

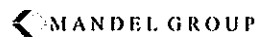
RFP 8253-0-2012/DWR

CAPITOL EAST DISTRICT DEVELOPMENT 800 BLOCK OF EAST WASHINGTON

MADISON, WISCONSIN



SEALED FINANCIAL INFORMATION



Engberg Anderson

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- k. Explain the financial strategy (including sources and uses of funds) and demonstrate project feasibility. If utilizing New Market Tax Credits or other financial assistance programs, indicate team's experience with these financing methods.
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The C.D. Smith Team recognizes that the success of the Capital East District Development will require a partnership of public and private interests. Our team is proposing a mixed use development that includes a grocery store, office and commercial space, residential apartments and a parking structure. The parking structure will accommodate the needs of the development as well as addressing some of the needs for Breese Stevens Field and other public-use facilities and activities.

C.D. Smith Construction will be the master developer for the entire project. A to-be-formed single purpose limited liability company that is owned and controlled by the principals of C.D. Smith will be the owner of the office and commercial components of the project. Principals of C.D. Smith have financed more than \$3 billion in office and commercial real estate developments across the country. C.D. Smith has utilized a variety of financing, including conventional debt and equity; New Markets Tax Credits; Midwest Disaster Area Bonds; redevelopment authority-issued double tax exempt financing; TIF; EDA loans; CMBS debt; and institutional joint-venture debt/equity structures. C.D. Smith has been providing construction services since 1936. With annual revenue in excess of \$235 million dollars, current assets in excess of \$150 million, a cash balance in excess of \$50 million and zero long term debt, C.D. Smith has the financial wherewithal to ensure the success of the project.

The Mandel Group will be the sub-developer and owner of the residential component of the project. Since its inception Mandel Group has financed over \$850 million of residential and mixed-use development. The firm has utilized a variety of financing, including conventional debt and equity; New Markets Tax Credits; WHEDA; Midwest Disaster Area Bonds; redevelopment authority-issued double tax exempt financing; TIF; brownfield grants; EDA loans; CMBS debt; GSE debt; and institutional joint-venture debt/equity structures. The firm currently owns 600 units of multifamily in the Madison market and operates an additional 247 units in Madison on behalf of third party owner/clients. During the past several years the firm has acquired and repositioned 1,684 existing units of multifamily housing in the Milwaukee, Waukesha and Madison markets. In addition to its own portfolio of luxury rental communities in the Milwaukee market, Mandel provides property management and asset management services for 732 multifamily units on behalf of third-party clients. Overall units under management exceeds 4,000.

C.D. Smith is proposing to purchase the approximately 4.5 acres or 196,020 square feet of land located at 802 and 854 East Washington Street for \$16/square foot. The development would be broken down into three separate condominiums to create separate ownerships. Condominium A is

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comprised of the grocery store, office and commercial components of the project. Condominium B consists of the parking structure component of the project and Condominium C will contain the residential component of the project. Each condominium will contribute to the cost of upkeep and maintenance of the common elements of the development.

C.D. Smith will provide 100 percent of the construction financing funds required to develop and construct the Capital East District Development.

In order for the development to be economically feasible, takeout financing for the development and construction financing provided by C.D. Smith will be originated from a variety of public and private sources.

The takeout financing for the C.D. Smith construction financing for Condo A would consist of approximately \$6 million in equity from the principals of C.D. Smith, an approximately \$13.5 million permanent loan from a private lender and an approximately \$4.3 million TIF grant from the City of Madison. Approximately 40 percent of the development fee identified in the project budget will remain in the project as equity.

The takeout financing for the C.D. Smith construction financing for Condo C would consist of approximately \$6.7 million in equity from The Mandel Group, an approximately \$14.9 million permanent loan from a private lender and an approximately \$5.2 million TIF grant from the City of Madison. Approximately 40 percent of the development fee identified in the project budget will remain in the project as equity.

