

FINANCIAL ANALYSIS PROCEDURES - OFFICE/INDUSTRIAL PROPERTIES

I. GENERAL

- A. Ensure that all requested documents have been received. (Reference information request checklist)
- B. Consult Client to determine historical periods:
 - Prior Period As of: Example December 1998 YTD
 - Current Period YTD As of: Example September 1999 YTD
 - Last Rolling 12 Months: Example Sept '99 YTD + Dec '98 YTD - Sept '98 YTD
 - Rent Roll As Of: Example Dec 1999
- C. Input property information and historical operating results (for the periods defined in Procedure I.B (Reference Input Section of the Financial Analysis template).
- D. Tie total revenue and total expenses from the General Ledger ("GL") to the operating statement.
- E. Obtain any third party audits (if available), reviews and other reports (e.g., internal audits) for the last three (3) years. Review reports to become familiar with the property's operations and financial history. Discuss any significant footnotes or major variances with Client.

II. EFFECTIVE GROSS INCOME

A. LEASE REVIEW

- 1 Obtain 100% of tenant leases, including all amendments and modifications, and perform the following for each lease:
 - a. Compare economic terms (e.g. base rent, square footage, etc.) to the Current Rent Roll.
 - b. Document results of lease review on Schedule Rent Roll: Rent Roll Analysis.
- 2 Ensure that all applicable fields of Rent Roll: Rent Roll Analysis are completed and the following information is available:
 - a. Unseasoned rents (less than three months).
 - b. Tenants greater than 60 days delinquent

B. VERIFY INCOME

- 1 Reconcile total revenues for the last 12 months from the operating statement to total cash deposits from the bank statement. Variance should not exceed 3% of total revenue. Provide detail explanations for material reconciling items. Prepare Schedule BS: Bank Statement Analysis.
- 2 Perform the following for each tenant for each of the three (3) most recent months. Prepare Schedule RENT ROLL: RENT ROLL ANALYSIS.
 - a. Tie monthly lease payments from the Current Rent Roll to the cash receipts records to verify rents due were paid. Verify that rent collected is current month's billing and not past due or prepaid rent.
 - b. On a sample basis, trace monthly cash receipts to deposit slips and bank statements to verify that cash received was deposited.
Compare tenants identified as delinquent in Step a. above with the current A/R Aged Delinquency Report. Note any tenants that were not properly posted to the current A/R Aged Delinquency Report.
 - c. Identify tenants with at least one month's rent over 60 days delinquent and exclude those tenants from In-Place Amount.
 - d. Discuss with property management collectibility of the delinquent receivables. Document discussion.
- 3 Document the nature and amount of Other Income (e.g. security deposit forfeitures, laundry, vending, etc.) for the last 12 months and for the last fiscal year. Prepare Schedule OI: Other Income.

III. OPERATING EXPENSES

A. TAXES

- 1 Obtain copies of tax bills for the last three (3) years and prepare Schedule PT & TB: Property Taxes and Tax Bill Analysis.
 - a. Compare current real estate taxes over the past three years to assess the likelihood of re-assessments, changes in tax rates, and continuance or expiration of any tax abatements.
 - b. Compare current assessed value to the acquisition price value to assess the likelihood of increases in the near future.

NOTE: For In-Place Amount, include taxes based on the current assessment and mil rate.

In U/W Amount, anticipated impact in the next 12 months due to changes in rate or assessed value or change in ownership should be included as Client adjustments.

B. INSURANCE

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- 1 Obtain documentation of current property and liability insurance and perform the following:
 - a. Prepare Schedule I: Insurance Expense Analysis. Include current premium amount in In-Place Amount.
 - b. If the property is currently insured under a blanket policy, document methodology of cost allocation.

C. UTILITIES

- 1 Perform a fluctuation analysis of each expense component for the most recent rolling 12 month period and the last historical calendar / fiscal year. Ensure all utility categories are reviewed. Inquire and explain variances in excess of 5% of the previous calendar/fiscal year. Prepare Schedule U: Utilities Expense Analysis.

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D. REPAIRS AND MAINTENANCE (R&M)

1 Perform a fluctuation analysis of each expense component for the most recent rolling 12 month period and the last historical calendar / fiscal year. Inquire and explain variances in excess of 5% of the previous calendar/fiscal year. Prepare Schedule RM: Repair and Maintenance Expense Analysis.

NOTE: Review expenses to determine if any should have been capitalized. Conversely, review "assets" section of balance sheet/general ledger for potential R&M expenses erroneously capitalized.

2 Review signed service contracts and, on a sample basis as determined by the Client, tie vendor invoices to G/L to verify that the services are properly accounted for and attributable to the audited property. Prepare Schedule SC: Service Contract Testing.

E. MANAGEMENT FEE

1 Obtain the signed management contract and compare the contractual fee to the actual fee charged to the property. Investigate and document any discrepancy and discuss findings with the Client. Prepare Schedule MF: Management Fees Analysis.

NOTE 1: For In-Place Amount, use the management fee currently being charged to the property. For U/W Amount, use the greater of the contractual % or the % provided by Client.

F. GENERAL AND ADMINISTRATIVE (G&A)

1 Perform a fluctuation analysis of each expense component for the most recent rolling 12 month period and the last historical calendar / fiscal year. Inquire and explain variances in excess of 5% of the previous calendar/fiscal year. Prepare Schedule GA: General and Administrative Expense Analysis.

2 Document expense allocations of management firm that are in addition to the management fee. (Example: payroll and overhead allocations from management firm home office)

3 Inquire and document payments to owner-related entities.

G. ADVERTISING AND PROMOTION

1 Perform a fluctuation analysis of each expense component for the most recent rolling 12 month period and the last historical calendar / fiscal year. Inquire and explain variances in excess of 5% of the previous calendar/fiscal year. Prepare Schedule AP: Advertising and Promotion Expense Analysis.

H. PROFESSIONAL FEES AND SERVICES

1 Perform a fluctuation analysis of each expense component for the most recent rolling 12 month period and the last historical PF: Professional Fees and Services.

I. PAYROLL

1 Obtain schedule of current salary and staffing – including seasonal staffing needs (e.g. lifeguards). Schedule should include employee name and title; base wage; bonuses; and payroll taxes / benefits as a percentage of base wage. Perform the following and Prepare Schedule PR & STAFF: Payroll Expense Analysis and Staffing Analysis.

a. Unless otherwise directed by Client, annualize current salary listing and reconcile to payroll expense per the G/L for the Last 12 Month Period.

b. Explain variances greater than 5%.

J. OTHER EXPENSES

1 Perform a fluctuation analysis of each expense component for the most recent rolling 12 month period and the Historical Calendar / fiscal year. Inquire and explain variances in excess of 5% of the previous calendar/fiscal year. Use Schedules OE1, OE2, and OE3: Other Expense Analyses to document your results.

K. NON-OPERATING EXPENSES

1 Perform a fluctuation analysis of each non-operating expenses component for the most recent rolling 12 month period and the last historical calendar / fiscal year. Inquire and explain variances in excess of 5% of the previous calendar/fiscal year. Prepare Schedules DS: Debt Service, CE: Capital Expenditures, TI: Tenant Improvements and LC: Leasing Commissions.

IV. BALANCE SHEET

A. GENERAL

1 For all balances not tested individually, review the current balance sheet and identify accounts which may impact In-Place Amounts (e.g. accrued taxes). Document each account's nature and purpose. Review level of Accounts Payable.