FEASIBILITY STUDY AND DEVELOPMENT STRATEGY FOR THE ATBRO SITE IN PORTLAND, MAINE

by

David N. Eaton

SUBMITTED TO THE DEPARTMENT OF URBAN STUDIES AND PLANNING IN PARTIAL FULFILMENT OF THE REQUIREMENTS OF THE DEGREE MASTER OF SCIENCE IN REAL ESTATE DEVELOPMENT AT THE MASSACHUSETTS INSTITUTE OF TECHNOLOGY

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Signature of the Author _____
David N. Eaton
Department of Urban Studies and Planning

Certified by _____
Lawrence S. Bacow
Thesis Supervisor

Accepted by _____
Lawrence S. Bacow
Chairman
Interdepartmental Degree Program in Real Estate Development

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Submitted to the Department of Urban Studies and Planning
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ABSTRACT

This thesis examines the development potential of a six acre site in downtown Portland, Maine. The site is the largest piece of undeveloped land left in the downtown area, and market conditions indicate it will take several years for the entire build-out potential of the parcel to be absorbed. Therefore, the thesis exmaines the decision to acquire the property based on an in-depth view of the Greater Portland economy in general, and the real estate development market in particular. The site planning opportunites and zoning constraints are evaluated in the formation of development programs. Different development options are examined, with particular attention paid to office and hotel/conference center options.

The problem of carrying the high inital cost of acqisition is given specific attention. However, the essential problem the feasibility study confronts is the difficulty in planning a large, phased development in a relatively small market, and the limits of financial forecasting based on assumptions that may not be valid in future years. Several methodologies are used to examine downstream cash flows, under varying development scenarios, with an explanation of the risk factors associated with each one. Strategies for managing the development process are presented, both for the political issues the project would raise and the financial risks presented by varying market conditions.

Thesis Supervisor: Prof. Lawrence S. Bacow
Title: Chairman, Interdepartmental Degree Program in Real Estate Development

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INTRODUCTION

This report examines the development potential of a five acre site in downtown Portland, Maine. The site is vacant, and currently owned by the J.B. Brown Company of Portland, and Atlantic Shopping Centers, Inc. of Nova Scotia, Canada. Five years ago, this partnership, known as the Atbro Company, announced plans to develop a major mixed use project on the site, including office buildings, a convention center and a major hotel. The city of Portland has undergone tremendous redevelopment in the downtown area since 1970, yet visible progress on this site has been stalled.

The owners have recently announced their desire to enter into a joint venture agreement with a new developer. They have valued the property at six million dollars, and are offering a 50% interest for an equity contribution of $1.5 million and the assumption of another $1.5 million in debt on the property.

The Atbro site is the largest piece of undeveloped land left in the downtown area, and it delineates the southern and western edge of the CBD. It falls in a moderate slope between Portland's financial district and the waterfront, which is undergoing rapid revitalization. It is adjacent to The Cumberland County Civic Center, several new office buildings and the Old Port Exchange, an active district of renovated 19th century brick buildings with mixed retail and office uses. The Atbro site can easily be called the most important development site remaining in downtown Portland.

LOCAL ECONOMY

Portland is a small city with a population of 197,000 people, located 100 miles north of Boston on the coast of Maine. The city has undergone a substantial and visible economic revitalization since 1970, and has become the financial, cultural and retail center of Maine and enjoys a national reputation as one of the most livable cities in the country.

Industry Mix

Greater Portland enjoys a diversified economy, with financial and other services providing the most important contribution to both demand for office space and the health of the regional economy as a whole. While forest products, primarily paper-making, is the largest industry in the state, the mills are scattered over the northern parts of the state, and only one is located in the Portland area. The region's most important manufactured goods produced for export out of the region include forest products, electronic equipment, and retail goods. Its five largest employers are:[1]

Maine Medical Center	3,258 employees
Union Mutual Life Insurance Co.	2,416
S.D. Warren (Papermaking)	2,150
Fairchild Semiconductor	1,860
L.L. Bean, Inc.	1,500

Another critical component of the Portland's service sector is the health care industry. Maine Medical Center has grown dramatically over the last fifteen years, and serves the entire

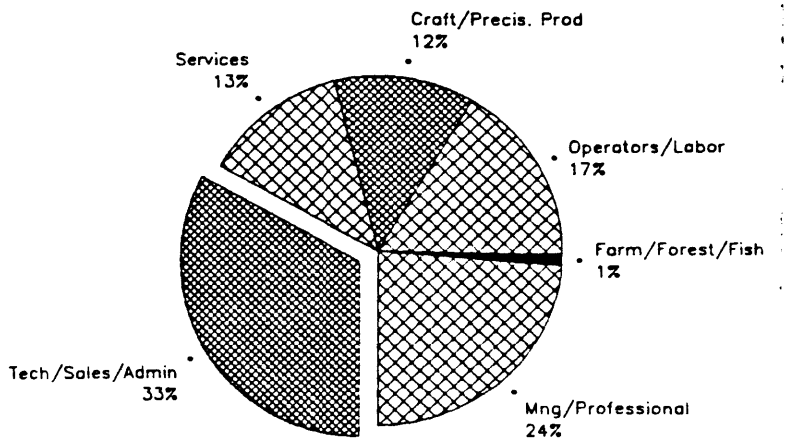
state for most advanced procedures. MMC is well recognized for its neo-natal care unit and draws patients from all over northern New England. The city has two other hospitals, and all three have undertaken major expansion projects in the last year, totalling more than $112 million.[2] Consequently, the city has a significant ratio of doctors per capita. These health care services provide a stable sector of income for the regional economy which can only grow as the state's population ages.

Employment

Greater Portland's diversified economy has over 57% of its workforce employed in white collar occupations. During the 1970's, employment in the metropolitan area increased by more than 25,000 jobs, a gain of nearly 40%. Over 15,000 of these jobs were created in the service, government, and finance, insurance and real estate sectors.[3]

Occupations of Employed Persons

Portland SMSA, 1980



Source: 1980 U.S. Census

Total employment in Greater Portland has risen by 24% since 1975, and as in the rest of the country, the service industries have provided most of the new jobs in the region. Service employment has risen by 50% since 1975, wholesale and retail trade by 32% and finance, insurance and real estate by 38%.[4]

EMPLOYMENT BY NON-MANUFACTURING INDUSTRY - Portland SMSA (000's)

	1975	1983
Contract Construction	3.7	4.0
Transp. & Public Utilities	4.8	5.6
Wholesale & Retail Trade	20.2	26.6
FIRE	6.1	8.4
Services & Mining	14.7	22.0
Government	12.4	13.1
TOTAL	61.9	79.7

SOURCE: Maine Dept. of Labor

Income

The most dramatic aspect of Greater Portland's economic growth has been the growth in personal income. Between 1970 and 1980, per capita income increased approximately 18% in constant dollars and average family income increased 10%. Between 1977 and 1982, aggregate personal income in Cumberland County grew by 68%. Cumberland County now ranks second of all counties in Northern New England, after Hillsboro County in southern New Hampshire. The average household income in the Portland SMSA was estimated at 28,860 in 1984.[5]

Tourism

The impact of tourism on the regional economy is critical. It is the second largest industry in Maine, after forest products. It

enables the state of Maine to market its quality of life, and many newcomers to the state decided to relocate after vacationing in the state. Despite variations in weather, transportation costs, and the strength of the U. S. dollar, tourism has provided Maine with a steady source of income that has been growing steadily. In the sales tax catagories that best represent the impact of tourism, Greater Portland has shown significant gains in the recent past.

LODGING AND RESTAURANT SALES - GREATER PORTLAND

Year	Lodging and Restaurant Sales	Annual Increase
1980	105,324	
1981	116,496	11%
1982	128,048	10%
1983	147,848	15%
1984	169,792	15%

SOURCE - Maine Bureau of Taxation

Tourism also contributes significantly to the Retail Sales sector. In a recent survey of 300 metropolitan areas conducted by the publication Sales and Marketing Management, Portland ranked second in the catagory of Retail Sales per Household. The impact of tourism is most certainly the factor that boosted Portland's ranking.

Ranking of Portland Metro Sales
(Ranking based on comparison with 300 other metro areas nationally)

	1980 Rank	1982 Rank	1983 Rank	1984 Rank
Population	155	157	153	174
Total Retail Sales	131	122	136	114
Per Household Sales	42	25	10	2

SOURCE: Sales and Marketing Management July 23, 1984

Future Outlook

Determining the prospects for Portland's future economic outlook, and its impact on the Real Estate Development Industry, requires an examination of the underlying causes for its recent revitalization, and an assessment of the future of these recent trends. The foundations of these trends are presented below, with an explanation of their contribution to local economic growth, and a projection of directions in the future.

Will Portland's emergence as the financial and service center for the state lead to continued job creation?

The 1977 U.S. Census of Business Services identified 141 establishments in Greater Portland, with 1,894 employees and $25,322,000 in receipts. In 1982 the census found 228 firms with 2,456 employees and 66,065,000 in receipts. While the receipt figures show the effects of inflation, the 62% increase in firms and 30% increase in employees indicates that even in the midst of a recession, Portland's role as a financial service provider was growing dramatically. While many other cities in Maine have suffered disinvestment and population losses, Portland has drawn all of the major financial institutions. The city houses all but one of the state's five largest banks, and all of the largest law firms. Nearly all financial transactions in Maine that involves substantial funds will pass through a Portand bank and be handled by a Portland law firm.

Therefore, a key to Portland's growth lies with the economic future of the entire state. The city has acquired the critical mass to contribute to its own growth and to claim at least a small portion of the economic activity in other parts of the state through its virtual monopoly on financial services. Some financial service firms from other Maine cities have opened branches in Portland, often to find that they can become larger than the home office.

The State Planning Office projects that employment in Maine will increase by 57,400 between 1980 and 1990, and that 66% of that increase (38,000 jobs) will occur in the Trade and Services sectors of the economy.[7] Given its role in the state's economy, Greater Portland should capture 30% of these jobs.

Will Greater Portland's population continue to grow?

Greater Portland's population has only grown by 13% since 1970, but the change in the social and demographic make up of the population has been dramatic. An important contributor to Portland's economic growth has been the steady in-migration of young, well-educated people. A 1984 study by the University of Maine revealed that 71% of the in-migrants between 1980 and 1983 were under 50, and 51% of the males and 39% of the females had completed college, which is more than double the percentage of the adult population at-large. Most of these people were coming from larger metropolitan areas in the Northeast and only 18% were former residents. This study confirmed the reputation for

attracting in-migration that Maine enjoyed throughout the seventies and shows that it has continued into the eighties.

The demand for skilled professional and managerial labor will probably dictate the rate of population growth in southern Maine, since people need jobs to justify a move to the area. However, Portland does enjoy a reputation as an extremely livable city, and many summer tourists come back looking for jobs in the area. The quality of life enables Portland firms to easily attract qualified personnel as they are needed. Union Mutual, S.D. Warren and other large employers report that they rarely have trouble filling new positions, as they have large pools of qualified applicants on file.[8]

Will Portland's Personal Income continue to grow?

One consequence of Portland's role as a service center is that the professional positions have paid higher wages than the statewide average, and the personal income per household has grown rapidly as a result. These higher salaried employees require more financial services, which contributes to the growth in professional positions. This trend is expected to continue, with average family income projected at $33,300 by 1989, unadjusted for inflation.[9]

FOOTNOTES

1. Greater Portland Chamber of Commerce, The Data Book 1984-1985 Page 27
2. Op. Cit. Page 24
3. Op. Cit. Page 25
4. Op. Cit. Page 24
5. Op. Cit. Page 21
6. Op. Cit. Page 18
7. Op. Cit. Page 31
8. Op. Cit. Page 20
9. Op. cit. Page 37

OFFICE MARKET

Historical Supply and Demand

Portland's supply of first class office space has expanded steadily since 1980, fueled by the growing economy and the impact of the 1981 tax code, which offered substantial tax credits for the rehabilitation of older buildings. The city has a large supply of older buildings in the downtown area which have been attractively renovated, and supply an alternative to the Class A market for smaller users. Of the 1.5 million square feet of new office space in Portland's downtown, 763,000 sq. ft is Class A in new buildings, and 749,000 could be classified as Class A Rehab. Most of the rehabilitated buildings have floor sizes of less than 6000 square feet, so they cannot compete for the large users in the Class A market. However, they do provide competion for the mid size users, and have attracted many tenants that could go into new Class A space.

The Class A buildings built since 1970 are:

	Yr Built	Building Size	Flrs	Floor Size
One Monument Square	1970	150,000	10	15,000
Two Monument Square	1980	150,000	10	15,000
One Canal Plaza	1970	120,000	10	12,000
Two Canal Plaza	1975	44,000	4	8,800
Three Canal Plaza	1979	60,000	6	10,000
Maine Savings Plaza	1972	150,000	10	15,000
Two City Center	1983	25,000	6	4,400
Marion Building	1982	32,000	4	8,000
Morse, Payson & Noyes	1980	32,000	4	8,000
TOTAL		763,000		

There is currently 28,400 square feet of vacant space in these buildings, creating a vacancy rate of 4%. Lease rates range from $15-$20 Net. The average absorbtion rate of 55,000 square feet per year has varied with economic conditions. The 239,000 square feet of space built since 1980 currently has a 10% vacancy rate, but 16,000 square feet of vacant space is in buildings on the edge of the downtown district (Marion and Morse, Payson & Noyes Buildings). Potential users of that space have chosen rehabilitated space over new in this marginal location.

The tenants in the Class A space have generally come from cheaper space in the immediate area. As their businesses and space requirements have grown, many Class A users have moved from rehabilitated space to new. Most of the large buildings have had financial institutions as lead tenants, and filled the rest of their space with growing law, accounting and other service firms. These tenants have been successful enough to want to occupy space that has more prestige and efficiency than the rehabilitated space they occupied previously.

