

Should You Borrow?

Key Issues

- Don't Have Enough Money
- Diversify
- Interest Tax Shield

Enhanced Equity Returns

Anoop Towers Project			
	Capital Structure 1	Capital Structure 2	Capital Structure 3
Building Value	\$10 MM	\$10 MM	\$10 MM
Equity	\$10 MM	\$5 MM	\$1 MM
Debt	\$0 MM	\$5 MM	\$9 MM

Capital Appreciation

	Anoop Towers Project		
	Capital Structure 1	Capital Structure 2	Capital Structure 3
Building Value	\$10 MM	\$10 MM	\$10 MM
Debt	\$0 MM	\$5 MM	\$9 MM
Equity	\$10 MM	\$5 MM	\$1 MM
Appreciation (after two years)	10%	\$10 MM	\$10 MM
Building Value (after two years)	\$11 MM	\$11 MM	\$11 MM
Debt Repayment	\$0 MM	(\$5MM)	(\$9MM)
Equity Value	\$11 MM	\$6 MM	\$2 MM
Equity Return	10%	20%	100%

Equity Return From Capital Appreciation

Equity Return From Capital Appreciation = (Residual Value after Sale – Original Equity Investment) / Original Equity Investment

Calculations (in MM)

$$\text{Equity Return}_{\text{Structure 1}} = (\$11 - \$10) / \$10 = 10\%$$

$$\text{Equity Return}_{\text{Structure 2}} = (\$6 - \$5) / \$5 = 20\%$$

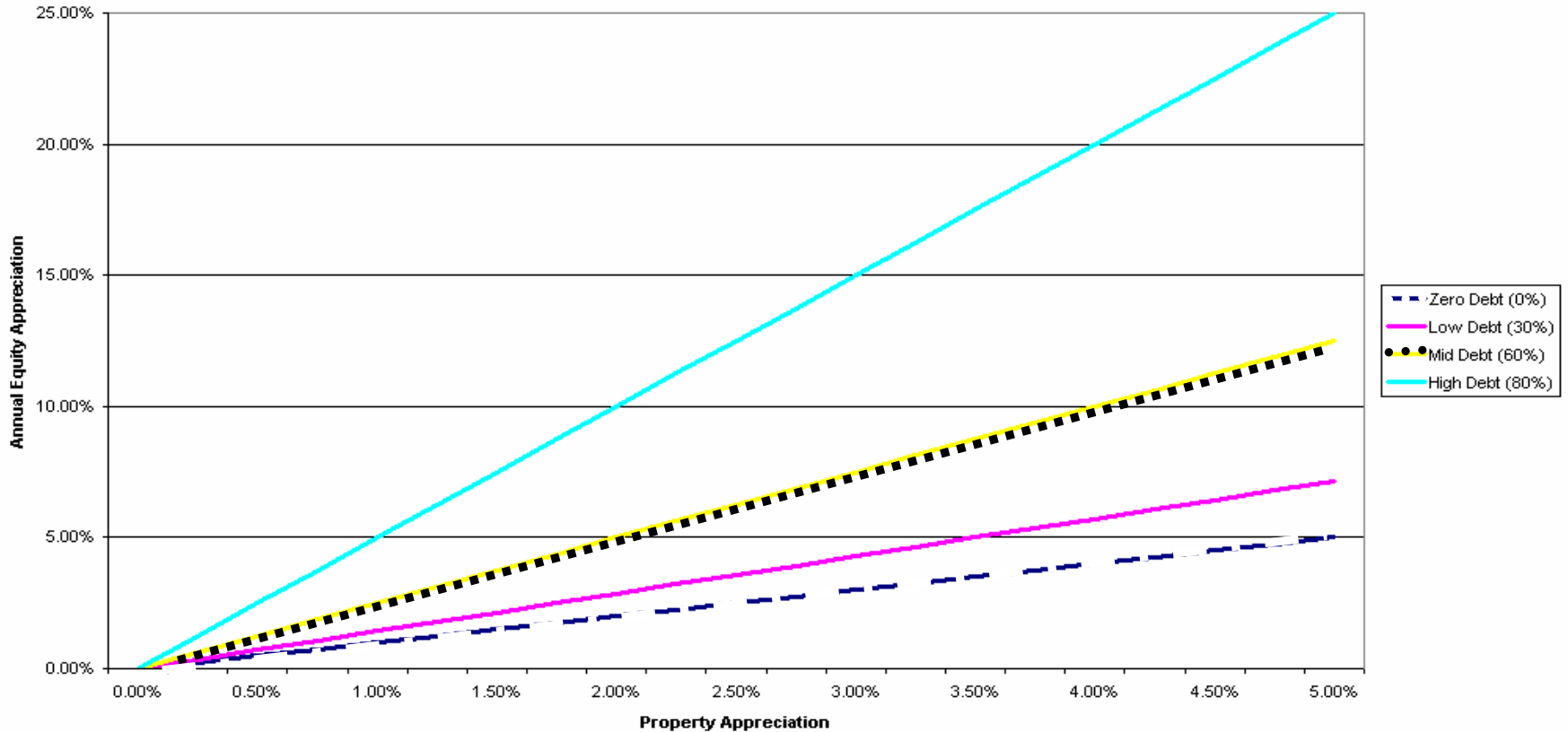
$$\text{Equity Return}_{\text{Structure 3}} = (\$2 - \$1) / \$1 = 100\%$$

