

Property Level Pro Forma Analysis

Total Rental Income

Kathy Center Gross Potential Rental Revenue Calculation	
Total Rentable Square Feet	300,000
Average Base Rent (per square foot)	\$15.00
Gross Potential Rental Revenue	\$4,500,000

Kathy Center Cash Flow Statement Operating Income					
Year	2003	2004	2005	2006	2007
Gross Potential Rental Revenue	\$ 4,500,000	\$ 4,590,127	\$ 4,816,605	\$ 4,925,280	\$ 4,958,280

Vacancy

Kathy Center Cash Flow Statement						
Operating Income						
Year	2003	2004	2005	2006	2007	
Gross Potential Rental Revenue	\$ 4,500,000	\$ 4,590,127	\$ 4,816,605	\$ 4,925,280	\$ 4,958,280	
Vacancy	\$ -	\$ (45,901)	\$ (72,249)	\$ (98,506)	\$ (148,748)	
Net Base Rental Revenue	\$ 4,500,000	\$ 4,544,225	\$ 4,744,356	\$ 4,826,774	\$ 4,809,531	

Overage/Percentage Rent

Kathy Center Cash Flow Statement					
Operating Income					
Year	2003	2004	2005	2006	2007
Gross Potential Rental Revenue	\$ 4,500,000	\$ 4,590,127	\$ 4,816,605	\$ 4,925,280	\$ 4,958,280
Vacancy	\$ -	\$ (45,901)	\$ (72,249)	\$ (98,506)	\$ (148,748)
Net Base Rental Revenue	\$ 4,500,000	\$ 4,544,225	\$ 4,744,356	\$ 4,826,774	\$ 4,809,531
Percentage Rents	\$ 93,305	\$ 66,210	\$ 66,926	\$ 64,003	\$ 65,425
Total Rental Income	\$ 4,593,305	\$ 4,610,435	\$ 4,811,281	\$ 4,890,777	\$ 4,874,956

Expense Reimbursements (Tenant Reimbursements, Recoverable Expenses, Recoveries)

Kathy Center Cash Flow Statement						
Operating Income						
Year	2003	2004	2005	2006	2007	
<i>Rental Income:</i>						
Gross Potential Rental Revenue	\$ 4,500,000	\$ 4,590,127	\$ 4,816,605	\$ 4,925,280	\$ 4,958,280	
Vacancy	\$ -	\$ (45,901)	\$ (72,249)	\$ (98,506)	\$ (148,748)	
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Total Rental Income	\$ 4,593,305	\$ 4,610,435	\$ 4,811,281	\$ 4,890,777	\$ 4,874,956	
<i>Expense Reimbursements:</i>						
CAM Billings	\$ 445,368	\$ 440,267	\$ 420,196	\$ 415,895	\$ 376,894	
Property Tax Billings	\$ 390,428	\$ 370,123	\$ 351,126	\$ 346,681	\$ 330,128	

Ancillary Income

Kathy Center Cash Flow Statement						
Operating Income						
Year	2003	2004	2005	2006	2007	
<i>Rental Income:</i>						
Gross Potential Rental Revenue	\$ 4,500,000	\$ 4,590,127	\$ 4,816,605	\$ 4,925,280	\$ 4,958,280	
Vacancy	0%	1%	1.50%	2%	3%	
Vacancy	\$ -	\$ (45,901)	\$ (72,249)	\$ (98,506)	\$ (148,748)	
Net Base Rental Revenue	\$ 4,500,000	\$ 4,544,225	\$ 4,744,356	\$ 4,826,774	\$ 4,809,531	
Percentage Rents	\$ 93,305	\$ 66,210	\$ 66,926	\$ 64,003	\$ 65,425	
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CAM Billings	\$ 445,368	\$ 440,267	\$ 420,196	\$ 415,895	\$ 376,894	
Property Tax Billings	\$ 390,428	\$ 370,123	\$ 351,126	\$ 346,681	\$ 330,128	
Ancillary Income	\$ 24,580	\$ 23,251	\$ 24,654	\$ 23,125	\$ 24,188	
Gross Income	\$ 5,453,681	\$ 5,444,076	\$ 5,607,257	\$ 5,676,478	\$ 5,606,166	