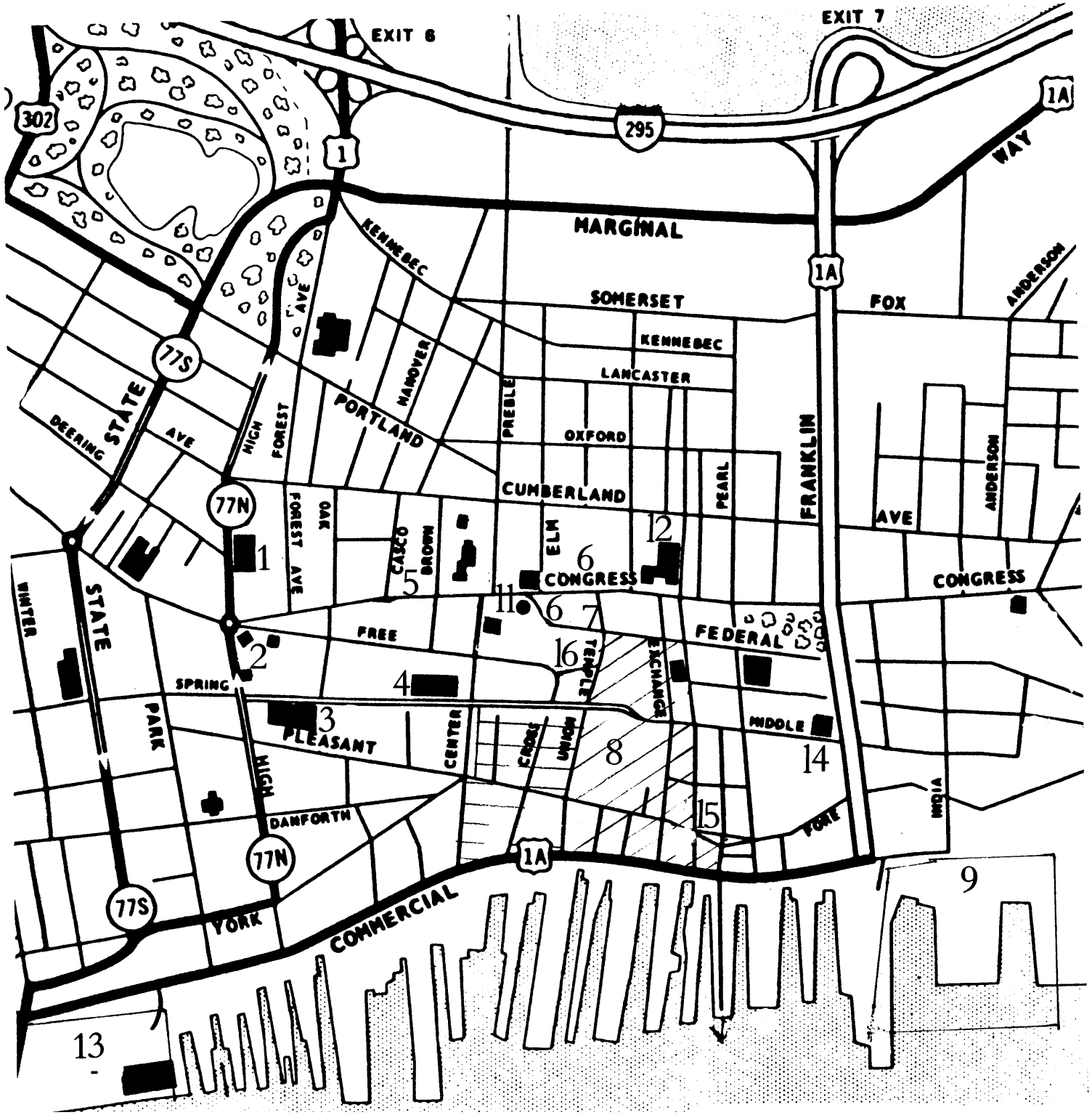
New Projects

Only one major office building is currently under construction in the downtown, One City Center, which will provide 140,000 square feet of office space on 10 floors, when it is completed in the fall. It is 50% leased, with Norstar Bank, Union Mutual and Great Northern Paper Company as lead tenants. The remaining 70,000 square feet of leasable space represents the largest amount of uncommitted office space to come on the market at one

time in Portland, and will be watched carefully as a barometer of the overall office market. It is currently approaching completion, and discounted lease rates of $16.50 per square foot (down from $18.50) are being offered to attract new tenants. So far, no one has responded.

Several Class A rehab projects are under construction in the downtown area. A 45,000 SF building at 245 Commercial Street has been started, with a law firm as the lead tenant. Another building on Middle St. is pre-leased and will provide 6,000 square feet of space. The developer, Ram Development Company, has been the dominant actor in the Class A Rehab market since 1970, and is currently negotiating for a 40,000 square foot brick wharehouse on Commercial St.

Office buildings that have been announced include a new 85,000 square foot building near the Franklin St. Arterial and 100,000 square feet in Waterfront Park, a mixed use development proposed at the Nova Scotia Ferry terminal. Both locations are somewhat marginal compared to the Atbro site.



LOCATION MAP

EXISTING

1 Sonesta Hotel
2 Portland Museum of Art
3 Holiday Inn
4 Civic Center
5 Maine Savings Plaza
6 Casco Bank
7 Maine Bonding
8 Key Bank Plaza
9 Bath Iron Works
10 Monument Square
11 Harbor Plaza
12 City Hall

PLANNED

13 Waterfront Park
14 Office Building
15 Hotel (80 rooms)
16 One City Center

SITE

Old Port Exchange

Suburban Market

The suburban market, located almost exclusively in South Portland around the Maine Mall, has seen rapid production of office parks. Of the 383,000 SF either built or under construction, 120,617 SF is available. Lease rates in the area range from $10 to $18.50 Net, depending upon age and location. While this market should have little direct bearing on the downtown locations, it should be watched carefully for two reasons. First, it has succeeded in attracting some potential downtown tenants, offering lower lease rates and plenty of free parking. Second, if the oversupply of office space forces rents even lower, it may become even more attractive to some downtown corporate decision makers. Owners are already offering substantial concessions to large tenants, and Citicorp of Maine has made its headquarters at one park.

Summary and Recommendation

Proposed office development at the Atbro site enjoys locational advantages over any other projects currently announced. Given the steady growth and resiliency of the regional economy, job creation in the Service and Finance, Insurance and Real Estate, sectors should continue to fuel demand for Class A office space. Therefore, the downtown's average annual absorbtion rate of 55,000 SF in the Class A market should be maintained. The Atbro project will be able to capture most of that growth, as it has a distinct site advantage for users seeking high visibility.

HOTEL AND CONVENTION MARKET

Supply Trends

The Greater Portland lodging market has grown dramatically in the 1980's, on both the demand and supply sides. Revenues have climbed steadily and production of rooms has recently increased substantially. Hotels serving the Portland area are clustered in three locations, downtown, the Maine Mall area in South Portland, and the Exit 8 area in Westbrook. These areas supply 1,681 rooms. 566 rooms have been added in the last 2 years and most of these have been the budget type hotel offering few, if any, amenities.

According to a market study prepared for the city in 1983 by Panell Kerr and Forster,[1] the breakdown of demand for hotel rooms in the immediate area originates from business travelers (45%), tourists (35%) and conventions and meetings (15%). Occupancy rates average 64%, with extreme fluctuations. The summer months see peak demand, with occupancy at 80-100%, while the winter months only support occupancy rates of 30-60%, with operators offering discounts 15 to 60% below peak rates.

The conferences and business meetings segment of the market is relatively weak, owing to the lack of support facilities for this type of activity. The Cumberland County Civic Center is the only building that can hold large meetings (6,000 - 9,000 people), and it lacks aesthetic appeal and supplementary meeting rooms which would be suitable for smaller group meetings.

The Holiday Inn and recently renovated Sonesta Hotel are the only first-quality downtown hotels that offer meeting facilities. The 246 room Holiday Inn is located just West of the Civic Center and has meeting and conference capacity for up to 1,300 people. It is the most popular downtown hotel for large meetings, but suffers from a dated decor and image, according to the PKF report.

The Sonesta is located two blocks north and west of the Civic Center and has seen substantial investment since 1980, with $7.8 million spent on renovations and a city-built 600 car garage adjacent to it. The hotel has meeting space of appoximately 9,000 square feet and a banquet room that seats 525 people. The hotel, known formerly as the Eastland, suffered from a deservedly poor reputation for years before its renovation. The improvements and Sonesta franchise has helped restore its image, but the hotel's location on the northern side of Congress Street, away from the booming waterfront, puts it at a competitive disadvantage.

The best known first class hotel in greater Portland is located out of town. The Sheraton Inn in South Portland is located near the Maine Mall, the Maine Turnpike, and the airport. It has the best reputation for service and quality in the area, and enjoys the highest room and occupancy rates. A recently constructed second tower brings its room count to 220, with a ballroom that seats 450 people.

FIRST CLASS HOTELS IN GREATER PORTLAND

Name	Rooms	Yr. Built	Rates Single (August, 1985)	Rates Double (August, 1985)	Facilities Code
Downtown					
Holiday Inn - Downtown 88 Spring St.	246	1973	$68.00-72.00	78.00-82.00	A,B,C, E,F,G
Sonesta Hotel 157 High St.	184	1981*	$80.00	90.00	A(2),B,C
Out of Town					
Sheraton Inn 363 Maine Mall Rd. South Portland	124	1973	$76.00-90.00	86.00-105.00	A,B,C,E
Comfort Inn 90 Maine Mall Rd. South Portland	130	1983	$45.00	55.00	D
Ramada Inn 1230 Congress St. Portland	150	1970	$68.00	78.00	A,B,C,E
Holiday Inn 81 Riverside St. Portland	205	1970	$61.00	71.00	A,B,C,D
Howard Johnsons 155 Riverside St. Portland	120	1970	$60.00	70.00	A,B,C,E

Code: A. Restaurant B. Coctail Lounge C. Meeting Rooms
D. Outdoor Pool E. Indoor Pool F. Sauna

* Sonesta is the former Eastland Hotel, which was built in the early 1900's and renovated extensively in 1981-82.

Potential Competition

Another hotel with a direct impact on the Atbro site has recently been announced. An old and distinctive national guard armory, located in the heart of the Old Port District will be converted into an upper scale, 80 room inn. Interior demolition had begun, but construction has been halted pending final negotiations with an operator. If successfully completed, the hotel could become the most important competition for the Atbro site, given its location and ambiance. It is potentially comparable to the Bostonian Hotel near Quincy Market, which enjoys one of the highest occupancy rates in Boston.

Another hotel has been announced at a project known as Waterfront Park. This development will be located at the site of the International Ferry Terminal, (an attractive and popular ship which runs nine months a year to Nova Scotia), about one-half mile west of the downtown area. Plans include a new aquarium facility, 100,000 square feet of office space, a festival market, and a 100 room hotel. The developer's proposal for a UDAG application was recently turned down by the city council, which cited unresolved land use issues and concern over the financial obligations of the city. However, the council has given the developer exclusive rights to the site for another six months, and encouraged her to redesign the project and restructure the financing.

At the Maine Mall in South Portland, local developers have announced plans for three major mixed use projects that will include hotel and conference facilities. They should be catering to a different market than the intown hotels, but their suburban location offers some ameneties that could draw potential guests out of town, such as a golf course planned at one project. As each project will depend largely on surrounding office development to support the hotels, it is far too early to accurately predict the impact they could have on the subject site.

Demand Trends

The growth of lodging facilities in greater Portland has been accompanied by steady increases in the demand for rooms. However, the recent increase in supply has not been matched by a proportionate increase in demand. As the sales figures below indicate, the market may be stagnating.

LODGING SALES

Portland, South Portland and Westbrook

Year	Sales	Change
1979	9,863,000	
1980	11,597,000	18%
1981	12,108,000	4%
1982	13,817,000	14%
1983	14,219,000	3%
1984	13,785,000	-3%

SOURCE - Maine Bureau of Taxation

Note: The Maine Bureau of Taxation reports that retail sales tax collection data is not a reliable indicator of actual sales when specific catagories are isolated, due to reporting and data entry errors. For example, many lodging facilities that include restaurants will often combine their receipts from both activities and report them in just one catagory. Therefore, a more appropriate use of this data is the identification of market trends in broader areas, like the combined restaurant and lodging sales identified earlier in this study.

The lack of reliable lodging sales data makes it extremely difficult to determine the current market conditions. However, the growth of the regional economy makes the recent decline in sales appear suspect. However, it does appear that the overall lodging market may remain soft in the near future, given the dramatic number of new rooms added recently.

Market Analysis for Convention Center

The Pannell, Kerr, Forster study was undertaken to determine the feasibility of a conference/hotel facility to be built in downtown Portland. The city undertook the project for a number of reasons. City planners had seen a decline in convention and meeting business since 1980, and wanted to see something done to reverse the trend. The Greater Portland Visitors and Convention Bureau had suffered a severe funding cutback after it was split from the Chamber of Commerce, and needed new initiatives for funding and direction. Also, the owners of the Atbro site had at one time announced plans for a major downtown hotel, but were not able to attract a first class operator. The city had been quite active in supporting downtown projects, and wanted to be ready if the project should resurface, if not prod the developers into action.

The city of Portland also had an underlying motive. As in most metropolitan centers, Portland's fiscal situation was strained by its reliance on the property tax, and the city was constantly looking for new sources of revenue. However, the city delegation had been unsuccessful in its attempts to obtain authorization for a local meals and lodging tax from the state legislature. An independent study recomending such a tax, even if dedicated to tourism, might be useful in their future attempts.