Calculations*

Two Year Return	Annualized Return
10%	4.9%
20%	9.5%
100%	41.4%

*Formula: $(1 + \text{Two Year Return})^{(1/2)} - 1$

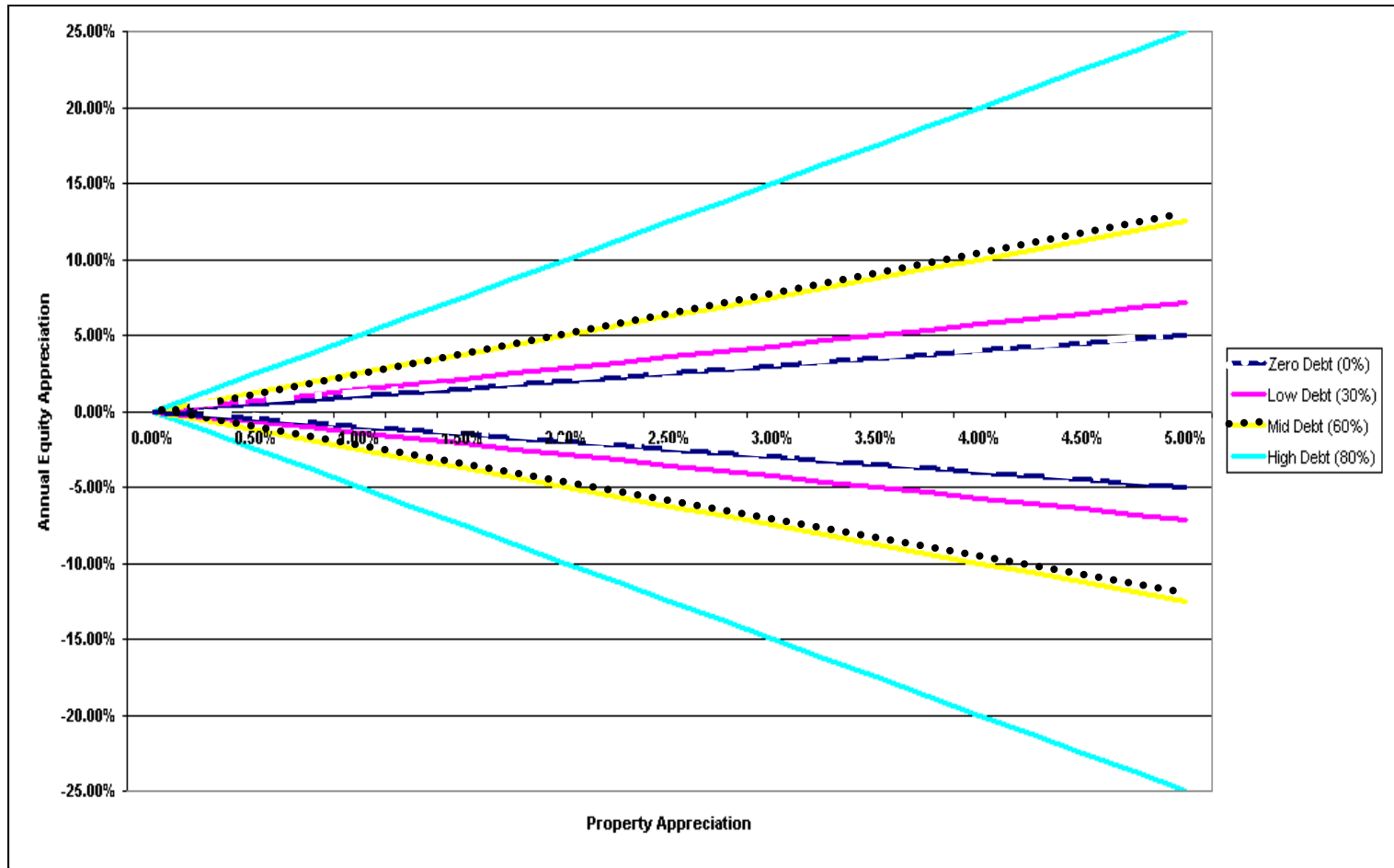
Capital Appreciation (cont'd)



