

- 
- CRITICAL PATH PLANNING
 - LAND PLANNING
 - MANAGEMENT CONSULTING
 - PLANT LOCATION

RALPH J. STEPHENSON, P. E.

CONSULTING ENGINEER

15064 WARWICK ROAD
DETROIT, MICHIGAN 48223
PHONE 273-5026

February 1, 1975

Mr. Victor Shrem, AIA
401 Travelers Tower
Southfield, Michigan 48076

Dear Victor:

This morning I talked to a vice president of the mortgage department in a large Detroit bank about the use of mortgage brokers as opposed to direct lenders. His feeling is first that the mortgage broker is a very expensive participant usually charging from one to two points for his services. However, as you and Dr. Laham have already found and as the banker points out, the good mortgage broker contributes greatly toward putting the package together, particularly if he is a trusted and competent member of the group.

So far as direct lenders are concerned, the conventional savings bank today generally is not interested in long term risk investments. However, this mortgage officer did say that the savings and loan companies are now showing great interest in viable, long range income investments. He also mentioned that insurance companies are always interested in direct investments in projects that have an attractive cash flow. The suggestion was made that we directly approach one of the savings and loan associations in the downriver area, either Downriver Savings and Loan or Security Bank & Trust. So far as insurance companies are concerned, it was suggested we try either Equitable or Prudential, both of whom have branch offices in Detroit, one downtown, the other in Southfield. These visits would be to sound out the possible direct lender marketplace.

The mortgage officer further recommended if we approach any of these groups we be fully prepared to discuss the project financial and functional characteristics in detail. Essentially your pro forma analysis should

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be adequate, coupled with some of the graphic material necessary to demonstrate architectural desirability. We should also strive to have as much information available on tenant mix and market demand as possible. Once we have all of this information in hand, it would be possible to plan visits, if appropriate, to one or two direct lenders.

On Saturday, January 25, 1975, we prepared with Dr. Laham a list of things that must be done over the coming week and did a small preliminary network diagram that outlined actions that all of us should be taking in the near future. A few of the broad areas to be considered in establishing our procedure from here on might include:

- Feasibility factors
- Financing factors
- Leasing factors
- Public relations factors
- Governmental factors (local, state, federal)
- Design factors
- Construction factors
- Occupancy factors

We reviewed these factors by preparing a small, rough preliminary network diagram of activities to be carried out in the next two months. Since the diagram was difficult to read, I have taken the liberty of outlining below some of the information from this network until it can be put into more presentable form.

First we tried to identify the individuals and organizations that would be involved in the project at this early stage. We further assigned them a numerical code to provide ease in reference in the network. The code numbers and the parties are as follows:

- 1 Dr. Laham
- 2 Victor Shrem
- 3 Ken Shevin
- 4 attorney
- 5 construction consultant
- 6 leasing agent
- 7 data processing
- 8 mortgage broker
- 9 mortgage lender

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- 10 interim finance lender
- 11 project team

**(Presently the project team consists of Dr. Laham,
Victor Shrem, Ken Shevin and Ralph J. Stephenson)**

Taking these responsibilities in order, below are identified the various activities that each will be responsible for accomplishing over the next few weeks.

1) Dr. Laham

- **Prepare prospective tenant list by February 3, 1975**
- **Consider possible tenant mix for early February review of occupancy characteristics with project team**

2) Victor Shrem

- **Refine graphic identification (logo and other) needs of project. This to be a very rough study, much of which will be an extension of what has already been thought through relative to attractive and recognizable graphic identity for Riverview.**
- **Tabulate present information already obtained regarding fees for mortgage brokers, mortgage lenders, interim finance lenders, leasing agents and others whose services will require fixed or percentage fees. This list to be used for quick reference to data already obtained.**
- **Prepare ten reduced Xerox copies of key sheets from the design development and working drawing set. These are to be drawings that are referred to continuously when discussing the project with prospective tenants and financing and leasing resources. The set should contain one or two perspectives.**
- **Complete preparing one or two typical suite layouts. Much of this work has already been completed but any additional refinement should be made and the sketches reduced. These sheets might also be Xerox reduced.**

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(Note: The above task by Victor Shrem should be done
sometime within the next 3 to 4 weeks.)