The PKF report determined that the city had lost much of its regional and national convention business as a result of the cutbacks at the convention and visitors bureau. A survey of meeting and conference planners indicated that many were not even aware of Portland's capabilities to support their functions, due to the absence of promotional activity from the city. Of those that were aware of Portland, most had a favorable impression. However, the shortage of suitable facilities, namely a first class hotel and conference center, made the city unacceptable for larger meetings (500 and up).

The report concluded that Portland should seek to increase funding for the Visitors and Convention Bureau, and promote the development of a new meeting facility of 56,000 square feet, preferably attached to a 275 room hotel. The preferred location of the new facility was the Atbro site.

Summary and Recommendation

Events occurring since the release of the PKF report give reason to hesitate before undertaking the development of a hotel and conference facility. The apparent leveling of demand, as evidenced by the flat level of revenues since 1983, combined with the increased supply of new hotel rooms, both current and planned, could lead to a severe glut in the overall lodging market. A new downtown hotel/conference center may have a competative edge, but that would depend primarily on successful marketing by the Greater Portland Convention and Visitors Bureau. Although the organization is supported by local hotel operators, it has yet to demonstrate the type of cooperation that would lead to an effective marketing effort.

In fact, the response by the local lodging industry to PKF's recommendations was quite vocal in its opposition. The operators of the downtown hotels see the proposed hotel/conference center as subsidized competition, not an expansion of the overall market. The Sonesta Management publically said they would pull out it the city supports a new hotel.[2] Since the city of Portland participated in the financing of the Sonesta project through the UDAG program, it has a strong interest in its success. The city has already seen a default on the lease of the adjacent parking garage, so it will take their complaints seriously. The city is considering putting a conference center on a separate site, which would weaken the demand for a new hotel on the Atbro site.

The chances of successfully implementing the project on the Atbro site are not hopeless however. The lodging market may be in a temporary lull, and if a properly funded Convention and Visitors Bureau can begin generating more conference business without the new facility, as PKF projects, then the prospects for the hotel would be much improved. An important factor will be the success of the office developments on the Atbro site. If the site is developed as a premier location for new offices, then a hotel would become an important complement to the entire development.

FOOTNOTES

1. Pannell, Kerr, Forster; Market Analysis of Existing and Potential Visitor/Convnetion Industry and Subsequent Feasibility Analysis of a Downtown Convnetion/Visitors Facility, Dec. 1983

2. Portland Evening Express; Center Plan Riles Hotels Nov. 21, 1984, Page 1

SITE PLANNING AND DESIGN ISSUES

Architecture

The city of Portland grew up around its harbor, with the central business district located in a saddle between the two hills that make up the Portland Peninsula. A great fire in 1866, at the beginning of Portland's golden era of shipping and trade, forced most of the downtown merchants to rebuild at the same time. This resulted in a number of elegant 3-5 story brick commercial buildings that retain a distinctive 19th century architectural style in their current use as retail stores with offices and residences above. Like the buildings in the Back Bay area of Boston, their similar scale and choice of materials do not overshadow the subtleties of their individual characteristics. Exchange Street, the commercial heart of the revitalized Old Port Exchange District, is lined on both sides with these attractive buildings.

The 19th century materials and architecture used in this district have heavily influenced the newer buildings developed around it. Brick is the predominant material used on the office buildings, and their architectural style is quite reserved. The newest office building, the 13-story One City Center, has a triangular floor plan and steps back on the first five floors. Every other new building is a simple box of 5 to 10 stories. Key Bank Plaza consists of three brick buildings clustered around a sterile concrete courtyard, that rarely draws interest or use from passersby.

Surrounding Land Uses

The proposed site consists of five acres of mostly vacant land located right in the middle of Portland's most active development area. Four acres are contiguous and cover most of a large city block. The other acre is to the south, across Fore Street. (See Map) The land slopes uniformly from the central business district to the waterfront area, falling approximately 20 feet over a distance of 400 feet. The financial center of the city lies to the north and east, and the property has frontage on Commercial Street, which runs the length of Portland's waterfront. The site is bounded by major transportation routes into the downtown and waterfront areas on the north and south, so it commands excellent visibility for a downtown location.

New 10-13 story office towers have been built adjacent to the site on the northern and eastern side. To the south, several warehouses on Commercial Street have recently been renovated and reused as retail, office, and residential space. The Old Port Exchange District lies adjacent to the southeast corner, and the intersection at the northeast corner is the busiest in the downtown area, for both vehicular and pedestrian traffic. The western edge consists of a mixture of deteriorating buildings fronting on Center Street (or backing on the site). Beyond them, on the other side of Center street, are several renovated buildings, with the Cumberland County Civic Center across from the northwest corner.

Site Planning - Opportunities and Constraints

The private assembly of a parcel of this size in a downtown location is unique. It provides the developer with the opportunity to build a project of a scale that will enable it to create its own enviroment. This can be a tremendous marketing advantage if handled properly. However, several constraints exist which must be recognized and resolved for the project to succeed.

The most severe constraint is the relatively small size of the market for new first class space in Portland. This means that the buildout of this project will occur over several years. Therefore, each phase must stand on its own architecturally. The long buildout period may also mean that anticipated uses may change substantially over time, in response to changing market conditions, so that any master plan must be reviewed for its ability to accomodate changes in use. This compounds the problems in the planning process, but is critical to the viability of the development.

Another problem stems from the long period of assembly and inactivity on the site. As a large tract of vacant land, it has not offered anything but parking space for its neighbors. The few new buildings around the site do not address it and the views from the site are towards the backs of many buildings. Key Bank Plaza offers a blank wall at street level that does not encourage pedestrian traffic.

Some site planning opportunites stand out however, and should be incorporated into the planning process. The current flow of pedestrian traffic in the area is one example. Three corners of the upper site are adjacent to major pedestrain nodes, and the way they are handled will dramatically affect the public's response to the project.

The Northeast corner is the most critical, as it joins the intersection between the financial district and the Old Port Exchange area. Pedestrian traffic tends to flow diagonally across this intersection, away from the vacant site. This corner is closest to the surrounding built-up area, and will probably be the location of the first building. However, it should be sited to allow a welcoming gesture for the dense pedestrian traffic that flows to and from the Old Port. The Southeast corner of the site offers the same opportunity to a lesser extent.

If these two nodes were linked, the site provides the opportunity to create a new pedestrian circuit in the Old Port. Now, tourists and area residents tend to stroll up and down Exchange Street when they are in the area, as there are no other developed streets climbing the hill from the waterfront. If a destination (hotel) was created in the center of the Atbro site, with inviting access from the two corners, the project could attract a substantial share of the pedestrian traffic in the area.

The Northwest corner of the site is close to the Cumberland County Civic Center. This corner offers another critical entrance to the site, especially as Spring Street is difficult to cross at any other point between the Civiic Center and Temple Street, due to a 3 foot high concrete median running the length of the block. The Civic Center attracts large crowds all year round for sporting and other entertainment events. Creating easy pedestrian access could provide the site with consumers during the evening hours, contributing to both restaurant and parking uses.

An important asset of the site is the unobstructed views of the waterfront and harbor available from the upper levels. While not the only site in the city to offer this, the view cannot be blocked by new buidlings, since the developer controls land all the way down to the waterfront area, which has lower height and use restrictions.

LAND USE AND POLITICAL ISSUES

Zoning

Zoning for the site is the most liberal in the city, but is one of several hurdles which a major project must survive. The upper block of the Atbro site is located in the B-3 Zone, which allows commercial buildings up to ten stories, with no setback requirements. Buildings can cover up to 70% of their lot, and off-street parking is not a requirement in the B-3 zone. The only other requirement for office buildings over 100,000 square feet is a loading bay. Buildings in the W-1 Zone, where the lower lot lies, cannot exceed five stories.

While the zoning ordinance allows great flexibility and density for site development, the city's site plan review ordinance is potentially more restrictive. Administered by the planning board, its regulations are relatively simple to understand, but quite broad in the authority they give to the Board. Any new building larger than 20,000 square feet is subject to review as a major project, and can be denied based on several criteria, the two most important being:

1. The provisions for vehicular loading and unloading and parking for vehicular and pedestrian circulation on the site and onto adjacent public streets and ways will create hazards to safety, or will impose a significant burden upon public facilities, which could be avoided by modifications to the plan;

2. The bulk, location or height of the proposed buildings and structures and paved areas and the proposed uses thereof will be detrimental to other private development in the neighborhood or will impose undue burdens on the sewers, sanitary and storm drains, water or similar public facilities which could be avoided by modifications in the plan.

The powers contained in these two sections of the site plan review ordinance give the Planning Board broad powers in reviewing projects. The first effectively negates the freedom from off-street parking requirements granted in the zoning ordinance. While marketing considerations would generate the provision of adequate parking, the planning board will have an important voice in determining how adequate that parking shall be. The zoning ordinance does require a ratio of 2.5 spaces per thousand square feet for zones where off street parking is required, and this might be interpreted as the standard. One thing is clear; any site plan presented must be carefully thought out and designed with input from the city planning agency, which conducts the technical reviews for the planning board.

The second criteria offers opponents and/or abuttors a chance to mount a campaign against parts or all of the project. While this site lends itself to first class development, the Planning Board will listen to the concerns of the public, and if complaints are determined legitimate, it will require that the plans be changed. The effectiveness of any opponent's charges will be determined both by the plan itself and the support the project receives from the planning staff and the community at large. A project of this

scope will certainly command the attention of all interest groups concerned with downtown development, and the developer must be prepared for input from many segments of the community. This is where the regulatory process and the political process overlap.

Formal Regulatory Authority

Formal power in the city of Portland rests with the 9 member City Council. The mayor is elected from that body and has little authority outside of chairing council meetings. The position is primarily an honorary one, and the council traditionally elects a new mayor every other year, even if the incumbent is still in office. The current mayor is also a representative in the State Legislature, which serves to enhance his influence. However, the council is non-partisan and quite independent when voting. The council consists of five district representatives and four members elected at-large.

The city manager is responsible for the day to day operations of the city. He serves at the pleasure of the council, but has substantial influence with them. This rests with his sensitivity to the council's priorities, his command of the details in proposals brought before them, and his ability to negotiate and present proposals in the best interests of the city. Last year, the developer of a proposed subsidized residential high rise went for council approval without his support (he thought it was too high) and lost. After reducing the height, the developer gained his support and obtained council approval.

However, recent events show how tenuous the city manager's influence can be. The Waterfront Park project, proposed by the same developer, and enjoying broad support from the community, was surprisingly turned down for a UDAG application by the council. Some observers think that the council was upset with the power the city manager had in structuring the deal with the developer.

As demonstrated above, the Planning Board in Portland takes an active role in reviewing projects. They are typically asked to review publically assisted projects, although their recommendations are not always followed by the council.

Informal Sources of Power

Informal sources of power in Portland lay with several different individuals and interest groups. Portland has undergone significant redevelopment and growth in the last decade, but it is still a small city, with the sources of power centered in few areas. Much of this power is wielded by a small elite of businessmen who do not meet formally or act publically, but whose opinions of a major project like the one proposed will spell its success or failure. These individuals are active in civic affairs and have the opportunity to express their opinions to one another without creating a formal organization, since they interact with each other on the various boards and committees on which they serve.

This elite includes the presidents of the larger banks in the city, as well as certain senior partners in the larger law firms. The president of Union Mutual Life Insurance Company, the biggest employer in town after the hospital, has considerable influence, especially as they are moving their executive branch downtown from their large office complex on the outskirts of town. Other large in-town landowners in the city have influence as well, just by virtue of the proximity of their holdings and their mutual associations with the other members of the elite.

Together, this group can affect this project in numerous ways. They have significant influence with the city council members, as they generally speak for the established business interests in the city. The ability to obtain financing would be affected by their opinion of the project, since only the largest banks in town would consider the project. Most importantly, just the ommision of their support would make the task of generating positive public relations and momentum impossible, especially in dealing with the probable opponents. It is critical to present the project to these individuals first, in private, and gain their quiet support before going public with plans.

Another important voice in the decision to support the hotel/ conference center component of the project will be heard from the trustees of the Cumberland County Civic Center, located adjacent to the northwest corner of the proposed site. The city has a substantial investment in the 7 year old Civic Center, which has

been quite successful. It is currently the largest space available for conferences and conventions, but since it was designed primarily for sporting events, they occur there rarely. A new conference center across the street could generate more activity for the Civic Center, so the trustees support should be enlisted.

Other hotel operators in the city have already voiced their displeasure with the project, stemming from a perception of subsidized competition from the new hotel. The city's market study indicated that the conference center be subsidized with revenues generated from a new lodging tax, so their opposition is not surprising. Since the city has already provided a UDAG loan to one renovated downtown hotel that is still struggling, this opposition will carry some weight with city councilors. However, the market study also included projections showing increased occupancy for the entire Portland lodging market with a succesfully marketed convention center, so this problem may be resolvable.

Intown Portland Associates, representing most of the downtown retailers, will take an active interest in the project. This group consists of two factions, the older downtown shops and department stores, and the more progressive entrepreneurs who have set up shops in the renovated waterfront district. While the IPA has not taken an active role in evaluating downtown developments, the project would form a third distinct shopping area in the CBD, so the opinion of IPA will carry some weight with the council. Again, this group should be approached early,

with the opportunity for expanding the retail market the major point to be stressed.

Greater Portland Landmarks, the City's only historic preservation organization, will participate in the review. The group was quite successful in saving some important properties from demolition in the 1970's, primarily through education and publicity. In 1978, it was unsuccessful in its attempts to enact historic zoning districts, which would have given the preservationists more power in reviewing development. Despite this setback, Landmarks maintains significant influence in the city, which is proud of its restoration efforts. One city councilor is a former Executive Director of Landmarks.