C.D. Smith is proposing that Condo B, the parking structure, be purchased from C.D. Smith by the Community Development Authority of the City of Madison at the completion of construction. The acquisition price would be agreed to and fixed prior to the start of construction. The CDA would issue tax-exempt bonds of approximately \$13 million to fund the acquisition of the parking structure and subsequently lease the ramp to the City. Condo A and Condo C would enter into a parking license agreement with the City for their required parking spaces with a parking license fee sufficient to provide 100 percent coverage of the debt service on the \$13 million tax-exempt bond offering after all other revenue sources less all operating costs.

C.D. Smith and The Mandel Group are not contemplating the use of New Market Tax Credits at this time due to the low supply of available credits in the marketplace. However, it is anticipated that the Federal Government will grant additional New Market Tax Credit allocations in May or June of 2013 and C.D. Smith and the Mandel Group will pursue an allocation. If successful in obtaining an allocation of New Market Tax Credits they will be used to reduce the support being requested from the City of Madison. It is important to note that the development is financially viable without the use of New Market Tax Credits under the structure proposed above.

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The development plan includes public use recreational spaces and facilities that fulfill certain goals and objectives of the City of Madison Impact Fee Ordinance. The proposed development incorporates features in response to the adjacent Reynolds Park and Breese Stevens Field complex. Specifically, we are proposing to construct a neighborhood-oriented and scaled food and beverage building on the corner of Mifflin and Patterson, oriented to both the park and the field's main gate and noted in our plans as "The Hub". This "watering hole" would also serve as a convenient midway stop for bike commuters along the Mifflin bike boulevard. The intent is to provide a meeting place, a destination, which is oriented to the neighborhood and these two significant public use spaces, that enhances the enjoyment of their use and provide concessions, restrooms and a gathering spot before and after events.

Within the development itself, a major public gathering space is proposed along the Washington Avenue frontage, activated by the grocery and the ground level commercial space that fronts Washington Avenue and which wraps into this public plaza area. This space is planned to be activated by the adjoining commercial uses and provide venue opportunities for impromptu public presentations and performances. The plaza is enhanced with a through-block pedestrian linkage that connects to the Mifflin corridor and provides views toward Reynolds Park.

In recognition of the investment in these public use and public access amenities, and the land area allocated by the developer for these features, the developer is requesting that the City waive the Park Fees in lieu of dedication. The developer is committed to paying the Park Development Impact Fees and requests that those fees be invested in enhancements to Reynolds Park and Breese Stevens Field, to further the opportunities for the public to enjoy these valued neighborhood attributes.

The City of Madison would provide up to \$800,000 for demolition and environmental remediation as identified in the Request for Proposal.

l. Estimate of Value Calculations

The estimated assessed value of the proposed Development is as follows:

Condo A - Grocery, Office & Commercial \$23.2 million
 Condo B - Parking Structure \$12.4 million
 Condo C - Residential \$21 million

See the included cash flow projections in sections u and v for supporting net operating income and value calculations. These values remain subject to further review against comparable properties and assessments in the marketplace.

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m. Estimate of Annual Property Tax Payments (life of TIF)

Based on the assumptions contained in the following table, the net present value of the incremental taxes over the 20 year life of the TIF is \$10,495,787. Of this amount, we are forecasting a net distributable amount to the development of roughly 90% or \$9,501,787.

The first full year assessed value of the incremental taxes is \$946,867. The absolute value of the incremental taxes over the life of the 20 year TIF is estimated at \$18.9 million

Use	Mill Rate	Total Assessed Value	Total Incremental Taxes	Taxes/Unit or SF		
Residential	2.45%	\$ 22,000,000	\$ 539,000	\$ 2,695	54.84%	\$ 5,210,797
Grocery	2.45%	\$ 3,500,000	\$ 85,750	\$ 2.45	8.72%	\$ 828,990
Office	2.45%	\$ 7,179,250	\$ 175,892	\$ 3.06	17.90%	\$ 1,700,437
Spec Office/Retail	2.45%	\$ 7,437,750	\$ 182,225	\$ 3.06	18.54%	\$ 1,761,664
Parking	2.45%	\$ -	\$ -	\$ -	-	-
Total		\$ 40,117,000	\$ 982,867		100.00%	\$ 9,501,888
Assume Base Increment		\$ 1,500,000	\$ 36,750			
Incremental Value		\$ 38,617,000	\$ 946,117			
Present Value of Increme Public Debt Assumptions						
	Years	20				
	Interest Rate	2.50%				
	Adjust to Net	1.2				
	Calculated Discout Rate	0.0641				
	DCR-adjusted	0.0770				
	TIF Incremental Value, Present Value					
	Present Value	\$ 10,495,787				
	Net to Development	\$ 9,501,888				

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n. Details of potential City TIF investments

Financial assistance from the City of Madison will be needed to create an economically viable project.