Credit Loss/Bad Debt

Kathy Center Cash Flow Statement						
Operating Income						
Year	2003	2004	2005	2006	2007	
<i>Rental Income:</i>						
Gross Potential Rental Revenue	\$ 4,500,000	\$ 4,590,127	\$ 4,816,605	\$ 4,925,280	\$ 4,958,280	
Vacancy	\$ -	\$ (45,901)	\$ (72,249)	\$ (98,506)	\$ (148,748)	
Net Base Rental Revenue	\$ 4,500,000	\$ 4,544,225	\$ 4,744,356	\$ 4,826,774	\$ 4,809,531	
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<i>Ancillary Income</i>	\$ 24,580	\$ 23,251	\$ 24,654	\$ 23,125	\$ 24,188	
Gross Income	\$ 5,453,681	\$ 5,444,076	\$ 5,607,257	\$ 5,676,478	\$ 5,606,166	
Credit Loss	\$ (3,908)	\$ (3,959)	\$ (3,975)	\$ (4,138)	\$ (4,211)	
Total Operating Income	\$ 5,449,773	\$ 5,440,117	\$ 5,603,282	\$ 5,672,340	\$ 5,601,955	

Reimbursable Expenses

Kathy Center Cash Flow Statement

Year	2003	2004	2005	2006	2007
OPERATING INCOME					
<i>Rental Income:</i>					
Gross Potential Rental Revenue	\$ 4,500,000	\$ 4,590,127	\$ 4,816,605	\$ 4,925,280	\$ 4,958,280
Vacancy	\$ -	\$ (45,901)	\$ (72,249)	\$ (98,506)	\$ (148,748)
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Total Operating Income	\$ 5,449,773	\$ 5,440,117	\$ 5,603,282	\$ 5,672,340	\$ 5,601,955
OPERATING EXPENSES					
<i>Reimbursable Expenses:</i>					
Common Area Maintenance	\$ (445,368)	\$ (440,267)	\$ (420,196)	\$ (415,895)	\$ (376,894)
Property Taxes	\$ (390,428)	\$ (370,123)	\$ (351,126)	\$ (346,681)	\$ (330,128)

Non-Reimbursable Expenses

Kathy Center Cash Flow Statement						
Year	2003	2004	2005	2006	2007	
OPERATING INCOME						
Rental Income:						
Gross Potential Rental Revenue	\$ 4,500,000	\$ 4,590,127	\$ 4,816,605	\$ 4,925,280	\$ 4,958,280	
Vacancy	\$ -	\$ (45,901)	\$ (72,249)	\$ (98,506)	\$ (148,748)	
Net Base Rental Revenue	\$ 4,500,000	\$ 4,544,225	\$ 4,744,356	\$ 4,826,774	\$ 4,809,531	
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CAM Billings	\$ 445,368	\$ 440,267	\$ 420,196	\$ 415,895	\$ 376,894	
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OPERATING EXPENSES						
Reimbursable Expenses:						
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Property Tax Billings	\$ (390,428)	\$ (370,123)	\$ (351,126)	\$ (346,681)	\$ (330,128)	
Non-Reimbursable Expenses:						
Insurance	\$ (55,548)	\$ (57,734)	\$ (60,017)	\$ (62,389)	\$ (64,855)	
Utilities	\$ (105,114)	\$ (92,767)	\$ (82,506)	\$ (78,228)	\$ (70,963)	
Management	\$ (83,580)	\$ (81,039)	\$ (77,132)	\$ (76,258)	\$ (70,702)	
Total Operating Expenses	\$ (1,080,038)	\$ (1,041,930)	\$ (990,978)	\$ (979,451)	\$ (913,542)	

Non-Reimbursable Expenses (cont'd)

Kathy Center Cash Flow Statement					
Year	2003	2004	2005	2006	2007
OPERATING INCOME					
Total Operating Income	\$ 5,449,773	\$ 5,440,117	\$ 5,603,282	\$ 5,672,340	\$ 5,601,955
OPERATING EXPENSES					
Total Operating Expenses	\$ (1,080,038)	\$ (1,041,930)	\$ (990,978)	\$ (979,451)	\$ (913,542)
NOI	\$ 4,369,735	\$ 4,398,187	\$ 4,612,304	\$ 4,692,889	\$ 4,688,413