Capital Appreciation (cont'd)

	Anoop Towers Project (Poor Economy Scenario)		
	Capital Structure 1	Capital Structure 2	Capital Structure 3
Building Value	\$10 MM	\$10 MM	\$10 MM
Debt	\$10 MM	\$5 MM	\$9 MM
Equity	\$0 MM	\$5 MM	\$1 MM
Appreciation (after two years)	(10%)	(\$10MM)	(\$10MM)
Building Value (after two years)	\$9 MM	\$9 MM	\$9 MM
Debt Repayment	\$0 MM	(\$5MM)	(\$9MM)
Equity Value	■ \$9 MM	■ \$4 MM	■ \$0 MM
Equity Return	(10%)	(20%)	(100%)

Capital Appreciation (cont'd)



Positive Leverage

Cash on Cash Yield Calculations	
NOI	\$800,000
Interest	\$250,000
Profit after Interest Before Taxes	\$550,000
Equity Investment	\$5 million
Cash on Cash Yield	$550,000/5,000,000$
Cash on Cash Yield	11.0%

Japan and Positive Leverage

Japanese Economy				
Year	2003	2004	2005	2006
NOI	\$7.00 MM	\$6.86 MM	\$6.72 MM	\$6.59 MM

Japan Example				
Year	2003	2004	2005	2006
NOI	\$7.00 M	\$6.86 M	\$6.72 M	\$6.59 M
Interest	\$3.40 M	\$3.40 M	\$3.40 M	\$3.40 M
Before Tax Cash	\$3.60 M	\$3.46 M	\$3.32 M	\$3.19 M
Cash on Cash Yield	24%	23%	22%	21%

Equity Returns			
	Before Tax Cash	Before Tax Sales Proceeds	Before Tax Equity IRR
2003	\$3.60 M	\$13.00 M	10.67%
2004	\$3.46 M	\$11.04 M	11.05%
2005	\$3.32 M	\$9.12 M	11.46%
2006	\$3.19 M	\$7.24 M	11.90%

Mezzanine Finance

Debt Capital Structure			
	% of Total Debt	Value	Interest Rate
Straight Senior Secured	83%	\$7,500,000	6%
Mezzanine Loan	17%	\$1,500,000	11%
Total/ Weighted Average	100%	\$9,000,000	6.83%

Debt Capital Structure			
	% of Total Capital	Value	Interest Rate
Debt	90%	\$9,000,000	6.83%
Equity	10%	\$1,000,000	14%
Total/ Weighted Average	100%	\$10,000,000	7.55%