While most of the Atbro site is currently vacant, the Atbro group created a controversy with Landmarks when they commenced demolition of two old buildings on the site early on a Saturday morning, after obtaining a demolition permit late in the afternoon of the previous Friday. The anomosity which that action created led Landmarks to propose a waiting period for demolition permits, which the council passed. Since there are still two older (but historically insignificant) buildings left on the site, Landmarks will have to be considered a possible opponent.

The abbuttors to the site include two new office buildings, several renovated commercial structures, and a few empty brick warehouses awaiting renovation. Given the investment to be made in the property, these abbuttors should not be opposed to the project, since it will dramatically increase the value of their

property. However, their interests should be analyzed, accomodated if possible, and presentations made to them prior to any public hearings.

Strategy for Generating Public Support

The most important consideration in developing support for the proposed project is to keep the city manager informed of all major activities. He will learn about them in any case, and since he is generally supportive of the project, he must be considered an ally, who cannot be taken by surprise by emerging opponents. He will also be instrumental in identifying important interest groups, and the most influential individuals in them. Therefore, he should be consulted early and often. Since he will also represent the city on negotiations over financing terms, a formal presentation of the project should be made to him first, with a thourough analysis of all costs and reponsibilities involved.

The project will need legal representation, so one of the major law firms should be engaged early. Their financial interest in the project should provide them with the incentive to support it among the rest of the business elite. Their advice for presentations to other interest groups in the city should be followed carefully, for they are the prime contact point with the the most influential people. The same strategy can be used with a local bank.

A number of private presentations to important individuals as the primary method of building support among the key interest groups.

Their reactions, which should be positive, will enable the developer to discover any other potential opponents.

The hotel operators, Landmarks, and every abbuttor should be approached prior to any public hearings, to obtain a clear indication of the likelihood and strength of their opposition. If they appear to be a threat, the support network developed must be used to counteract it, since they will probably be opposed to the the overall project rather than just one or two elements. However, the developer should seek to elicit specific complaints so that possible design, financing or operating strategies that mitigate their concerns can be studied.

The positive benifits will have to be stressed in a carefully orchestrated series of more public presentations to potentially supportive organizations like the Chamber of Commerce and IPA. Only after contacting all of these parties should the project be open to public scrutiny. If the project is properly presented to these interest groups, it should be favorably received by the city council.

MARKETING

An effective marketing program is critical to the success of of this development, since there will be severe competition for tenants from the two other announced downtown projects (Waterfront Park and the Middle St. site.) The Atbro site's location provides the developer with one advantage over its competitors, but this is not enough to guarentee success. A comprehensive marketing program should be developed that will outline the strategy for design and floor layout, sales techniques, advertising, leasing terms, public relations, and image building. The first step in this process should be an assessment of all the strengths and weaknesses of the proposed project.

Location

The eastern end of the upper site is situated next to the crossroads of the city, affording excellent visibility and convenience to other businesses and amenities. This gives the project the opportunity to claim a presteige factor that its competitors cannot legitimately offer. The lower site, however, is on the edge of the working waterfront. While several adjacent buildings on Commercail Street are being renovated, the opportunity for developing this parcel as Class A offices is some years away.

Size

This element offers both advantages and disadvantages. The size of the available land means that parking will present no problems

in the first few phases of development. As Portland's parking situation becomes tighter due to increased tourism and employment growth, the developer will be able to essentially offer suburban office park amenities in a downtown location. This should be a tremendous marketing advantage, as employers are becoming increasingly worried about adequate parking being available for both their employees and customers.

The potential negative associated with the project's size will show up in the way it is phased. If the building phases are not independent of one another, the initial stages of the project will look incomplete. This can be diminshed by sensitive site planning and landscaping on the upper site. On the lower site there are enough buildings left to retain the existing character of the waterfront. Although they are deteriorated brick warehouses, they are accepted in the city as part of its heritage, and are far more attractive than vacant lots.

Credibility

The potential size of the project will also cause many people to doubt the developer's ability to ever complete it. Atbro announced plans for a major project on the site over 5 years ago, but has done nothing visible since then except tear down a few buildings for an unimproved parking lot. Any developer participating in this project will have to overcome the skepticism that surrounds the history of their project.

In a small city like Portland, a project of this potential

magnitude will command tremendous exposure, which can be an liability as well as an assett. Every public presentation and activity in the development process will be scrutinized by the public and affect the image of the developer.

Costs

The high land and building costs mean that the first project will have lease rates right at the top of the market. Tenants will expect high quality for those rates, both in finishes and services. However, as many of the tenants will be coming from rehabilitated buildings that they have outgrown, they will be used to substantially lower rents. The challenge in this area will be in convincing potential tenants that their higher occupancy costs will lead to more business due to their prestiege location. That is a difficult sales job in a market with a good supply of alternative (Class A rehab) space available nearby.

Marketing Strategy

The developer needs to implement a marketing strategy that emphasizes the strengths of this project. Since other developers will be after the same tenants, he needs to differentiate his product from theirs. As has been stated several times, the location and size of of this site offers the best points to stress to potential tenants.

Identifying these tenants is the next most important activity in

the marketing program. While there are several commercial brokers in the city, most of the best ones are participating in projects of their own, and have a conflict of interest that prompts the question of the developer marketing the project himself. While that decision should take the developers experience and capabilites into account, it is not an impossible task in a small city like Portland.

In either case, the marketing agent should undertake a detailed canvassing effort covering all medium and large downtown office tenants, to identify their current lease rates, terms and expiration dates, number of employees and projected growth rates. Since the project will be built out over several years, this initial effort is justified by the long term dividend it can provide in the future. Fortunately, Portland is small enough to make this job feasible.

The resulting information should be organized by date of lease expiration and cross referenced with size and type of business. This file will enable the marketing agent to schedule his contacts with propesctive tenants at the most appropriate times.

Prospective tenants may also be identified through canvassing large institutions with small branch offices in or around Portland (i.e. Insurance Companies). The city's economic growth may be causing them to consider expansion in the area, and they could be encouraged by information about new developments.

The developer needs to know what the strengths and weaknesses of his competitors are, and what differentiates his product from theirs. After location and design, quality of manangement services is a critical component. A good track record with other tenants in the city can provide endorsements that make the promise of quality service a credible one.

Presentations to prospective tenants must be first class, with all information about the building available in a clear and concise format. A brochure would be useful in projecting an image of the completed project. It should include inserts with current lease information that can be udated regularly. Personal contact is far more effective than advertising or direct mail, and if the canvassing is properly carried out, it will make the need for other promotions secondary. However, the total marketing program should include all these activities to ensure that the project's image is presented to all prosepctive tenants.

FINANCIAL FEASIBILITY

Methodology

An efficiently executed development plan will limit investment in a project to the amount of time and money required to make a reliable decision at each stage, before continuing with further investment in additional stages that reveal more information about the viablity of the project. This process of risk management requires that the amount invested in each decision be carefully balanced with the value of the results.

At the early stages of the process, the developer seeks readily available information that focuses on the reasons for not doing the proposed project. After disposing of common "deal killers", such as unusual site conditions, or restrictive regulatory enviroments, the developer will begin assembling market and cost data that enables him to get a slightly more focussed view of the project. As not all this information is readily available, the developer is often forced to make assumptions about various events and conditions affecting the project's feasibility. What often passes for intuition however, is in reality the rational judgement of an experienced individual who is constantly balancing his risk with the potential reward of a successful project. This is most often required in the initial acquisition phase, when detailed information is not available, yet the decision to acquire the property can represent a substantial investment.

The decision to acquire an interest in the Atbro site and commence development hinges on financial forecasts that must be based on preliminary assumptions with varying degrees of reliability. In some areas, detailed information is not required, while in others, it is critical.

For example, average costs of comparable buildings must be sufficient at this stage, since the developer is not going to invest in detailed plans on property he does not control. However, comparable lease rates and exclusions must be understood fully, since the inclusion or ommision of certain costs from the income and expense projections have a critical impact on the projected cash flows.

The overall process is one of continuously refined projections, starting with a "rough cut" that is based primarily on the developer's experience, and done quickly to see where the project stands given acquisition costs and leasing market conditions. An experienced developer can do much of this in his head while looking at a site for the first time. However, this will only give him an indication of whether or not to proceed with the investigation process required to establish a more reliable feasibility analysis. Each assumption must be examined to determine its individual reliability. The strength or weakness of each assumption must be acknowledged as a risk factor inherent in the final decision process. For that reason, the notes accompanying the financial forecasts are as important as the results the forecasts indicate.

Build-Out Assumptions

The methodolgy used to determine the preliminary viablity of the built-out project assumes that it can all be absorbed as quickly as the first building, which will be sized to reflect the actual market conditions. Obtaining an overall view of the projected costs and returns provides a bench mark that can be used to evaluate the impact of different assumptions regarding future trends in lease rates, expenses, and development costs.

However, a major source of uncertainty inherent in conducting detailed projections so early in the development process is confronted immediately in the determination of gross square footage that can be built and marketed on the site. By narrow interpretation of the Zoning Ordinance, the Atbro site has a build-out potential of over 1,200,000 square feet in the B-1 parcel alone!

178,000 SF x 70% Coverage = 124,600 SF of building footprint.
124,600 SF x 10 Stories = 1,246,000

However, the power vested in the Planning Board in determining parking requirements quickly alters the formula. At the standard rate of 2.5 parking spaces per 1,000 SF, you can only build two 150,000 SF buildings on the entire site before needing structured parking. So the other extreme is a maximum of 300,000 square feet.

(300,000 SF x .0025 = 750 spaces,
750 x 350 SF per space = 262,500 SF)

Many buildings have been built in Portland without this parking requirement, but in the recent past the perceived parking problems in the downtown area have caused the Planning Board to be more aggressive in its requirements. Since it is impossible to know how stringent the city will be, several scenarios have been assumed to establish a range of possibilites for the built-out project, utilizing the more conservative parking standard.

Threshold Returns

The projected returns in the financial projections utilized a minimum pre-tax return on invested capital of 4% in the stabilized year. This relatively low return is the minimum a developer should expect in the early operating years of a project. However, the projected increases in lease rates after their initial term increase the returns to levels consistent with alternative investments. Increases in lease rates have been conservatively estimated at 3%, which should be the minimum rate unless the market becomes seriously overbuilt.

Tables 1 - Low Density Build-Out

This projection has assumed the requirement of 2.5 spaces per thousand square feet, which is the ratio indicated by the Zoning Ordinance for commercial development in zones that require off street parking. This is the most conservative build-out assumption for the site, as it contains no structured parking. Both 150,000 SF buildings would be constructed on the upper site, reserving the lower site for parking and future development. The projected Total Development Cost of $116.76 per square foot

includes the acquisition of the entire parcel at its current value of $21.58 per square foot. (See notes for detailed assumptions)

While the return on cash of 6% in the first lease term meets the threshold requirement for proceeeding with the development, the projection should only be taken as a preliminary indicator of the feasibility of the project. A more detailed look at larger densities indicates the problems and risks inherent in a phased development process.

Table 1A - Upper Site Build-Out

A possible scenario for the initial phases of development of the Atbro site would include stuctured parking on the upper site. This would enable the lower site to be considered for concurrent development as some other use (i.e. housing, retail), and allow the cost of the land to be more rapidly absorbed by complementary uses. Table 1A looks at the feasibility of the same build out on the upper site, with all its required parking contained on it, through the construction of a 400 space parking garage. The increase in construction cost of $8.11 per F.A.R. foot is almost recovered by the reduction in acquisition cost of $7.19 per F.A.R. foot. As a result, the cash returns do not suffer too badly in this scenario, although it is dependent on finding a feasible development alternative for the lower site.

Table 2 - Reduced Parking Ratio

This projection assumes a more liberal parking requirement of 1.5 spaces per thousand square feet of building. This enables the development of a five story, 100,000 square foot building on the Commercial Street parcel without building any structured parking on the site. While the reduction in parking income lowers the return in the early years, this is made up after the initial leases are re-written at market rents in Year 8. If the Planning Board can be convinced to accept a lower parking ratio, this build-out scenario offers potential for more attracive long term returns over the lower densitiy scheme. However, the advantage of the projected return on cash is only 1% greater than the 300,000 square foot plans, indicating that the lower density allowed on the Commercial Street site reduces the value of that land.

Table 2A - High Density Build-Out

This projection dramatically demonstrates the problem of structured parking as a requirement of developing the site at higher densities. The added costs of $6,000 for each of 600 spaces is required by the following program:

2 - 10 Story buildings of 150,000 SF each -	30,000 SF of Site Area
1 - 5 Story building of 100,000 SF -	20,000 SF of Site Area
400 Surface Parking Spaces @ 350 SF each -	140,000 SF of Site Area
2 Parking structures	
300 spaces, 4 Stories each	53,000 SF of Site Area
Public Areas	35,000 SF of Site Area

The resulting cost of $122.76 per F.A.R. foot makes this scenario infeasible, given projected market rents of $21.00 per foot, gross. This is a case of the strictly enforced land use standards creating costs that exceed the market's willingness to pay for uncongested streets. The uniform enforcement of this requirement should enable developers to charge a premium for on-site parking in the long run. In the meantime however, the project will have to be phased to avoid strucutred parking. On the Atbro site, the developer will have to reduce the value of the land on the lower site, which will cut into the returns on the other buildings.

Phased Development Scenarios

With the substantial aquisition cost of the entire parcel, the expedient development of the first building is critical to reducing the carrying costs of the land. While the site needs to be examined from a master planning perspective, the obvious location if the first building is near the intersection of Spring and Temple Streets, given its proximity to the center of the city.