- Submit to Ken Shevin immediately the full financial analysis that Victor prepared for our Saturday, January 25, 1975 meeting.

3) Ken Shevin

- Review and critique the financial analysis and cash flow runs prepared by Victor Shrem.

5) Construction Consultant

- Complete preliminary cost estimate by February 3, 1975.

7) Data Processing

- Make financial analysis run for several conditions to project Dr. Laham's cash flow position. (These early runs were completed by January 28, 1975 for review by Victor and Ken, along with the financial material.)
- Once the construction estimate and the building financing plan are further along, run an additional set of financial analyses based upon the selected criteria. This probably will be in mid or late February.

8) Mortgage Broker

Nothing

9) Mortgage Lender

Nothing

10) Interim Finance Lender

Nothing

Mr. Victor Shrem, AIA
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11) Project Team

(The project team of Victor Shrem, Dr. Laham, Ken Shevin and Ralph J Stephenson should be individually reviewing the items listed below. Sometime within the next 2 to 4 weeks a meeting should be set with all members of the team participating to review project status and decide on the next major step.)

- Evaluate the mortgage broker vs. direct lender financing potential.
- Prepare list of possible and desirable leasing agents.
- When the construction estimate is complete, evaluate the cost picture and refine the financing program.
- Set tenant mix from information provided by Dr. Laham.
- Evaluate and select a leasing firm.
- Set leasing concepts.

Regards,

Ralph J. Stephenson, P. E.

RJS
m

EXPLANATION OF DATA IN COLUMN SEQUENCE

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COL	TITLE	EXPLANATION
1	YR	YEAR OF REFERENCE
2	ANNL INCM	=STANDARD INCOME X PC OF OCCUPANCY(SEE STD INCM LINE IN HDG)
3	INTEREST	=MORTGAGE BALANCE BY MONTH X APPLICABLE INTREST RATE ACCUMULATED FOR EACH YEAR
4	DEPR	=DEPRECIABLE INVESTMENT X DEPR BASIS(SEE LAST LINE IN HDG)
5	TXBL INC	=STD INC - (TOTAL EXP + INTEREST + DEPR) (EXP IS IN HDG)
6	INCM TAX	=NET INCOME X TAX RATE ESTABLISHED IN THE HEADING
7	BK VAL	=TOTAL INVESTMENT - ACCRUED DEPR
8	MORT BAL	=PREV MORT BAL + INTEREST - ANNL MORT PAYMENT
9	CASH FLOW	=ANNL INCOME - (MORTG PAYMT + TOTAL EXP + INCM TAX)

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1	YR	YEAR OF REFERENCE
2	YEAR END BLDG INV	=NET INVESTMENT - ACCUMULATED CASH FLOW
3	ACCUM CASH	=PREV YR CASH-TO-DATE + CASH FLOW FOR CURRENT YEAR NOTE - NEGATIVE CASH FLOW IS TREATED AS ADDED INVESTMENT AND ACCUM CASH IS NOT AFFECTED
4	YEAR DOLLAR RETURN	YEAR NUMBERING
5	TODATE	=ACCUM CASH DIVIDED BY NET INVESTMENT
6	THIS YR	=CASH FLOW FOR CURRENT YEAR DIVIDED BY NET INVESTMENT.
7	EFF. RATE	=RATE OF ANNUAL COMPOUND INTEREST ON THE ORIGINAL INVESTMENT WHICH WOULD BE EQUIVALENT TO THE CASH FLOW PRODUCED IN THIS PROJECT.