TIF will be an important funding source for Condo A and Condo C. TIF proceeds would be applied to both Condo A and Condo C development costs based on the percentage of anticipated tax revenue from each component. The TIF is needed to establish a triple net rental rate for the office and commercial space in the \$14 to \$15 per rentable square foot range which will be needed to attract tenants to the proposed development. The TIF also creates the opportunity for payment of parking rates by Condo A and Condo C that will provide for the parking ramp's debt service as well as the inclusion of public use parking above and beyond the minimum stalls needed for private use. Without the TIF it is the developer's opinion that rental rates for office, commercial and residential space would be too high relative to the market and the proposed development would not be feasible, and/or the parking contributions from Condo A and Condo C would be insufficient to allow the parking ramp to break even after debt service.

The financial projections for Condo A and Condo C reflect the TIF participations identified in this section.

Terms of the proposed TIF are as follows:

- Apply the TIF to Condo A and Condo C to create a competitive market rental rate and necessary parking rate structure for the overall development plan of operation
- Reduce the initial base assessment of the parcels to land only so the increment created is as large as possible
- The TIF expenditures would be amortized over a sufficient term to provide for the orderly repayment of debt (i.e. 20 years following construction completion). As necessary, the City and developer will work to amend or overlay the existing TID to provide for the opportunity to utilize the full statutory term available.

Please see the sources and uses of funds on the next page.

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	Condo A	(Tax Exempt) Parking Structure Condo B	Residential 200 Units Condo C	TOTAL
Source of Funds				
Equity	\$ 5,928,059	\$ -	\$ 6,689,125	\$12,617,185
TIF	4,291,091	-	5,210,797	9,501,888
New Market Tax Credits	-	-	-	-
Other	-	-	-	-
Debt	13,493,087	12,985,344	14,856,579	41,335,010
Total	\$ 23,712,237	\$ 12,985,344	\$ 26,756,502	\$63,454,084
Use of Funds				
Land Acquisition	\$ 793,426	\$ 1,297,282	\$ 1,045,292	\$ 3,136,000
Construction Costs	19,095,889	10,098,553	20,577,733	49,772,175
Owner Other Costs	3,822,922	1,589,510	5,133,477	10,545,909
Total	\$ 23,712,237	\$ 12,985,344	\$ 26,756,502	\$63,454,084

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o. Payback of City TIF Investments

The City TIF would be paid back by incremental new taxes generated by the proposed development over a period of 20 years following completion of construction.

p. Developer Guarantee Proposals

The LLCs that own and manage the Condo A and Condo C units would guaranty the TIF on terms to be negotiated and agreed to. C.D. Smith will provide a construction completion guaranty.

q. Terms of TIF investment

Terms of the proposed TIF are as follows:

- Apply the TIF net proceeds to Condo A and Condo C as scheduled above
- Reduce the initial base assessment of the parcels to lowest potential land-only value (inclusive of consideration of any environmental impairment) so the increment opportunity is maximized.
- The TIF would be applied over a projected 20 year term
- The TID would be amended or overlaid such that the full statutory term is available for the benefit of the City and the Developer

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r. Financing component breakdown (e.g. by building)

Please reference the Source and Use of Funds exhibit at the end of this section

C.D. Smith will provide 100 percent of the funds required to develop and construct the Capital East District Development.

The takeout financing for the C.D. Smith development and construction financing for Condo A would consist of approximately \$6 million in equity from the principals of C.D. Smith, an approximately \$13.5 million permanent loan from a private lender and an approximately \$4.3 million TIF grant from the City of Madison. Approximately 40 percent of the development fee identified in the project budget will remain in the project as equity. The loan to value ratio is a conservative 60 percent which will enable debt financing from multiple private sources.

