\$ 193,066.28	\$ (218,935.04)	\$ (63,924.19)	\$ 7,216,516.39	\$ 2,107,063.06	\$ 7,658,817.37	\$ 2,236,205.16
<b>Total</b>	\$ 697,032.48	\$ 2,626,125.79	\$ (236,077.36)	\$ (733,188.86)	\$ 7,216,516.39	\$ 2,107,063.06	\$ 10,879,444.44	\$ 4,000,000.00
		<b>65.65%</b>		<b>-18.33%</b>		<b>52.68%</b>		<b>100.00%</b>

**Fowler Building**

<u>Year</u>	<u>BTCF</u>	<u>Discounted</u>	<u>Income Tax</u>	<u>Discounted</u>	<u>Futures</u>	<u>Discounted</u>	<u>Total</u>	<u>Discounted</u>
1	\$ 464,319.29	\$ 405,350.40	\$ (167,932.85)	\$ (146,605.25)	\$ -	\$ -	\$ 296,386.44	\$ 258,745.15
2	\$ 521,259.80	\$ 397,266.54	\$ (198,944.56)	\$ (151,621.16)	\$ -	\$ -	\$ 322,315.24	\$ 245,645.38
3	\$ 579,908.53	\$ 385,834.57	\$ (231,021.53)	\$ (153,707.16)	\$ -	\$ -	\$ 348,887.00	\$ 232,127.41
4	\$ 640,316.72	\$ 371,920.71	\$ (264,201.91)	\$ (153,458.68)	\$ -	\$ -	\$ 376,114.81	\$ 218,462.02
5	\$ 702,537.16	\$ 356,236.73	\$ (298,525.29)	\$ (151,373.73)	\$ -	\$ -	\$ 404,011.87	\$ 204,863.00
6	\$ 766,624.21	\$ 339,364.02	\$ (334,032.72)	\$ (147,867.35)	\$ -	\$ -	\$ 432,591.48	\$ 191,496.67
7	\$ 832,633.87	\$ 321,774.20	\$ (370,766.84)	\$ (143,284.11)	\$ -	\$ -	\$ 461,867.03	\$ 178,490.09
8	\$ 900,623.82	\$ 303,846.65	\$ (408,771.85)	\$ (137,908.81)	\$ -	\$ -	\$ 491,851.97	\$ 165,937.84
9	\$ 970,653.47	\$ 285,883.52	\$ (448,093.64)	\$ (131,975.61)	\$ -	\$ -	\$ 522,559.83	\$ 153,907.91
10	\$ 1,042,784.01	\$ 268,122.43	\$ (488,779.82)	\$ (125,675.91)	\$ 17,532,077.18	\$ 4,507,878.02	\$ 18,086,081.37	\$ 4,650,324.54
<b>Total</b>	\$ 1,117,078.47	\$ 3,435,599.76	\$ (530,879.83)	\$ (1,443,477.78)	\$ 17,532,077.18	\$ 4,507,878.02	\$ 21,742,667.06	\$ 6,500,000.00
		<b>52.86%</b>		<b>-22.21%</b>		<b>69.35%</b>		<b>100.00%</b>

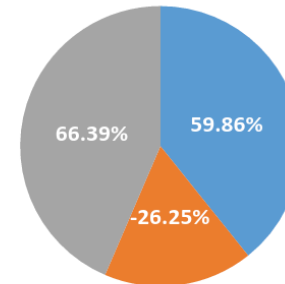
### Alison Green

■ BTCF ■ Tax Benefits ■ Future Value



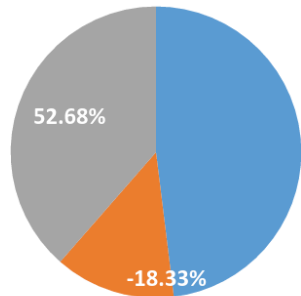
### Stony walk

■ BTCF ■ Tax Benefits ■ Future Value



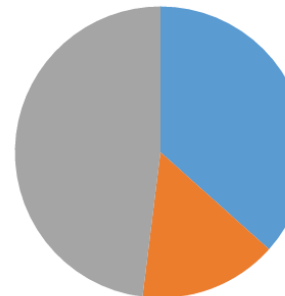
### ivry terrace

■ BTCF ■ Tax Benefits ■ Future Value



### Fowler Building

■ BTCF ■ Tax Benefits ■ Future Value



IRR Benefits				
	Alison Green	Stony Walk	Ivy Terrace	Fowler Building
BTCF	69.40%	59.86%	65.65%	52.86%
Tax Benefits	-19.48%	-26.25%	-18.33%	-22.21%
Future Value	50.08%	66.39%	52.68%	69.35%

### Breakeven Analysis

Analysis	Alison Green	Stony Walk	Ivy Terrace	Fowler Building
Current or Projected Occupancy	95%	95.00%	93.00%	93.00%
Added Margin	28.80%	12.12%	26.67%	15.74%
Break-even Occupancy	66.20%	82.88%	63.33%	77.26%
Loan-to-Value	70%	81.67%	63.64%	76.36%
Debt Coverage	1.81	1.25	2.18	1.33