RIVERVIEW PROFESSIONAL PLAZA - REVIEW OF FINANCIAL ANALYSES 1/22/75
(CALL AMOUNTS IN THOUSANDS)

CASH AFTER TAX

STUDY NO.	BY YEAR										CUMULATIVE										PCT. OF CASH RETURN AFTER TAX										EQUITY AFTER 10 YEARS						
	Y01	Y02	Y03	Y04	Y05	Y06	Y07	Y08	Y09	Y10	YR1	YR2	YR3	YR4	YR5	YR6	YR7	YR8	YR9	YR10	YR1	YR2	YR3	YR4	YR5	YR6	YR7	YR8	YR9	YR10		73	74	75	76	77	78
1A	81	77	73	70	68	65	62	59	56	53	231	429	591	716	716	13.8	12.6	10.6	8.6	6.4	1082																
2A	76	72	68	64	60	56	52	48	44	40	216	396	539	641	641	12.2	11.1	9.0	7.0	5.7	1151																
3A	83	79	75	72	68	64	60	56	52	48	237	440	609	739	739	14.2	12.9	11.4	8.9	6.7	1094																
4A	75	75	71	68	64	60	56	52	48	44	225	417	574	693	693	12.5	12.2	10.3	8.1	6.0	1069																
1B	87	83	79	76	72	68	64	60	56	52	249	464	645	787	787	14.8	13.6	11.7	9.6	7.4	1082																
2B	82	78	74	70	66	62	58	54	50	46	233	431	592	713	713	13.2	11.9	10.0	7.9	5.7	1151																
1C	93	89	85	81	77	73	69	65	61	57	267	500	698	859	859	18.9	14.6	12.7	10.7	8.9	1082																
2C	88	84	80	76	72	68	64	60	56	52	251	467	646	784	784	14.1	12.9	10.9	8.9	6.6	1151																
1D	72	68	64	59	55	51	47	43	39	35	203	369	493	570	570	12.3	10.9	8.7	6.2	4.4	1273																
2D	67	62	58	53	49	45	41	37	33	29	187	332	434	486	486	10.7	9.3	7.1	4.6	1.8	1354																
1E	78	74	70	65	61	57	53	49	45	41	221	405	546	641	641	12.4	12.9	9.7	7.7	4.4	1273																
2E	73	68	64	59	55	51	47	43	39	35	204	368	488	557	557	11.7	10.3	8.0	5.6	2.8	1354																
1F	84	80	76	71	67	63	59	55	51	47	239	440	600	712	712	14.4	13.0	10.7	8.3	5.5	1273																
2F	78	74	70	65	61	57	53	49	45	41	222	404	541	628	628	12.6	11.2	9.0	6.5	3.7	1354																

Low Income Study *

*

High Income *

Any of that
Over 90 below
69. Should be considered
reconsiderable

*A standard card form, IBM electro 888157, is available for punching statements from this form

**Number of items per paid may vary slightly

MS

Victor Shrem & Associates Inc.

**Architects/
Urban Planners**

401 Travelers Tower / 26555 Evergreen Rd. / Southfield Mich. 48076 / (313) 354-2330

LETTER OF TRANSMITTAL

MAR 7 1975

DATE March 6, 1975	JOB NO. 185
ATTENTION	
RE Riverview Professional Plaza	
Riverview, Michigan	

TO Mr. Ralph J. Stephenson
15064 Warwick Road
Detroit, Michigan 48223

GENTLEMEN:

WE ARE SENDING YOU Attached Under separate cover via _____ the following items:

Shop drawings Prints Plans Samples Specifications

Copy of letter Change order _____

COPIES	DATE	NO.	DESCRIPTION
1	2/26/75		Letter written to Dr. Laham from Mr. Craig Hall of Standard Realty Corporation regarding the above referenced project.