<u>Condo A - Grocery, Office and Commercial</u>	
Net Operating Income	1,909,275
Capitalization Rate	<u>8.25%</u>
Projected Value	23,142,727
Loan to Value Ratio	58.30%
Loan Amount	13,493,087
Interest Rate	5.25%
Amortization - Years	<u>25</u>
Annual Debt Service	970,284

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The takeout financing for the C.D. Smith development and construction financing for Condo C would consist of approximately \$6.7 million in equity from The Mandel Group, an approximately \$14.9 million permanent loan from a private lender and an approximately \$5.2 million TIF grant from the City of Madison. Approximately 40 percent of the development fee identified in the project budget will remain in the project as equity. The loan to value ratio is 72 percent which will enable debt financing from multiple private sources.

Condo C - Residential

Net Operating Income	1,548,946
Capitalization Rate	7.50%
Projected Value	20,652,613
Loan to Value Ratio	71.94%
Loan Amount	14,856,579
Interest Rate	5.25%
Amortization - Years	30
 Annual Debt Service	 984,463

C.D. Smith is proposing that Condo B, the parking structure, be purchased from C.D. Smith by the City of Madison or the appropriate Community Development Entity of the City of Madison at the completion of construction. The acquisition price would be agreed to and fixed prior to the start of construction. The City of Madison or its CDE would issue tax-exempt bonds of approximately \$13 million to fund the acquisition of Condo B, the parking structure. Condo A and Condo C would enter into a parking license agreement with the City for their required parking spaces with a parking license fee sufficient to provide 100 percent coverage of the debt service on the \$13 million tax-exempt bond offering plus the operating costs associated with their respective parking use. The City would maintain 100 percent of any revenue and positive cash generated by parking use other than the parking used by Condo A and C.

Condo B - Parking Structure

Net Operating Income	870,361
Capitalization Rate	6.75%
Projected Value	12,894,237
Loan to Value Ratio	100.71%
Loan Amount	12,985,344
Interest Rate	3.00%
Amortization - Years	30
 Annual Debt Service	 656,961

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Source and Use of Funds

	Condo A	(Tax Exempt) Parking Structure Condo B	Residential 200 Units Condo C	TOTAL
Source of Funds				
Equity	\$ 5,928,059	\$ -	\$ 6,689,125	\$12,617,185
TIF	4,291,091	-	5,210,797	9,501,888
New Market Tax Credits	-	-	-	-
Other	-	-	-	-
Debt	13,493,087	12,985,344	14,856,579	41,335,010
Total	\$ 23,712,237	\$ 12,985,344	\$ 26,756,502	\$63,454,084
Use of Funds				
Land Acquisition	\$ 793,426	\$ 1,297,282	\$ 1,045,292	\$ 3,136,000
Construction Costs	19,095,889	10,098,553	20,577,733	49,772,175
Owner Other Costs	3,822,922	1,589,510	5,133,477	10,545,909
Total	\$ 23,712,237	\$ 12,985,344	\$ 26,756,502	\$63,454,084

 s. Sources of funds and potential commitments

Please see section r.

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i. Uses of funds and basis of cost estimates.

The following pro forma development budget identifies the use of funds based on cost estimates in detail.