The first building should be examined closely to see how much of the actual land cost can be absorbed in the mortgage without reducing the viability of the initial phase. Later phases will have to carry the balance of the land value, inflated at market rates, and the higher cost of structured parking. Given the long

build-out period, the impact of several assumptions have been analyzed for future phases, to determine what conditions and events must occur for them to be financially viable.

Table 3 - Building 1

Table 3 looks at the feasibility of the first building only, with the goal of loading as much of the initial acquisition cost onto the mortgage as is possible while maintaining threshold returns. This is done for two reasons. The land to be developed first, the upper site, is the most valuable part of the entire parcel, and maximizing its value for financing purposes will reduce the carrying costs for the balance of the acquired land.

While only about 150,000 square feet of site is needed for the first building, the pro forma indicates that all of the upper parcel's 178,000 square feet can be supported at an acquisition cost of up to $1,440,600 ($26.00 per square foot). This will become important for the development of the second building on the site, when structured parking will be required.

The pro rated value of the remaining land on the lower site is valued at $1,440,600 by subtracting the upper site's new value from the original $6,000,000 cost, giving it a current value of 14.41 per square foot. Given the lower building densities required in the W-1 zone, this is not an unreasonable value to be carried. It is then inflated at 5% per year to determine a value for its eventual development as the third phase of the project.

Table 4

This projection looks at the consequences of structured parking built as part of the second phase, which is another 150,000 square foot office building started in year 4. It assumes an annual increase of 5% in construction costs, which means a multiplier of 1.16 over three years. Since the land it is built on was paid for in the first phase, the attention is then focused on the cost of structured parking. At a present day cost of $7,000 per space vs. $1,000 per space for surface parking, it adds a net of $2,250,000 to the construction cost, and another 250,000 to the development cost for design, interest and other fees. This leads to an effective net land cost of $17.33 per F.A.R. foot, which is 56% below the amount paid for land in phase 1. With a conservative 3% annual increase projected for lease rates, this is all this phase can comfortably absorb. A more rapid increase in lease rates will provide the developer with a cushion to use on the financing of the third phase.

Table 5

In this projection of the third phase, the remaining land cost from the first phase was inflated at 5% to obtain a value of $1,930,500 in year 8. The projected market conditions cannot carry the combined costs of acquisition and development of structured parking, so the density must be reduced to a level that can be accomodated by surface parking. A closer look at the

site reveals that an 80,000 square foot building with 4 stories and 200 surface parking spaces, using a minimum of 84,000 square feet of site area, is a more efficient use of the site, as it avoids the cost of structured parking.

Even this configuration requires a more agressive assumption of inflation in market rents to achieve threshhold returns, from 3% to 5%. Other assumptions are consistent with previous projections, inflated at 5% per year.

Risk Factors and Management Strategy

The projected viability of the initial phases of the proposed development program rest upon assumptions that are subject to change. The projection of phased developments becomes less reliable in the later years, as the assumptions used are more likely to vary from real conditions over time. Therefore, it is important to determine what variables can create the most significant changes in projected returns. The first building is the best indicator of sensitivity, since it is based on the most reliable assumptions.

Slow Absorption

Table 6 looks at the implications of a slower than projected rent-up, extending the leasing period to four instead of two years. It was assumed that the permanent financing would not be available until break even occupancy, so interim financing was

assumed at a higher rate of 14%. As the developers would be called upon to cover the additional operating deficits during the leasing periods, their equity requirements increase by more than $1.5 million. Therefore, even after obtaining full occupancy and permanent financing at 12%, the returns do not reach the threshhold levels. Clearly, this is a situation that must be avoided at all costs, as it will delay the start of later phases and strain their feasibility.

An agressive pre-leasing program is the best way to avoid this situation. While it is difficult to sell space in buildings that are not yet available, concessions should be considered and used to attract the large quality tenants that will provide the project's initial image. Sharing equity would be better than lease concessions, as it will not strain the immediate cash flow of the project.

Achieving Projected Market Rent Levels

As noted in the analysis of the third phase, market rents must increase at projected levels to sustain the future phases. While the inflation factor used in these projections is considered conservative, an oversupply in the Portland market could lead to flat rent levels or sluggish rent increases. This would lower returns to the point of jeapordizing project feasibility. While the land value could be adjusted in the first phase to accomodate a lower available debt service, the loss of income dramatically effects the capital cost side of the budget. It would take more than a $1,000,000 decrease in land value to fund the deficit

created by a $1.00 reduction in rental income per square foot ($144,500 divided by a constant of.126387 = $1,151,227). Therefore, it is imperative that more detailed projections be conducted as the building plans are more clearly defined, and the rental market conditions be monitered continuously as the project is developed. The economic growth of Portland will provide increased demand for first class office space, but the developer should watch the progress of competing projects to avoid entering the market when it is overbuilt, as this could temporarily depress lease rates.

Parking

The economics of structured parking will have a critical bearing on the long term value of the project. Any reduction in parking requirements will have a beneficial impact on the returns, as the carrying costs of these improvements exceeds the markets willingness to pay. Table 7 shows how Phase 3 would work at a higher density, but with structured parking. The base rent levels would have to increase from $29.55 to $31.58 to cover the $22.00 per foot added to construction costs.

While the first building should be designed to acommodate the parking recommended by the Planning Board, to avoid a lengthy review process, the developer should use his experience with the first building to gauge the opportunity for reducing the parking requirements on the second phase. If his tenants are not fully utilizing all the spaces built for phase 1, then the Planning

Board should be approached for a reduction in the parking requirements at phase 2, when the cost of providing the structured parking is much more significant.

CONCLUSION AND RECOMMENDATIONS

The decision to acquire an interest in the Atbro development site is one that must be understood as a long term commitment. Not only will it take a long time for the project to show competitive returns, but the length of time between acquisition and build-out means that many assumptions used in the decision to enter the process may not be valid halfway through it. This lack of clarity renders financial forecasting a crude determinant of the property's ultimate value at best. Rather, it should be used as a barometer by which to guage the progress of the initial development program, and a base case for the evaluation of other development options.

Alternative Uses

This site has been evaluated primarily as an office development site, as its location in the Central Business District implies that this is its highest and best use. However, the city of Portland's appeal is based to a large degree on the wide variety of uses that are located in or near the downtown area. The working waterfront is the most unique contributor, combining industrial uses at the Bath Iron Works ship repair facility, the new Portland Fish Pier with its scheduled display auction promising to secure the fishermen's place on the waterfront, and the Casco Bay Island Ferry, shuttling commuters to their off shore residences. The recreational uses of the waterfront have

also grown tremendously, with new restaurants and marinas doing very well. All of these uses are less than a five minute walk from the city center, and give it unique feeling that goes beyond the charm of the Old Port Exchange District. One of the benefits of this feeling is that it has made the downtown an attractive place to live.

Housing

Housing has made an important contribution to the the revitalization of the Old Port Exchange District, and is now expanding to the waterfront. In the early seventies, many people lived above the first shops developed in the area, as building owners would rent the upper floors cheaply just to find some extra income.

Now the rents in the Old Port Exchange are among the highest in the city, as the renovated lofts and warehouses have become charming first class apartments for single professional and empty nesters seeking the convenience of in-town living. The "gentrification" of the area has created some controversy on the waterfront, as fishermen and other working uses objected to the escalating cost of docking and renting wharf space. The city council responded by limiting uses that are not directly related to marine activities to just three wharves. This has pushed the downtown housing market back to the other side of Commercial Street. Several of these condominium and apartment renovations have occured around the lower Atbro site.

While this report does not involve an analysis of the housing market, it is clearly a use that should be considered for the project, especially the lower site near the waterfront. A recently announced condominium project on one of the wharves that allows residential use was sold out in less than 48 hours. Most importantly, developing the lower site would allow more of the land to be utilized sooner, and significantly reduce the carrying costs.

Retail

Retail development on the Atbro site is more problematic, as it depends on the ability to draw large numbers of people to the site before retailers want to locate there. The Old Port Exchange District is currently the destination for shoppers in Portland, and it would take a large investment in a destination-type attraction to lure them into the office development. The Waterfront Park developers have that in the Aquarium and International Ferry Terminal, but other nearby efforts are quite sobering.

Retail leasing in the 70,000 SF of space available in One City Center, due to open in October, 1985, has proceeded slowly to date, as lease rates are substantially higher than those in surrounding stores. This is a chilling reminder of the vulnerability of downtown retail districts that lack the anchor stores of suburban malls, or the charm of renovated district like the Old Port Exchange. However, the parking available at the

Atbro site, and its proximity to the Old Port Exchange District might make it a more attractive location for new or existing retailers. The feasibility of a major retail development on this site is beyond the scope of this study, but should be examined in the future, especially if a first class hotel and conference center is built, which might serve as the destination needed to attract potential shoppers.

Recommendation

Office development will continue to be the bench mark by which alternative development scenarios will be measured. As Portland's economy grows, the demand for office space will expand the business district even closer to the waterfront. In a favorable market, the greater densities allowed for office development will generate maximum returns on the projects developed. The housing, hotel and retail development that may accompany this growth would complement it, but would also be dependent on the densities of office development to be financially viable.

Proceeding with the development of the Atbro site is strongly recommended for a developer with the financial resources to carry the substantial front end costs of acquisition and preliminary development expenses. The high acquisition price and long buildout period means that there will be substantial exposure for the first few years. However, the strategic location of the site and the continuing growth of Portland's economy and central business district ensure that the site has the capacity to

eventually generate substantial returns.

But maximizing those returns and minimizing the risk will require more than staying power. To succeed with such a large project for the size of this market, the developer must have the sensitivity to read changes in market conditions and the flexibility to respond to them quickly. A hotel that looks doubtful now could become viable if the office developments are more successful than anticipated. That in turn could produce the base for a retail component. This synergy best exemplifies the upside potential of the Atbro site, where the returns may be maximised by creating complementary uses. However, office development is necessary as the base that first draws people to the site.

NOTES TO FINANCIAL PROJECTIONS

I. Development Cost

A. Site Improvements - Based on typical cost of site preparation in urban areas of $75,000 - $100,000 per acre of building footprint.

B. Structure - Building shell at typical local cost of $55.00 per Square Foot, based on discussions with local General Contractors.

C. Tenant Finishes - Typical Allowance for tenant improvements based on discussions with local General Contractors.

D. Surface Parking - Typical Cost of preparing, surfacing and landscaping parking areas, based on developers experience. Number of parking spaces based on Portland Zoning Ordinance requirements for on site parking ratio. While not a requirement in this zone, projections assume this as a requirment of Planning Board in Site Plan Review.

E. Contingency - 5% of Construction Cost, for unanticipated changes, based on developer's experience.

F. Architect's Fee - Typical fee structure for design and supervision services, 5% of construction cost.

G. Construction Period - Based on conversations with local General Contractors and Developers.

H. Interest Rate - Estimate of rate available at initial closing.

I. Loan Amount - 75% of Total Development Cost, based on conversations with local banks.

J. Weight - Average Outstanding Balance of Construction Loan, expressed as a Per Centage of Total Development Cost.

K. Construction Loan Fee - 1% of Loan Amount, based on typical fees for similar loans.

L. Permanent Loan Fee - 2% of Projected Take-Out Loan.

M. Real Estate Taxes - For R.E. Taxes during construction period. This is always a difficult number to accurately project, since it depends on the appraised value of the building at one point during the construction period. Estimated amount is half of the project first operating year's tax bill.

N. Title and Recording - For title insurance at .1%

O. Insurance - Based on developer's experience with similar buildings.

P. Legal Fees - Projected amount for all legal fees, including: organization expenses, attendnce at plaaning board meetings, closing activities, and syndication.

Q. Leaseing Commisions - 18% of value of first year's leases, based on conversations with area brokers.

R. Marketing - $1.00 per Square Foot.

S. Lease Up Deficit - Operating losses through full occupancy, based on projections operating income and expense.

T. Contingency - 3% of Total Development Cost, based on developer's experience.

U. Developer's Fee - 3% of Total Development Cost, based on prevailing practices.

V. Land - Based on determined market value of site. A parcel this large in a downtown location has varying values, depending on its proximity to Temple St. Price used is average for enitire site based on comperables below.

RECENT COMPARABLE LAND SALES

SITE	LOCATION	PRICE	SIZE	PRICE/SF
Montana	Center & Spring (SW)	$110,000	5,835	$18.85
Cianch-ette	Fore St.	$550,000	48,877	$11.25
Rufus Deering	Commercial St.	$750,000	108,893	$ 5.75
City	Middle St.	$390,000	13,107	$29.75
Back Bay Tower	Cumberland Ave.	$300,000	47,000	$ 6.38
2 City Center	Spring & Temple (NW)	$100,000	4,317	$23.16

II. Projection of Cash Flow

A. Market Rent - Projected rents are based on current lease rates for comparable Class A office space in dowtown Portland ($18.00 Gross per SF average), trended at 5% for two and one half years. Comparable buidlings include:

One City Center -	$18.50	+ electricity and janitor
Two City Center -	$18.50	"
Maine Savings Plaza -	$18.00	"
Two Monument Square -	$18.00	"
Key Bank Plaza -	$15.00	"

B. Square Footage Leased - Lease up period expected to take 1.5 years. 50,000 SF to be pre-leased, 50,000 SF to be leased in first 6 months, balance to be leased in year 3. 97% of Gross Square Footage to be leased.

C. Base Rental Income - Projections assume 5 year leases, to be rewritten at market rent at the end of the term.

D. Escalating Income - Increases in real estate taxes and operating costs above base year to be added to tenant rent.

E. Net Income From Parking - Parking to be leased to building occupants at $50.00 per month. $25.00 per month to cover operating costs for parking.