NOI After Reserves

Kathy Center Cash Flow Statement						
Year	2003	2004	2005	2006	2007	
OPERATING INCOME						
Rental Income:						
Gross Potential Rental Revenue	\$ 4,500,000	\$ 4,590,127	\$ 4,816,605	\$ 4,925,280	\$ 4,958,280	
Vacancy	\$ -	\$ (45,901)	\$ (72,249)	\$ (98,506)	\$ (148,748)	
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Credit Loss	\$ (3,908)	\$ (3,959)	\$ (3,975)	\$ (4,138)	\$ (4,211)	
Total Operating Income	\$ 5,449,773	\$ 5,440,117	\$ 5,603,282	\$ 5,672,340	\$ 5,601,955	
OPERATING EXPENSES						
Reimbursable Expenses:						
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Property Taxes	\$ (390,428)	\$ (370,123)	\$ (351,126)	\$ (346,681)	\$ (330,128)	
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Insurance	\$ (55,548)	\$ (57,734)	\$ (60,017)	\$ (62,389)	\$ (64,855)	
Utilities	\$ (105,114)	\$ (92,767)	\$ (82,506)	\$ (78,228)	\$ (70,963)	
Management	\$ (83,580)	\$ (81,039)	\$ (77,132)	\$ (76,258)	\$ (70,702)	
Total Operating Expenses	\$ (1,080,038)	\$ (1,041,930)	\$ (990,978)	\$ (979,451)	\$ (913,542)	
NOI	\$ 4,369,735	\$ 4,398,187	\$ 4,612,305	\$ 4,692,889	\$ 4,688,413	
CAPITAL & LEASING COSTS						
Tenant Improvements	\$ (36,200)	\$ (57,629)	\$ (152,145)	\$ (46,696)	\$ (18,629)	
Leasing Commissions	\$ (12,200)	\$ (41,722)	\$ (107,561)	\$ (25,567)	\$ (18,760)	
Capital Expenditure	\$ (103,400)	\$ (323,565)	\$ (190,919)	\$ (24,947)	\$ (10,975)	
NOI after normal reserves	\$ 4,217,935	\$ 3,975,271	\$ 4,161,680	\$ 4,595,679	\$ 4,640,049	

Depreciation Vs. Cap Ex

Kathy Center							
Purchase Information							
Purchase Price						\$48.5 million	
<i>Percentage allocations</i>							
Land (20%)						\$9.7 million	
Structure (50%)						\$24.3 million	
7-year items (20%)						\$9.7 million	
3-year items (10%)						\$4.9 million	
Depreciation: Formula = Cost/Time							
			<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
	<i>Calculation</i>						
Land	0	\$0.00 MM	\$0.00 MM	\$0.00 MM	\$0.00 MM	\$0.00 MM	\$0.00 MM
Structure (over 39 yrs)	=24.3 MM/39	\$0.62 MM	\$0.62 MM	\$0.62 MM	\$0.62 MM	\$0.62 MM	\$0.62 MM
7-year items (over 7 yrs)	=9.7 MM/7	\$1.39 MM	\$1.39 MM	\$1.39 MM	\$1.39 MM	\$1.39 MM	\$1.39 MM
3-year items (over 3 yrs)	=4.9 MM/3	\$1.62 MM	\$1.62 MM	\$1.62 MM	\$1.62 MM	\$1.62 MM	\$1.62 MM
Total		\$3.62 MM	\$3.62 MM	\$3.62 MM	\$2.01 MM	\$2.01 MM	\$2.01 MM

TIs and Cap Ex Depreciation

Kathy Center Depreciation Schedule: TIs & CAPEX					
Year	2003	2004	2005	2006	2007
Depreciation From:					
Tenant Improvements (First Year)	\$18,100	\$28,815	\$76,073	\$23,348	\$9,315
Subsequent Years (Cumulative)		\$2,586	\$6,702	\$17,570	\$20,905
Total TIs	\$18,100	\$31,400	\$82,775	\$40,918	\$30,220
Cap ex	\$1,743	\$5,960	\$15,366	\$3,652	\$2,680
Total Annual Depreciation Expense	\$19,843	\$37,361	\$98,140	\$44,570	\$32,900