PROJECT SCOPE	Condo A					Condo B	Condo C	TOTAL
	Grocery Store	Office	Commercial	Paterson St Potential Expansion Office	SUBTOTAL	695 Stail Parking Deck	Residential 200 Units	
Gross Square Feet	35,000	61,100	34,800	28,500	159,400	260,625	210,000	630,025
Rentable Square Feet (BOMA)	35,000	57,434	32,712	26,790	151,936	N/A	171,800	323,736
DEVELOPMENT COSTS								
Land Cost	\$ 174,215	\$ 304,130	\$ 173,220	\$ 141,861	\$ 793,426	\$ 1,297,282	\$ 1,045,292	\$ 3,136,000
Construction Costs								
Shell & Core	\$ 2,275,000	\$ 4,888,000	\$ 2,784,000	\$ 2,280,000	\$ 12,227,000	\$ 8,687,500	\$ 18,900,000	\$39,814,500
Site Work	83,330	145,470	82,854	67,854	379,509	620,511	499,980	1,600,000
Tenant Improvements (Allowance)	1,750,000	1,833,000	870,000	855,000	5,308,000	-	-	5,308,000
Deep Foundations (Allowance)	66,664	116,378	66,283	54,284	303,607	496,409	399,984	1,200,000
Green Roof	77,698	119,424	88,489	35,971	321,583	-	178,417	500,000
Construction Contingency	127,581	213,068	116,749	98,793	\$ 556,191	294,133	599,351	1,449,675
Subtotal Construction Costs	\$ 4,380,273	\$ 7,315,339	\$ 4,008,375	\$ 3,391,903	\$ 19,095,889	\$ 10,098,553	\$ 20,577,733	\$49,772,178
Owner Other Costs								
Development Fee	\$ 219,014	\$ 385,767	\$ 200,419	\$ 169,595	\$ 954,794	\$ 201,971	\$ 1,028,887	\$ 2,185,652
Leasing Fee	-	102,415	56,117	47,487	208,019	-	-	208,019
Design & Engineering Fees	262,816	438,920	240,502	203,514	1,145,753	403,942	1,330,000	2,879,695
Misc Soft Costs (See Schedule)	383,070	639,751	350,548	298,633	1,670,000	495,500	1,780,000	3,945,500
Construction Loan Interest	146,009	243,845	133,612	113,063	636,530	336,618	685,924	1,659,073
Owner Contingency	65,704	109,730	60,128	50,879	286,438	151,478	308,666	746,583
Subtotal Owner Other Costs	\$ 1,076,613	\$ 1,900,428	\$ 1,041,323	\$ 881,171	3,822,922	\$ 1,589,510	\$ 5,133,477	10,545,909
TOTAL DEVELOPMENT COSTS	\$ 5,631,101	\$ 9,519,897	\$ 5,222,917	\$ 4,414,935	\$ 23,712,237	\$ 12,985,344	\$ 26,756,502	\$83,454,084
Annual Gross Rent							\$ 3,471,600	
Total Annual Triple Net Rent per RSF	\$ 14.48	\$ 14.09	\$ 13.57	\$ 14.01				

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U. Monthly cash flows for first three years.

V. Annual cash flows for term of TIF or minimum of 10 years.

Condo A – Grocery, Office and Commercial

Office & Commercial - Condo A	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
CASH FLOW FORECAST										
Cash Provided by Operations										
Net Operating Income (Includes vacancy allowance)	1,908,275	1,968,554	2,025,550	2,086,317	2,148,600	2,213,373	2,279,775	2,348,168	2,418,613	2,491,171
Release Sinking Fund Deposits	-	-	-	-	-	-	-	-	-	-
Total Cash Provided by Operations	<u>1,908,275</u>	<u>1,968,554</u>	<u>2,025,550</u>	<u>2,086,317</u>	<u>2,148,600</u>	<u>2,213,373</u>	<u>2,279,775</u>	<u>2,348,168</u>	<u>2,418,613</u>	<u>2,491,171</u>
Debt Service										
A Note Interest - Senior Debt	701,992	687,563	672,359	658,335	639,450	621,657	602,907	583,149	562,328	540,388
A Note Principal	268,292	282,721	297,923	313,949	330,834	348,627	367,377	387,135	407,966	429,897
Total Debt Service	<u>970,284</u>	<u>970,284</u>	<u>970,284</u>	<u>970,284</u>	<u>970,284</u>	<u>970,284</u>	<u>970,284</u>	<u>970,284</u>	<u>970,284</u>	<u>970,284</u>
TOTAL CASH FLOW	938,991	998,269	1,055,268	1,116,033	1,178,622	1,243,089	1,309,490	1,377,884	1,448,329	1,520,887
Debt Service Coverage Ratio	1.97	2.03	2.09	2.15	2.21	2.28	2.35	2.42	2.49	2.57
Estimated Value (Cap Rate)	23,142,731	23,837,013	24,552,123	25,288,687	26,047,348	26,828,768	27,633,631	28,462,640	29,318,519	30,198,015
Mortgage Balance Year End	13,224,795	12,942,074	12,644,147	12,330,198	11,999,364	11,650,737	11,283,360	10,898,225	10,488,269	10,058,372