F. Vacancy Rate - Projections assume 5% average annual collection losses after year 3.

G. Real Estate Taxes - Estimated at $1.50 per gross SF.

H. Operating Costs - Estimated at $3.50 per Gross SF to cover: heat, air conditioning, landscaping, snowplowing, insurance, exterior and interior lighting, electricity and all other utility costs. Based on comperable buildings.

I. Return on Total Development Cost - Capitalization rate derived by dividing Net operatinn income by TDC.

J. Mortgage Payment - Current sources of permanent fincancing include pension funds and insurance companies, with no participation. Annual payment for loan indicated at 12% interest, 25 year term. Interest only for first five years, balloon payment due at the end of the tenth year.

K. Value of remaining land - Derived by subtracting mortgaged cost of land used for Building 1 from current value of $6,000,000.00. Inflated at 5% annually to determine value for use in later phases.

TABLE 1 - BUILDINGS 1 & 2

NOTE						
	DEVELOPMENT COST	300000 SF				$/SF
	Construction					
	$/SF					
A		Site Improvements		50000		
B	50	Structure		15000000		
C	10	Tenant Finishes		3000000		
D	750	Surface Parking Spaces @	1000	750000		
E	5	% Contingency		940000		
	TOTAL CONSTRUCTION				19740000	65.80
F	Architect's Fee					
	5	Percent			987000	3.29
	Construction Period Interest					
G	16	Months				
H	12	Percent				
I	75	% Loan Amount				
J	45	% Weight				
		Total C.P. Interest			1907331	6.36
	Carrying Charges					
K	1	% C.P. Loan Fee		248327		
L	2	% Perm. Loan Fee		496655		
M		Real Estate Taxes		100000		
N		Title & Recording		24833		
O		Insurance		20000		
		Total Carrying Charges			889815	2.97
P		Legal Fees			100000	.33
Q	18	% Leasing Commissions			1134000	3.78
R		Marketing			150000	.50
S		Lease-Up Deficit			2000000	6.67
T	3	Percent Contingency			1059628	3.53
U	3	Percent Developers Fee			1059628	3.53
V		Land				
		278000 Square Feet				
		21.58 Per Square Foot			6000000	20.00
	TOTAL DEVELOPMENT COST				$ 35027403	116.76

Projection of Supportable Debt

Stabalized Year	Project Year 4
Income	
Base Rental Income	5118330
Escalating Income	155325
Net Parking Income	218250
Gross Rental Income	5491905
Vacancy	274595
Gross Operating Income	5217310
Operating Expenses	
Real Estate Taxes	472500
Operating Expenses	1102500
Landlord Expenses	31500
Total Operating Expenses	1606500
Net Operating Income	3609314
Return on Capital	10.22 %
Debt Service Coverage	1.15
Available Debt Service	3138533
Supportable Mortgage @	
12 %	
25 Years	24832744
Equity Required	10194659
Loan to Value Ratio	71
Break Even Occupancy	69

TABLE 1 (Continued)

CASH FLOW PROJECTIONS - BUILDINGS 1 & 2

NOTE										
		Lease Year				1	2	3	4	5	1	2
		Project Year		1	2	3	4	5	6	7	8	9
				Construction	Leasing (1/2 YR)	Leasing	Operations	Operations	Operations	Operations	Operations	Operations
		Income										
A		Market Rent	.03		21.00	21.00	21.63	22.28	22.95	23.64	24.34	25.08
B		Square Footage Leased			100000	200000	291000	291000	291000	291000	291000	291000
C		Base Rental Income			1050000	3150000	5118330	5118330	5118330	5118330	7084324	7084324
D		Escalating Income			0	75000	153750	236438	323259	414422	0	100507
E		Net Income From Parking	.03		75000	150000	218250	224798	231541	238488	245642	253012
		Gross Rental Income			1125000	3375000	5490330	5579565	5673131	5771240	7329966	7437843
F		Vacancy Rate	.05									
		Vacancy					274517	278978	283657	288562	366498	371892
		Gross Operating Income			1125000	3375000	5215814	5300587	5389474	5482678	6963468	7065950
		Operating Expenses										
			Inflation Factor									
	$/SF											
G	1.5	Real Estate Taxes	.05		225000	450000	472500	496125	520931	546978	574327	603043
H	3.5	Operating Expenses	.05		175000	1050000	1102500	1157625	1215506	1276282	1340096	1407100
	.1	Landlord Expenses	.05		15000	30000	31500	33075	34729	36465	38288	40203
		Total Operating Expenses			415000	1530000	1606500	1686825	1771166	1859725	1952711	2050346
		Net Operating Income			710000	1845000	3609314	3613762	3618308	3622953	5010757	5015604
I		Return on Total Dev. Cost (Cap. Rate)					10.30	10.32	10.33	10.34	14.31	14.32
J		Mortgage Payment			1576233	2979929	2979929	2979929	2979929	2979929	3138533	3138533
		Net Cash Flow			-866233	-1134929	629384	633832	638379	643024	1872224	1877071
		Lease-up Deficit				-2001162						
		Return on Cash					6.00	6.04	6.09	6.13	17.85	17.90
K		Value of remaining Land:		0								
		Inflation rate		5 %								
		Net Cost of remaining Land			0	0	0	0	0	0	0	0

TABLE 1A - BUILDINGS 1 & 2 with STUCTURED PARKING

		DEVELOPMENT COST	300000 SF		$/SF
		Construction			
NOTE					
	$/SF				
A		Site Improvements		100000	
B	50	Structure		15000000	
C	10	Tenant Finishes		3000000	
D	350	Surface Parking Spaces @	1000	350000	
	400	Space Parking Structure	7000	2800000	
E	5	% Contingency		922500	
	TOTAL CONSTRUCTION			22172500	73.91
F	Architect's Fee				
	5	Percent		1108625	3.70
		Construction Period Interest			
G	16	Months			
H	12	Percent			
I	75	% Loan Amount			
J	45	% Weight			
		Total C.P. Interest		1928581	6.43
		Carrying Charges			
K	1	% C.P. Loan Fee		248430	
L	2	% Perm. Loan Fee		496861	
M		Real Estate Taxes		100000	
N		Title & Recording		24843	
O		Insurance		20000	
		Total Carrying Charges		890134	2.97
P		Legal Fees		100000	.33
Q	18	% Leasing Commissions		1134000	3.78
R		Marketing		150000	.50
S		Lease-Up Deficit		2000000	6.67
T	3	Percent Contingency		1071434	3.57
U	3	Percent Developers Fee		1071434	3.57
V		Land			
		178000 Square Feet			
		21.58 Per Square Foot		3841727	12.81
	TOTAL DEVELOPMENT COST			$ 35468434	118.23

Projection of Supportable Debt

Stabalized Year	Project Year 4
Income	
Base Rental Income	5118330
Escalating Income	155325
Net Parking Income	218250
Gross Rental Income	5491905
Vacancy	274595
Gross Operating Income	5217310
Operating Expenses	
Real Estate Taxes	472500
Operating Expenses	1102500
Landlord Expenses	31500
Total Operating Expenses	1606500
Net Operating Income	3610810
Return on Capital	10.11 %
Debt Service Coverage	1.15
Available Debt Service	3139835
Supportable Mortgage @	
12 %	
25 Years	24843038
Equity Required	10625396
Loan to Value Ratio	70 %
Break Even Occupancy	69 %

TABLE 1A (Continued)

CASH FLOW PROJECTIONS - BUILDINGS 1 & 2 with STRUCTURED PARKING

NOTE										
		Lease Year			1	2	3	4	5	1	2
		Project Year		1	2	3	4	5	6	7	8	9
		Income		Construction	Leasing (1/2 YR)	Leasing	Operations	Operations	Operations	Operations	Operations	Operations
A		Market Rent	.03		21.00	21.00	21.63	22.28	22.95	23.64	24.34	25.08
B		Square Footage Leased			100000	200000	291000	291000	291000	291000	291000	291000
C		Base Rental Income			1050000	3150000	5118330	5118330	5118330	5118330	7084324	7084324
D		Escalating Income			0	75000	153750	236438	323259	414422	0	100507
E		Net Income From Parking	.03		75000	150000	218250	218250	218250	218250	218250	218250
		Gross Rental Income			1125000	3375000	5490330	5573018	5659839	5751002	7302574	7403081
F		Vacancy Rate	.05									
		Vacancy					274517	278651	282992	287550	365129	370154
		Gross Operating Income			1125000	3375000	5215814	5294367	5376847	5463452	6937445	7032927
		Operating Expenses										
	$/SF		Inflation Factor									
G	1.5	Real Estate Taxes	.05		225000	450000	472500	496125	520931	546978	574327	603043
H	3.5	Operating Expenses	.05		175000	1050000	1102500	1157625	1215506	1276282	1340096	1407100
	.1	Landlord Expenses	.05		15000	30000	31500	33075	34729	36465	38288	40203
		Total Operating Expenses			415000	1530000	1606500	1686825	1771166	1859725	1952711	2050346
		Net Operating Income			710000	1845000	3609314	3607542	3605681	3603728	4984734	4982581
I		Return on Total Dev. Cost (Cap. Rate)					10.18	10.17	10.17	10.16	14.05	14.05
J		Mortgage Payment			1596080	2981165	2981165	2981165	2981165	2981165	3139834	3139834
		Net Cash Flow			-886080	-1136165	628149	626377	624517	622563	1844900	1842746
		Lease-up Deficit				-2022244						
		Return on Cash					5.78	5.76	5.74	5.73	16.97	16.95

TABLE 2. BUILDINGS 1, 2 & 3

NOTE	$/SF	DEVELOPMENT COST	400000 SF			$/SF
		Construction				
A		Site Improvements		100000		
B	50	Structure		20000000		
C	10	Tenant Finishes		4000000		
D	650	Surface Parking Spaces @	1000	650000		
E	5	% Contingency		1237500		
		TOTAL CONSTRUCTION			25987500	64.97
F		Architect's Fee				
	5	Percent			1299375	3.25
		Construction Period Interest				
G	16	Months				
H	12	Percent				
I	75	% Loan Amount				
J	45	% Weight				
		Total C.P. Interest			2391253	5.98
		Carrying Charges				
K	1	% C.P. Loan Fee		277320		
L	2	% Perm. Loan Fee		554641		
M		Real Estate Taxes		250000		
N		Title & Recording		27732		
O		Insurance		50000		
		Total Carrying Charges			1159693	2.90
P		Legal Fees			100000	.25
Q	18	% Leasing Commissions			1512000	3.78
R		Marketing			400000	1.00
S		Lease-Up Deficit			2750000	6.88
T	3	Percent Contingency			1328474	3.32
U	3	Percent Developers Fee			1328474	3.32
V		Land				
			278000 Square Feet			
			21.58 Per Square Foot		6000000	15.00
		TOTAL DEVELOPMENT COST		$	44256769	110.64

Projection of Supportable Debt

Stabalized Year	Project Year 4
Income	
Base Rental Income	6103440
Escalating Income	207100
Net Parking Income	189150
Gross Rental Income	6499690
Vacancy	324985
Gross Operating Income	6174706
Operating Expenses	
Real Estate Taxes	630000
Operating Expenses	1470000
Landlord Expenses	42000
Total Operating Expenses	2142000
Net Operating Income	4030711
Return on Capital	9.10 %
Debt Service Coverage	1.15
Available Debt Service	3504966
Supportable Mortgage @	
12 %	
25 Years	27732033
Equity Required	16524736
Loan to Value Ratio	63 %
Break Even Occupancy	65 %

TABLE 2 (Continued)

CASH FLOW PROJECTIONS - BUILDINGS 1, 2 & 3

NOTE											
		Lease Year				1	2	3	4	5	1	2
		Project Year		1	2	3	4	5	6	7	8	9
				Construction	Leasing (1/2 YR)	Leasing	Operations	Operations	Operations	Operations	Operations	Operations
		Income										
A		Market Rent	.Ø3		21.ØØ	21.ØØ	21.63	22.28	22.95	23.64	24.34	25.Ø8
B		Square Footage Leased			2ØØØØØ	3ØØØØØ	388ØØØ	388ØØØ	388ØØØ	388ØØØ	388ØØØ	388ØØØ
C		Base Rental Income			21ØØØØØ	42ØØØØØ	61Ø344Ø	61Ø344Ø	61Ø344Ø	61Ø344Ø	9445765	9445765
D		Escalating Income			Ø	1ØØØØØ	2Ø5ØØØ	315250	431Ø13	552563	Ø	134Ø1Ø
E		Net Income From Parking	.Ø3		975ØØ	146250	189150	194825	2ØØ669	2Ø6689	212890	219277
		Gross Rental Income			2197500	4446250	6497590	6613515	6735122	6862692	9658655	9799051
F		Vacancy Rate	.Ø5									
		Vacancy					324880	33Ø676	336756	343135	482933	489953
		Gross Operating Income			2197500	4446250	6172711	6282839	6398366	6519558	9175722	9309099
		Operating Expenses										
			Inflation Factor									
	$/SF											
G	1.5	Real Estate Taxes	.Ø5		3ØØØØØ	6ØØØØØ	63ØØØØ	661500	694575	729304	765769	8Ø4Ø57
H	3.5	Operating Expenses	.Ø5		35ØØØØ	14ØØØØØ	147ØØØØ	1543500	1620675	1701709	1786794	1876134
	.1	Landlord Expenses	.Ø5		15ØØØ	4ØØØØ	42ØØØ	44100	46305	48620	51Ø51	53604
		Total Operating Expenses			665ØØØ	2Ø4ØØØØ	2142ØØØ	2249100	2361555	2479633	2603614	2733795
		Net Operating Income			1532500	2406250	4030711	4033739	4036811	4039925	6572108	6575304
I		Return on Total Dev. Cost (Cap. Rate)					9.11	9.11	9.12	9.13	14.85	14.86
J		Mortgage Payment			1991555	3327844	3327844	3327844	3327844	3327844	3504966	3504966
		Net Cash Flow			-459Ø55	-921594	7Ø2867	7Ø5895	7Ø8967	712Ø81	3Ø67142	3Ø7Ø338
		Lease-up Deficit				-1380649						
		Return on Cash					4.25	4.27	4.28	4.3Ø	18.53	18.55
K		Value of remaining Land:		Ø								
		Inflation rate		5 %								
		Net Cost of remaining Land			Ø	Ø	Ø	Ø	Ø	Ø	Ø	Ø