Kathy Center Total Depreciation						
Purchase Information						
Purchase Price		\$48.5 million				
<i>Percentage allocations</i>						
Land (20%)		\$9.7 million				
Structure (50%)		\$24.3 million				
7-year items (20%)		\$9.7 million				
3-year items (10%)		\$4.9 million				
Depreciation: Formula = Cost/Time						
		<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
	<i>Calculation</i>					
Land	0	\$0.00 MM	\$0.00 MM	\$0.00 MM	\$0.00 MM	\$0.00 MM
Structure (over 40 yrs)	=24.3 MM/39	\$0.62 MM	\$0.62 MM	\$0.62 MM	\$0.62 MM	\$0.62 MM
7-year items (over 7 yrs)	=9.7 MM/7	\$1.39 MM	\$1.39 MM	\$1.39 MM	\$1.39 MM	\$1.39 MM
3-year items (over 3 yrs)	=4.9 MM/3	\$1.62 MM	\$1.62 MM	\$1.62 MM	\$0.00 MM	\$0.00 MM
Total from Purchase		\$3.624 MM	\$3.624 MM	\$3.624 MM	\$2.008 MM	\$2.008 MM
Total TIs		\$0.018 MM	\$0.031 MM	\$0.083 MM	\$0.041 MM	\$0.030 MM
Total Cap Ex (rounded from Fig. 4.13)		\$0.002 MM	\$0.006 MM	\$0.015 MM	\$0.004 MM	\$0.003 MM
Total		\$3.644 MM	\$3.662 MM	\$3.722 MM	\$2.052 MM	\$2.040 MM

Unlevered Net Cash Flow

Kathy Center Cash Flow Statement					
Year	2003	2004	2005	2006	2007
OPERATING INCOME					
<i>Rental Income:</i>					
Gross Potential Rental Revenue	4,500,000	4,590,127	4,816,605	4,925,280	4,958,280
Vacancy	-	(45,901)	(72,249)	(98,506)	(148,748)
Net Base Rental Revenue	4,500,000	4,544,225	4,744,356	4,826,774	4,809,531
Percentage Rents	93,305	66,210	66,926	64,003	65,425
Total Rental Income	4,593,305	4,610,435	4,811,281	4,890,777	4,874,956
<i>Expense Reimbursements:</i>					
CAM Billings	\$ 445,368	\$ 440,267	\$ 420,196	\$ 415,895	\$ 376,894
Property Tax Billings	\$ 390,428	\$ 370,123	\$ 351,126	\$ 346,681	\$ 330,128
Ancillary Income	24,580	23,251	24,654	23,125	24,188
Gross Income	5,453,681	5,444,076	5,607,257	5,676,478	5,606,166
Credit Loss	(3,908)	(3,959)	(3,975)	(4,138)	(4,211)
Total Operating Income	5,449,773	5,440,117	5,603,282	5,672,340	5,601,955
OPERATING EXPENSES					
<i>Reimbursable Expenses:</i>					
Common Area Maintenance	(445,368)	(440,267)	(420,196)	(415,895)	(376,894)
Property Taxes	(390,428)	(370,123)	(351,126)	(346,681)	(330,128)
<i>Non-Reimbursable Expenses:</i>					
Insurance	(55,548)	(57,734)	(60,017)	(62,389)	(64,855)
Utilities	(105,114)	(92,767)	(82,506)	(78,228)	(70,963)
Management	(83,580)	(81,039)	(77,132)	(76,258)	(70,702)
Total Operating Expenses	(1,080,038)	(1,041,930)	(990,978)	(979,451)	(913,542)
CAPITAL & LEASING COSTS					
Tenant Improvements	(36,200)	(57,629)	(152,145)	(46,696)	(18,629)
Leasing Commissions	(12,200)	(41,722)	(107,561)	(25,567)	(18,760)
Capital Expenditure	(103,400)	(323,565)	(190,919)	(24,947)	(10,975)
UNLEVERED CASH FLOW	4,217,935	3,975,271	4,161,680	4,595,679	4,640,049