THESE ARE TRANSMITTED as checked below:

- For approval Approved as submitted Resubmit _____ copies for approval
- For your use Approved as noted Submit _____ copies for distribution
- As requested Returned for corrections Return _____ corrected prints
- For review and comment _____
- FOR BIDS DUE _____ 19 _____ PRINTS RETURNED AFTER LOAN TO US

REMARKS _____

COPY TO _____

SIGNED: 

standard realty corporation

property management
sales
investments

February 26, 1975

Mitch Lahan, M.D.
1861 Trenton Drive
Trenton, MI 48183

Dear Mitch:

I am sorry that, due to my elongated illness and our conflicting schedules, we have been unable to make contact. While I would far prefer discussing this project personally, I will attempt to give you some of my ideas in this letter. As I previously stated to you, it is not that I am trying to be the one pessimist in the crowd or anything of the kind, but I have certain reservations relative to the format of the development team.

First--our role: While we have extensive real estate experience, in particular in the areas of syndication and land development, I have some reservations as to our ability to provide in total the developer services necessary for your project. Beyond any of these experience type limitations, my primary uneasiness is the fact that we would be acting in the capacity of a consultant with fees and/or other compensation while we would not be making the final decisions nor taking the substantial risks.

Second--your role: Your role is the one I am most concerned with because I believe there is and will be substantial exposure and dollar needs previous to the project's successful completion. Most general partner/owner developers have personal knowledge of the risks involved and don't need to rely on the advice and counsel of others. No matter whom you have as a developer, I feel that he should also be your partner, receive substantial ownership benefits, but also, at a minimum, take risks with you. I am extremely concerned that

Mitch Lahan, M.D.
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your optimistic desire to see the project built does not end in severe financial consequences for you as an individual.

Third--the role of other parties: As individuals and as professionals in their fields, you have some fine people working on this project. As you have clearly realized, it is necessary for you to coordinate and, so to speak, obtain an experienced and knowledgeable quarterback for your team. I hope that everyone's anxious optimism will not add fuel to the situation to the point of moving forward on an unrealistic or financially unrewarding program.

In conclusion, I make the following recommendations:

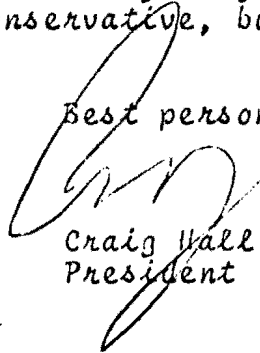
1. Neither I nor my company can offer you the support and commitment with which I could feel comfortable from a personal standpoint. If I were acting in the quarterback capacity, I would feel responsible for what appears, at present, to be an undercapitalized venture in which I would be taking a role that I think would be unfair to you.
2. From a positive standpoint, you have most of the pieces of a good development, namely--aesthetically appealing design, prospective market for renters, and prospective market for investors.
3. My suggested format to you would be that you find a builder developer who could take the project from this point through completion, taking full liability for the construction loan period and putting up any additional funds necessary from this point forward. I would attempt to find an honest company with a good reputation and then put certain controls on them that would protect your interests. Further, I would give them an equal interest to yours in the project as well as allowing them to have a reasonable, minimum builder profit. I would diminish their interest in the project by any cost overruns in accordance with an agreed upon formula. I would have you become a limited partner until project completion and elimination of the majority of the liability exposure. I have made some discreet inquiries as to potential builder developers but have been unable to find exactly the right type. If this plan interests you at all, I will talk to a couple of other possibilities.

I very much apologize for the long delay in our getting together on this matter. I wrestled with consideration of our role in this situation at length. It is my honest and true feeling that I have expressed in this letter, and I hope

Mitch Lahan, M.D.
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you will consider them for your own benefit. I certainly hope that you will not in any way be offended by my comments, and I would be very willing to assist you as a consultant, in an appropriate format, in whatever capacity that might be mutually beneficial. In particular, in the event that a builder developer completes a project such as I have outlined, we very well might be able to assist you in working on the syndication program. I know my ideas are contrary to your plans and thoughts, and perhaps they are too conservative, but for your own sake, please consider them.

Best personal regards,



Craig Hall
President

EMc
cc: Ken Shevin