TABLE 2 (Continued)

CASH FLOW PROJECTIONS - BUILDINGS 1, 2 & 3 (Continued)

	Lease Year		3	4	5	1
	Project Year		10 Operations	11 Operations	12 Operations	13 Sale
	Income					
	Market Rent	.03	25.83	27.38	29.02	30.76
	Square Footage Leased		388000	388000	388000	388000
	Base Rental Income		9445765	9445765	9445765	11935186
	Escalating Income		274720	422465	577598	0
	Net Income From Parking	.03	225855	232631	239610	246798
	Gross Rental Income		9946340	10100861	10262973	12181984
	Vacancy Rate	.05				
	Vacancy		497317	505043	513149	609099
	Gross Operating Income		9449023	9595818	9749824	11572885
	Operating Expenses					
$/SF		Inflation Factor				
1.5	Real Estate Taxes	.05	844260	886473	930797	977337
3.5	Operating Expenses	.05	1969941	2068438	2171860	2280452
.1	Landlord Expenses	.05	56284	59098	62053	65156
	Total Operating Expenses		2870485	3014009	3164710	3322945
	Net Operating Income		6578538	6581809	6585114	8249940
	Return on Total Dev. Cost (Cap. R		14.86	14.87	14.88	18.64
	Mortgage Payment		3504966	3504966	3504966	3504966
	Net Cash Flow		3073572	3076843	3080149	4744974
	Lease-up Deficit					
	Return on Cash		18.57	18.59	18.61	28.67
	Value of remaining Land:					
	Inflation rate					
	Net Cost of remaining Land		0	0	0	0

TABLE 2A

BUILDINGS 1, 2 & 3

Development Cost	400000 SF		$/SF
Construction			
$/SF			
Site Improvements		125000	
50 Structure		20000000	
10 Tenant Finishes		4000000	
400 Surface Parking Spaces @	1000	400000	
600 Space Parking Structure	7000	4200000	
5 % Contingency		1226250	
TOTAL CONSTRUCTION			29951250 74.88
Cost per Square Foot			74.88
Architect's Fee			
5 Percent			1497563 3.74
Construction Period Interest			
16 Months			
12 Percent			
75 % Loan Amount			
45 % Weight			
Total C.P. Interest			2651593 6.63
Carrying Charges			
1 % C.P. Loan Fee		272565	
2 % Perm. Loan Fee		545131	
Real Estate Taxes		250000	
Title & Recording		27257	
Insurance		50000	
Total Carrying Charges			1144952 2.86
Legal Fees			250000 .63
18 % Leasing Commissions			1512000 3.78
1 Marketing			400000 1.00
Lease-Up Deficit			2750000 6.88
3 Percent Contingency			1473107 3.68
3 Percent Developers Fee			1473107 3.68
Land			
278000 Square Feet			
21.58 Per Square Foot			6000000 15.00
TOTAL DEVELOPMENT COST		$	49103572 122.76

Projection of Supportable Debt

Stabalized Year

Income	
Base Rental Income	6103440
Escalating Income	207100
Net Parking Income	116400
Gross Rental Income	6426940
Vacancy	321347
Gross Operating Income	6105593
Operating Expenses	
Real Estate Taxes	630000
Operating Expenses	1470000
Landlord Expenses	42000
Total Operating Expenses	2142000
Net Operating Income	3961598
Return on Capital	8.07 %
Debt Service Coverage	1.15
Available Debt Service	3444868
Supportable Mortgage @	
12 %	
25 Years	27256526
Equity Required	21847046
Loan to Value Ratio	56 %

TABLE 2A(Continued)

CASH FLOW PROJECTIONS - BUIDLINGS 1, 2 & 3

	Lease Year				1	2	3	4	5	1	2
	Project Year		1	2	3	4	5	6	7	8	9
	Income		Construction	Leasing (1/2 YR)	Leasing	Operations	Operations	Operations	Operations	Operations	Operations
	Market Rent	.03		21.00	21.00	21.63	22.28	22.95	23.64	24.34	25.08
	Square Footage Leased			200000	300000	388000	388000	388000	388000	388000	388000
	Base Rental Income			2100000	4200000	6103440	6103440	6103440	6103440	9445765	9445765
	Escalating Income			0	100000	205000	315250	431013	552563	0	134010
	Net Income From Parking	.03		60000	90000	116400	119892	123489	127193	131009	134940
	Gross Rental Income			2160000	4390000	6424840	6538582	6657941	6783197	9576774	9714714
	Vacancy Rate	.05									
	Vacancy					321242	326929	332897	339160	478839	485736
	Gross Operating Income			2160000	4390000	6103598	6211653	6325044	6444037	9097936	9228979
	Operating Expenses										
		Inflation Factor									
$/SF											
1.5	Real Estate Taxes	.05		300000	600000	630000	661500	694575	729304	765769	804057
3.5	Operating Expenses	.05		350000	1400000	1470000	1543500	1620675	1701709	1786794	1876134
.1	Landlord Expenses	.05		7500	40000	42000	44100	46305	48620	51051	53604
	Total Operating Expenses			657500	2040000	2142000	2249100	2361555	2479633	2603614	2733795
	Net Operating Income			1502500	2350000	3961598	3962553	3963489	3964404	6494321	6495183
	Return on Total Dev. Cost (Cap. Rate)					8.07	8.07	8.07	8.07	13.23	13.23
	Mortgage Payment			1722434	3444868	3444868	3444868	3444868	3444868	3444868	3444868
	Net Cash Flow			-219934	-1094868	516730	517685	518621	519536	3049454	3050316
	Lease-up Deficit				-1314802						
	Return on Cash					2.37	2.37	2.37	2.38	13.96	13.96

TABLE 3 - BUILDING 1

NOTE		DEVELOPMENT COST	150000 SF			$/SF
		Construction				
	$/SF					
A		Site Improvements		50000		
B	50	Structure		7500000		
C	10	Tenant Finishes		1500000		
D	375	Surface Parking Spaces @	1000	375000		
E	5	% Contingency		471250		
		TOTAL CONSTRUCTION			9896250	65.98
F		Architect's Fee				
	5	Percent			494813	3.30
		Construction Period Interest				
G	16	Months				
H	12	Percent				
I	75	% Loan Amount				
J	45	% Weight				
		Total C.P. Interest			1062994	7.09
		Carrying Charges				
K	1	% C.P. Loan Fee		124164		
L	2	% Perm. Loan Fee		248327		
M		Real Estate Taxes		100000		
N		Title & Recording		12416		
O		Insurance		20000		
		Total Carrying Charges			504908	3.37
P		Legal Fees			100000	.67
Q	18	% Leasing Commissions			567000	3.78
R		Marketing			150000	1.00
S		Lease-Up Deficit			1100000	7.33
T	3	Percent Contingency			590552	3.94
U	3	Percent Developers Fee			590552	3.94
V		Land				
			178000 Square Feet			
			26.00 Per Square Foot		4628000	30.85
		TOTAL DEVELOPMENT COST		$	19685068	131.23

Projection of Supportable Debt

Stabalized Year	Project Year 4
Income	
Base Rental Income	2559165
Escalating Income	77663
Net Parking Income	109125
Gross Rental Income	2745953
Vacancy	137298
Gross Operating Income	2608655
Operating Expenses	
Real Estate Taxes	236250
Operating Expenses	551250
Landlord Expenses	15750
Total Operating Expenses	803250
Net Operating Income	1804657
Return on Capital	9.17 %
Debt Service Coverage	1.15
Available Debt Service	1569267
Supportable Mortgage @	
12 %	
25 Years	12416372
Equity Required	7268696
Loan to Value Ratio	63 %
Break Even Occupancy	69 %

TABLE 3 (Continued)

CASH FLOW PROJECTIONS - BUILDING 1

NOTE		Lease Year			1	2	3	4	5	1	2
		Project Year		1	2	3	4	5	6	7	8	9
		Income		Construction	Leasing (1/2 YR)	Leasing	Operations	Operations	Operations	Operations	Operations	Operations
A		Market Rent	.03		21.00	21.00	21.63	22.28	22.95	23.64	24.34	25.08
B		Square Footage Leased			50000	100000	145500	145500	145500	145500	145500	145500
C		Base Rental Income			525000	1575000	2559165	2559165	2559165	2559165	3542162	3542162
D		Escalating Income			0	37500	76875	118219	161630	207211	0	50254
E		Net Income From Parking	.03		37500	75000	109125	112399	115771	119244	122821	126506
		Gross Rental Income			562500	1687500	2745165	2789783	2836565	2885620	3664983	3718921
F		Vacancy Rate	.05									
		Vacancy					137258	139489	141828	144281	183249	185946
		Gross Operating Income			562500	1687500	2607907	2650293	2694737	2741339	3481734	3532975
		Operating Expenses										
			Inflation Factor									
	$/SF											
G	1.5	Real Estate Taxes	.05		112500	225000	236250	248063	260466	273489	287163	301522
H	3.5	Operating Expenses	.05		87500	525000	551250	578813	607753	638141	670048	703550
	.1	Landlord Expenses	.05		7500	15000	15750	16538	17364	18233	19144	20101
		Total Operating Expenses			207500	765000	803250	843413	885583	929862	976355	1025173
		Net Operating Income			355000	922500	1804657	1806881	1809154	1811477	2505379	2507802
I		Return on Total Dev. Cost (Cap. Rate)					9.17	9.18	9.19	9.20	12.73	12.74
J		Mortgage Payment			885828	1489965	1489965	1489965	1489965	1489965	1569267	1569267
		Net Cash Flow			-530828	-567465	314692	316916	319189	321512	936112	938535
		Lease-up Deficit				-1098293						
		Return on Cash					4.33	4.36	4.39	4.42	12.88	12.91
		Value of remaining Land:		1372000								
		Inflation rate		5 %								
		Net Cost of remaining Land			1440600	1512630	1588262	1667675	1751058	1838611	1930542	2027069

TABLE 4 - BUILDING 2, Started in Year 4 — 5 % Annual Inflation = — 1.16 % Multiplier

I.	DEVELOPMENT COST		150000 SF			$/SF
	Construction					
NOTE						
	$/SF					
A		Site Improvements		115000		
B	58	Structure		8682187		
C	12	Tenant Finishes		1736437		
D	375	Space Sparking Structure	8103	3038766		
E	5	% Contingency		678620		
	TOTAL CONSTRUCTION				14251010	95.01
F	Architect's Fee					
	5	Percent			712551	4.75
	Construction Period Interest					
G	16	Months				
H	12	Percent				
I	75	% Loan Amount				
J	45	% Weight				
		Total C.P. Interest			1074565	7.16
	Carrying Charges					
K	1	% C.P. Loan Fee		132749		
L	2	% Perm. Loan Fee		265498		
M		Real Estate Taxes		115000		
N		Title & Recording		13275		
O		Insurance		23152		
		Total Carrying Charges			549674	3.66
P		Legal Fees			115762	.77
Q	18	% Leasing Commissions			619576	4.13
R		Marketing			182250	1.22
S		Lease-Up Deficit			1200000	8.00
T	3	Percent Contingency			596980	3.98
U	3	Percent Developers Fee			596980	3.98
V		Land				
		100000 Square Feet				
		.00 Per Square Foot			0	.00
	TOTAL DEVELOPMENT COST			$	19899349	132.66

Projection of Supportable Debt

Stabalized Year	Project Year 8
Income	
Base Rental Income	2796469
Escalating Income	85623
Net Parking Income	81955
Gross Rental Income	2964046
Vacancy	148202
Gross Operating Income	2815844
Operating Expenses	
Real Estate Taxes	260466
Operating Expenses	607753
Landlord Expenses	17364
Total Operating Expenses	885583
Net Operating Income	1929436
Return on Capital	9.70
Debt Service Coverage	1.15
Available Debt Service	1677770
Supportable Mortgage @	
12 %	
25 Years	13274875
Equity Required	6624474
Loan to Value Ratio	67 %
Break Even Occupancy	69 %

TABLE 4 (Continued)