Unlevered Cash Flow

Kathy Center Cash Flow Statement					
Levered Cash Flows					
Year	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Unlevered Cash Flows	\$4,217,935	\$3,975,271	\$4,161,680	\$4,595,679	\$4,640,049
Interest Payment	\$(1,942,105)	\$(1,942,105)	\$(1,942,105)	\$(1,942,105)	\$(1,942,105)
Before Tax Cash Flows	\$2,275,831	\$2,033,167	\$2,219,575	\$2,653,575	\$2,697,945

Depreciation, Cap Ex, and TIs

Kathy Center Cash Flow Statement				
Taxable Income				
Year	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Before Tax Cash Flows	\$ 2,275,831	\$ 2,033,167	\$ 2,219,575	\$ 2,653,575
Adjustments:				
Less: Depreciation (Purchase Price)	(3,624,176)	(3,624,176)	(3,624,176)	(2,007,509)
Less: Depreciation (TIs)	(18,100)	(31,400)	(82,775)	(40,918)
Less: Depreciation (CAPEX)	(1,743)	(5,960)	(15,366)	(3,652)
Plus: CAPEX	103,400	323,565	190,919	24,947
Plus: TIs	36,200	57,629	152,145	46,696

Cost Amortization

Kathy Center Cash Flow Statement					
Taxable Income					
Year	2003	2004	2005	2006	2007
Before Tax Cash Flows	\$ 2,275,831	\$ 2,033,167	\$ 2,219,575	\$ 2,653,575	\$ 2,697,945
Adjustments:					
Less: Depreciation (Purchase Price)	\$ (3,624,176)	\$ (3,624,176)	\$ (3,624,176)	\$ (2,007,509)	\$ (2,007,509)
Less: Depreciation (TIs)	\$ (18,100)	\$ (31,400)	\$ (82,775)	\$ (40,918)	\$ (30,220)
Less: Depreciation (CAPEX)	\$ (1,743)	\$ (5,960)	\$ (15,366)	\$ (3,652)	\$ (2,680)
Plus: CAPEX	\$ 103,400	\$ 323,565	\$ 190,919	\$ 24,947	\$ 10,975
Plus: TIs	\$ 36,200	\$ 57,629	\$ 152,145	\$ 46,696	\$ 18,629
Plus: Principal Amortization	-	-	-	-	-
Less: Cost Amortization	(27,744)	(27,744)	(27,744)	(27,744)	(27,744)

After Tax Equity Cash Flow

Kathy Center					
After Tax Cash Flow					
Year	2003	2004	2005	2006	2007
Before Tax Cash Flows	\$ 2,275,831	\$ 2,033,167	\$ 2,219,575	\$ 2,653,575	\$ 2,697,945
Adjustments:					
Less: Depreciation (Purchase Price)	\$ (3,624,176)	\$ (3,624,176)	\$ (3,624,176)	\$ (2,007,509)	\$ (2,007,509)
Less: Depreciation (TIs)	\$ (18,100)	\$ (31,400)	\$ (82,775)	\$ (40,918)	\$ (30,220)
Less: Depreciatoin (CAPEX)	\$ (1,743)	\$ (5,960)	\$ (15,366)	\$ (3,652)	\$ (2,680)
Plus: CAPEX	\$ 103,400	\$ 323,565	\$ 190,919	\$ 24,947	\$ 10,975
Plus: TIs	\$ 36,200	\$ 57,629	\$ 152,145	\$ 46,696	\$ 18,629
Plus: Principal Amortization	-	-	-	-	-
Less: Cost Amortization	(27,744)	(27,744)	(27,744)	(27,744)	(27,744)
Net Taxable Income (Loss)	\$ (1,256,332)	\$ (1,274,920)	\$ (1,187,422)	\$ 645,395	\$ 659,396
Less: Tax Liability (38.6%)	\$ -	\$ -	\$ -	\$ 249,122	\$ 254,527
Plus: Depreciation (Purchase Price)	\$ 3,624,176	\$ 3,624,176	\$ 3,624,176	\$ 2,007,509	\$ 2,007,509
Plus: Depreciation (TIs)	\$ 18,100	\$ 31,400	\$ 82,775	\$ 40,918	\$ 30,220
Plus: Depreciatoin (CAPEX)	\$ 1,743	\$ 5,960	\$ 15,366	\$ 3,652	\$ 2,680
Less: CAPEX	\$ (103,400)	\$ (323,565)	\$ (190,919)	\$ (24,947)	\$ (10,975)
Less: TIs	\$ (36,200)	\$ (57,629)	\$ (152,145)	\$ (46,696)	\$ (18,629)
Less: Principal Amortization	\$ -	\$ -	\$ -	\$ -	\$ -
Plus: Cost Amortization	\$ 27,744	\$ 27,744	\$ 27,744	\$ 27,744	\$ 27,744
After-Tax Cash Flows	\$ 2,275,831	\$ 2,033,167	\$ 2,219,575	\$ 2,404,452	\$ 2,443,418