Condo B – Parking Structure

Parking Structure - Condo B	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
CASH FLOW FORECAST										
Cash Provided by Operations										
Net Operating Income	870,361	896,472	923,368	951,067	979,599	1,008,987	1,039,258	1,070,434	1,102,547	1,135,623
Total Cash Provided by Operations	<u>870,361</u>	<u>896,472</u>	<u>923,368</u>	<u>951,067</u>	<u>979,599</u>	<u>1,008,987</u>	<u>1,039,258</u>	<u>1,070,434</u>	<u>1,102,547</u>	<u>1,135,623</u>
Cash Flow Before Debt Service	870,361	896,472	923,368	951,067	979,599	1,008,987	1,039,258	1,070,434	1,102,547	1,135,623
Debt Service										
Senior Debt	385,853	377,607	369,110	360,355	351,333	342,037	332,458	322,588	312,418	301,939
Principal	271,108	279,354	287,851	296,606	305,628	314,924	324,502	334,372	344,543	355,022
Total Debt Service	<u>656,961</u>	<u>656,961</u>	<u>656,961</u>	<u>656,961</u>	<u>656,961</u>	<u>656,961</u>	<u>656,961</u>	<u>656,961</u>	<u>656,961</u>	<u>656,961</u>
TOTAL CASH FLOW	213,400	239,511	268,405	294,106	322,638	352,026	382,296	413,473	445,586	478,663
Debt Service Coverage Ratio	1.32	1.38	1.41	1.45	1.49	1.54	1.58	1.63	1.68	1.73
Estimated Value (Cap Rate)	12,433,726	12,806,738	13,190,940	13,586,668	13,994,268	14,414,096	14,846,519	15,291,915	15,750,672	16,223,192
Mortgage Balance Year End	12,714,236	12,434,882	12,147,031	11,850,425	11,544,797	11,229,874	10,905,371	10,570,999	10,226,456	9,871,434

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Condo C – Residential

Residential - Condo C	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
CASH FLOW FORECAST										
Cash Provided by Operations										
Net Operating Income (Includes vacancy allowance)	1,548,946	1,600,621	1,643,276	1,692,575	1,743,352	1,795,653	1,849,522	1,905,008	1,962,158	2,021,023
Total Cash Provided by Operations	1,548,946	1,600,621	1,643,276	1,692,575	1,743,352	1,795,653	1,849,522	1,905,008	1,962,158	2,021,023
Cash Used by Operations										
Capital Reserves	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Total Cash Used by Operations	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Cash Flow Before Debt Service	1,498,946	1,550,621	1,593,276	1,642,575	1,693,352	1,745,653	1,799,522	1,855,008	1,912,158	1,971,023
Debt Service										
A Note Interest - Senior Debt	774,977	763,711	751,838	739,327	726,143	712,251	697,610	682,183	665,926	648,794
A Note Principal	209,486	220,752	232,625	245,136	258,319	272,212	286,852	302,280	318,537	335,669
Total Debt Service	984,463	984,463	984,463	984,463	984,463	984,463	984,463	984,463	984,463	984,463
TOTAL CASH FLOW	514,483	566,158	608,814	658,112	708,889	761,190	815,059	870,545	927,695	986,560
Debt Service Coverage Ratio	1.52	1.58	1.62	1.67	1.72	1.77	1.83	1.88	1.94	2.00
Estimated Value (Cap Rate)	20,652,609	21,341,620	21,910,353	22,567,664	23,244,694	23,942,034	24,660,295	25,400,104	26,162,107	26,946,971
Mortgage Balance Year End	14,647,094	14,426,342	14,193,717	13,948,581	13,690,262	13,418,049	13,131,197	12,828,917	12,510,380	12,174,711