II. CASH FLOW PROJECTIONS - BUILDING 2

NOTE											
		Lease Year				1	2	3	4	5	1	2
		Project Year		4	5	6	7	8	9	10	11	12
		Income		Construction	Leasing (1/2 YR)	Operations	Operations	Operations	Operations	Operations	Operations	Operations
A		Market Rent	.03		22.95	22.95	23.64	24.34	25.08	25.83	26.60	27.40
B		Square Footage Leased			50000	100000	145500	145500	145500	145500	145500	145500
C		Base Rental Income			573682	1721045	2796469	2796469	2796469	2796469	3870616	3870616
D		Escalating Income			0	41344	84755	130336	178197	228450	0	55405
E	27	Net Income From Parking	.03		39784	79567	81955	84413	86946	89554	92241	95008
		Gross Rental Income			613465	1841956	2963178	3011218	3061611	3114473	3962857	4021028
F		Vacancy Rate	.05									
		Vacancy				92098	148159	150561	153081	155724	198143	201051
		Gross Operating Income			613465	1749858	2815019	2860657	2908530	2958749	3764714	3819977
		Operating Expenses										
			Inflation Factor									
	$/SF											
G	1.7	Real Estate Taxes	.05		124031	248062	260466	273489	287163	301522	316598	332427
H	3.9	Operating Expenses	.05		96469	578812	607753	638141	670048	703550	738728	775664
	.11	Landlord Expenses	.05		15000	16537	17364	18233	19144	20101	21107	22162
		Total Operating Expenses			235500	843412	885583	929862	976355	1025173	1076432	1130253
		Net Operating Income			377965	906446	1929436	1930795	1932175	1933576	2688282	2689723
I		Return on Total Dev. Cost (Cap. Rate)					9.70	9.70	9.71	9.72	13.51	13.52
J		Mortgage Payment			895471	1592985	1592985	1592985	1592985	1592985	1677770	1677770
		Net Cash Flow			-517505	-686539	336451	337810	339190	340591	1010512	1011953
		Lease-up Deficit				-1204044						
		Return on Cash					5.08	5.10	5.12	5.14	15.25	15.28

TABLE 5 - BUILDING 3, Started in Year 8 — 5 % Annual Inflation = 1.41 % Multiplier

I.	DEVELOPMENT COST		80000 SF			$/SF
	Construction					
NOTE						
	$/SF					
A		Site Improvements		70355		
B	70	Structure		5628402		
C	14	Tenant Finishes		1125680		
D	200	Surface Parking Spaces	1407	281420		
E	5	% Contingency		355293		
	TOTAL CONSTRUCTION				7461150	93.26
F	Architect's Fee					
	5	Percent			373057	4.66
	Construction Period Interest					
G	16	Months				
H	12	Percent				
I	75	% Loan Amount				
J	45	% Weight				
		Total C.P. Interest			676743	8.46
	Carrying Charges					
K	1	% C.P. Loan Fee		80693		
L	2	% Perm. Loan Fee		161385		
M		Real Estate Taxes		115000		
N		Title & Recording		8069		
O		Insurance		28142		
		Total Carrying Charges			393289	4.92
P		Legal Fees			140710	1.76
Q	18	% Leasing Commissions			425507	5.32
R		Marketing			182250	2.28
S		Lease-Up Deficit			200000	2.50
T	3	Percent Contingency			375968	4.70
U	3	Percent Developers Fee			375968	4.70
V		Land				
		100000 Square Feet				
		24.13 Per Square Foot			1930542	24.13
	TOTAL DEVELOPMENT COST				$ 12535186	156.69

Projection of Supportable Debt

Stabalized Year	Project Year 8
Income	
Base Rental Income	1702029
Escalating Income	55507
Net Parking Income	81893
Gross Rental Income	1839429
Vacancy	91971
Gross Operating Income	1747457
Operating Expenses	
Real Estate Taxes	168852
Operating Expenses	393988
Landlord Expenses	11257
Total Operating Expenses	574097
Net Operating Income	1172826
Return on Capital	9.36
Debt Service Coverage	1.15
Available Debt Service	1019848
Supportable Mortgage @	
12 %	
25 Years	8069256
Equity Required	4465930
Loan to Value Ratio	64 %
Break Even Occupancy	67 %

TABLE 5 (Continued)

II. CASH FLOW PROJECTIONS - BUILDING 3

NOTE		Lease Year			1	2	3	4	5	1	2
		Project Year		8	9	10	11	12	13	14	15	16
		Income		Construction	Leasing (1/2 YR)	Operations	Operations	Operations	Operations	Operations	Operations	Operations
A		Market Rent	.05		29.55	29.55	31.03	32.58	34.21	35.92	37.71	39.60
B		Square Footage Leased			40000	77600	77600	77600	77600	77600	77600	77600
C		Base Rental Income			590982	1702029	1702029	1702029	1702029	1702029	2926527	2926527
D		Escalating Income			0	26802	54944	84493	115520	148097	0	35917
E	34	Net Income From Parking	.05		40203	77994	81893	85988	90287	94802	99542	104519
		Gross Rental Income			631185	1806824	1838866	1872510	1907836	1944928	3026069	3066963
F		Vacancy Rate	.05									
		Vacancy				90341	91943	93625	95392	97246	151303	153348
		Gross Operating Income			631185	1716483	1746923	1778884	1812444	1847681	2874766	2913615
		Operating Expenses										
			Inflation Factor									
	$/SF											
G	2.0	Real Estate Taxes	.05		80406	160811	168852	177295	186159	195467	205241	215503
H	4.7	Operating Expenses	.05		93807	375227	393988	413688	434372	456090	478895	502840
	.13	Landlord Expenses	.05		15000	10721	11257	11820	12411	13031	13683	14367
		Total Operating Expenses			189212	546759	574097	602802	632942	664589	697818	732709
		Net Operating Income			441973	1169724	1172826	1176082	1179502	1183092	2176947	2180906
I		Return on Total Dev. Cost (Cap. Rate)					9.36	9.38	9.41	9.44	17.37	17.40
J		Mortgage Payment			564083	968311	968311	968311	968311	968311	1019848	1019848
		Net Cash Flow			-122111	201413	204515	207772	211191	214782	1157099	1161058
		Lease-up Deficit			-122111							
		Return on Cash				4.51	4.58	4.66	4.73	4.81	25.93	26.02

TABLE 6 - BUILDING 1 with SLOW LEASE-UP

NOTE		DEVELOPMENT COST	150000 SF			$/SF
		Construction				
	$/SF					
A		Site Improvements		50000		
B	50	Structure		7500000		
C	10	Tenant Finishes		1500000		
D	375	Surface Parking Spaces @	1000	375000		
E	5	% Contingency		471250		
		TOTAL CONSTRUCTION			9896250	65.98
F		Architect's Fee				
	5	Percent			494813	3.30
		Construction Period Interest				
G	16	Months				
H	12	Percent				
I	75	% Loan Amount				
J	45	% Weight				
		Total C.P. Interest			968140	6.45
		Carrying Charges				
K	1	% C.P. Loan Fee		131626		
L	2	% Perm. Loan Fee		263253		
M		Real Estate Taxes		100000		
N		Title & Recording		13163		
O		Insurance		20000		
		Total Carrying Charges			528042	3.52
P		Legal Fees			100000	.67
Q	18	% Leasing Commissions			567000	3.78
R		Marketing			150000	1.00
S		Lease-Up Deficit			1100000	7.33
T	3	Percent Contingency			537855	3.59
U	3	Percent Developers Fee			537855	3.59
V		Land				
			141250 Square Feet			
			21.58 Per Square Foot		3048561	20.32
		TOTAL DEVELOPMENT COST			$ 17928516	119.52

Projection of Supportable Debt

	Stabalized Year	Project Year
	Income	
	Base Rental Income	2618141
	Escalating Income	161630
	Net Parking Income	79568
	Gross Rental Income	2859339
	Vacancy	142967
	Gross Operating Income	2716372
	Operating Expenses	
	Real Estate Taxes	260466
	Operating Expenses	607753
	Landlord Expenses	17364
	Total Operating Expenses	803250
	Net Operating Income	1913122
	Return on Capital	4.75
	Debt Service Coverage	1.15
	Available Debt Service	1663584
	Supportable Mortgage @	
	12 %	
	25 Years	13162631
	Equity Required	4765885
	Additional Equity Called	1578870
	Total Equity Required	6344755
	Loan to Cost Ratio	64
	Break Even Occupancy	67

TABLE 6 (Continued)

CASH FLOW PROJECTIONS - BUILDING 1

NOTE		Lease Year			1	2	3	4	5	1	2
		Project Year		1	2	3	4	5	6	7	8	9
		Income		Construction	Leasing (1/2 YR)	Leasing	Operations	Operations	Operations	Operations	Operations	Operations
A		Market Rent	.03		21.00	21.00	21.63	22.28	22.95	23.64	24.34	25.08
B		Square Footage Leased			50000	75000	100000	125000	145500	145500	145500	145500
C		Base Rental Income			525000	1050000	1590750	2147723	2618141	2618141	3542162	3542162
D		Escalating Income			0	37500	76875	118219	161630	207211	0	50254
E		Net Income From Parking	.03		37500	56250	75000	77250	79568	81955	84413	86946
		Gross Rental Income			562500	1143750	1742625	2343191	2859339	2907307	3626575	3679361
F		Vacancy Rate	.05									
		Vacancy					87131	117160	142967	145365	181329	183968
		Gross Operating Income			562500	1143750	1655494	2226032	2716372	2761942	3445246	3495393
		Operating Expenses										
			Inflation Factor									
	$/SF											
G	1.5	Real Estate Taxes	.05		112500	225000	236250	248063	260466	273489	287163	301522
H	3.5	Operating Expenses	.05		87500	525000	551250	578813	607753	638141	670048	703550
	.1	Landlord Expenses	.05		7500	15000	15750	16538	17364	18233	19144	20101
		Total Operating Expenses			207500	765000	803250	843413	885583	929862	976355	1025173
		Net Operating Income			355000	378750	852244	1382619	1830789	1832080	2468891	2470220
I		Return on Total Dev. Cost (Cap. Rate)					4.75	7.71	10.21	10.22	13.77	13.78
J		Mortgage Payment			806783	1613566	1613566	1613566	1613566	1613566	1663584	1663584
		Net Cash Flow			-451783	-1234816	-761323	-230947	217222	218513	805307	806636
		Lease-up Deficit						-2678870				
		Return on Cash							3.42	3.44	12.69	12.71

TABLE 7 - BUILDING 3, Started in Year 8 5 % Annual Inflation = 1.41 % Multiplier

I.	DEVELOPMENT COST		100000 SF			$/SF
	Construction					
NOTE						
	$/SF					
A		Site Improvements		115000		
B	70	Structure		7035502		
C	14	Tenant Finishes		1407100		
D	250	Space Sparking Structure	9850	2462426		
E	5	% Contingency		551001		
	TOTAL CONSTRUCTION				11571030	115.71
F	Architect's Fee					
	5	Percent			578551	5.79
	Construction Period Interest					
G	16	Months				
H	12	Percent				
I	75	% Loan Amount				
J	45	% Weight				
		Total C.P. Interest			954351	9.54
	Carrying Charges					
K	1	% C.P. Loan Fee		110864		
L	2	% Perm. Loan Fee		221729		
M		Real Estate Taxes		115000		
N		Title & Recording		11086		
O		Insurance		28142		
		Total Carrying Charges			486822	4.87
P		Legal Fees			140710	1.41
Q	18	% Leasing Commissions			568372	5.68
R		Marketing			182250	1.82
S		Lease-Up Deficit			200000	2.00
T	3	Percent Contingency			530195	5.30
U	3	Percent Developers Fee			530195	5.30
V		Land				
		100000 Square Feet				
		19.31 Per Square Foot			1930542	19.31
	TOTAL DEVELOPMENT COST			$	17673018	176.73

Projection of Supportable Debt

Stabalized Year	Project Year 8
Income	
Base Rental Income	2273489
Escalating Income	69383
Net Parking Income	109389
Gross Rental Income	2452262
Vacancy	122613
Gross Operating Income	2329648
Operating Expenses	
Real Estate Taxes	211065
Operating Expenses	492485
Landlord Expenses	14071
Total Operating Expenses	717621
Net Operating Income	1611359
Return on Capital	9.12
Debt Service Coverage	1.15
Available Debt Service	1401182
Supportable Mortgage @	
12 %	
25 Years	11086446
Equity Required	6586572
Loan to Value Ratio	63 %
Break Even Occupancy	69 %

TABLE 7 (Continued)

II. CASH FLOW PROJECTIONS - BUILDING 3

NOTE		Lease Year			1	2	3	4	5	1	2
		Project Year		8	9	10	11	12	13	14	15	16
		Income		Construction	Leasing (1/2 YR)	Operations	Operations	Operations	Operations	Operations	Operations	Operations
A		Market Rent	.06		31.58	31.58	33.47	35.48	37.61	39.86	42.26	44.79
B		Square Footage Leased			50000	97000	97000	97000	97000	97000	97000	97000
C		Base Rental Income			789406	2273489	2273489	2273489	2273489	2273489	4098844	4098844
D		Escalating Income			0	33502	68680	105616	144399	185122	0	44896
E	35	Net Income From Parking	.06		53194	103197	109389	115952	122910	130284	138101	146387
		Gross Rental Income			842600	2410189	2451558	2495058	2540798	2588895	4236945	4290128
F		Vacancy Rate	.05									
		Vacancy				120509	122578	124753	127040	129445	211847	214506
		Gross Operating Income			842600	2289679	2328980	2370305	2413758	2459450	4025098	4075622
		Operating Expenses										
			Inflation Factor									
	$/SF											
G	2.0	Real Estate Taxes	.05		100507	201014	211065	221618	232699	244334	256551	269378
H	4.7	Operating Expenses	.05		117258	469033	492485	517109	542965	570113	598619	628550
	.13	Landlord Expenses	.05		15000	13401	14071	14775	15513	16289	17103	17959
		Total Operating Expenses			232766	683449	717621	753502	791177	830736	872273	915887
		Net Operating Income			609835	1606230	1611359	1616803	1622581	1628714	3152825	3159735
I		Return on Total Dev. Cost (Cap. Rate)					9.12	9.15	9.18	9.22	17.84	17.88
J		Mortgage Payment			795286	1330374	1330374	1330374	1330374	1330374	1401182	1401182
		Net Cash Flow			-185451	275857	280985	286429	292207	298340	1751644	1758553
		Lease-up Deficit			-185451							
		Return on Cash				4.19	4.27	4.35	4.44	4.53	26.59	26.70