The 1980s

Leslie Heights with Pre-1986 Tax Shelters		
Purchase Price		\$100 MM
Interest Calculation		
Debt		\$90 MM
Interest Rate		12%
Interest Payment		<u>10.8 MM</u>
Tax Calculation		
NOI		\$9 MM
Depreciation		(8.0 MM)
Interest		<u>(10.8 MM)</u>
Taxable Income		(9.8 MM)
Value of excess tax shelter at 50% tax bracket		
Taxable Income		(9.8 MM)
Tax Bracket Rate		50%
Value	9.8 * .5	<u>4.9 MM</u>
Cash Flow from Operation		
NOI		\$9.0 MM
Cap Ex		(2 MM)
Interest		(10.8 MM)
Tax Shelter Sales	90 cents on the dollar: (4.9*.9)	<u>4.4 MM</u>
Net Cash Flow from Operation		\$0.6 MM

The 1980s (cont'd)

Leslie Heights Return on Equity Calculation (in MM)

Calculation showing sale of property

Proceeds From Sale (<i>property grows at inflation: 100×1.1^3</i>)	\$ 133.00
Debt Payment	\$ (90.00)
Net Cash Flow from Sale	<u>\$ 43.00</u>

Developer's Cash Outflows and Inflows (in MM)

	Year 0	Year 1	Year 2	Year 3
Purchase Price	\$ (10.00)			
Net Cash Flow From Operations		\$ 0.60	\$ 0.60	\$ 0.60
Cash Flow From Sale				\$ 43.00
Total	<u>\$ (10.00)</u>	<u>\$ 0.60</u>	<u>\$ 0.60</u>	<u>\$ 43.60</u>
IRR on Equity	67%			

Post-1986 Tax Framework Compared with Pre-1986 Tax Framework

Leslie Heights pre 1986		Leslie Heights post 1986	
Value of Property	\$100 MM	Value of Property	\$100 MM
Interest Calculation		Interest Calculation	
Debt	\$90 MM	Debt	\$90 MM
Interest Rate	12%	Interest Rate	12%
Interest Payment	<u>10.8 MM</u>	Interest Payment	<u>10.8 MM</u>
Tax Calculation		Tax Calculation	
NOI	\$9 MM	NOI	\$9 MM
Depreciation	(8.0 MM)	Depreciation	(4 MM)
Interest	(10.8 MM)	Interest	(10.8 MM)
Taxable Income	<u>(9.8 MM)</u>	Taxable Income	<u>(5.8 MM)</u>
Value of excess tax shelter at 50% tax bracket		Actual Expenditures Calculation	
Taxable Income	(9.8 MM)	NOI	\$9.0 MM
Tax bracket rate	50%	Cap Ex	(2 MM)
Value	<u>9.8 * .5</u>	Interest	(10.8 MM)
	4.9 MM	Tax Shelter Sales	<u>.0 MM</u>
Cash Flow from Operation		Total	<u>(3.8 MM)</u>
NOI	\$9.0 MM		
Cap Ex	(2 MM)		
Interest	(10.8 MM)		
Tax Shelter Sales 90 cents on the dollar: (4.9*.9)	<u>4.4 MM</u>		
Net Cash Flow from Operation	<u>\$0.6 MM</u>		