REAL ESTATE SYNDICATIONS

SINCE THE TAX REFORM ACT OF 1986

by

MEGAN MARY DOBROTH

B.A., Hampshire College
(1980)

Submitted to the Center for Real Estate Development
in Partial Fulfillment of
the Requirements of the Degree of
Master of Science in Real Estate Development

at the

Massachusetts Institute of Technology

July 1987

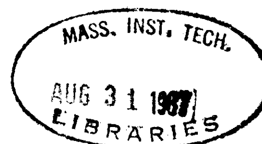
© Megan M. Dobroth 1987

The author hereby grants to MIT permission to reproduce and to distribute copies of this thesis document in whole or in part.

Signature of the Author______________________________
Center for Real Estate Development
July, 1987

Certified by______________________________
Lawrence S. Bacow
Professor, Law and Environmental Policy
Thesis Supervisor

Accepted by______________________________
Michael Wheeler, Chairperson
Interdepartmental Degree Program in Real Estate Development



Room 14-0551
77 Massachusetts Avenue
Cambridge, MA 02139
Ph: 617.253.2800
Email: docs@mit.edu
http://libraries.mit.edu/docs

DISCLAIMER OF QUALITY

Due to the condition of the original material, there are unavoidable flaws in this reproduction. We have made every effort possible to provide you with the best copy available. If you are dissatisfied with this product and find it unusable, please contact Document Services as soon as possible.

Thank you.

Some pages in the original document contain pictures, graphics, or text that is illegible.

REAL ESTATE SYNDICATIONS

SINCE THE TAX REFORM ACT OF 1986

by

MEGAN MARY DOBROTH

Submitted to the Center for Real Estate Development on July 31, 1987 in partial fulfillment of the requirements for the Degree of Master of Science in Real Estate Development

ABSTRACT

The Congress of the United States, in passing the Tax Reform Act of 1986, radically altered the benefit stream for all real estate projects and created a crisis in the real estate syndication industry. From a peak of more than $10 billion in 1984, the industry's sales collapsed to only $3.6 billion in 1986.

The structure of real estate syndications before and after tax reform were analyzed. Both conventional garden apartments and low-income housing syndications were reviewed. The ways syndicators are structuring and targeting the new limited partnerships are described.

While prior to tax reform, limited partnerships offered investors very high returns with little risk, the success of new syndications depends upon the economic success of the real estate assets. The annual returns are often unpredictable and just competitive with less risky alternative investments.

Low-income housing may suffer due to the narrowly defined and complicated regulations introduced by the new tax laws.

Thesis Supervisor: Lawrence S. Bacow

Title: Professor of Law and Environmental Policy

ACKNOWLEDGEMENTS

I would like to thank the following people for their help: Audrey Kadis and her associates at Wingate Capital Corporation provided valuable resources and guidance. Larry Bacow not only advised me on content and writing style, he showed me a process to conceptualize and break down large problems, a skill which will serve me well in the future. Finally, Nancy Turnbull read and edited countless drafts and provided constant support.

TABLE OF CONTENTS

Chapter One: Introduction.....................................2

Chapter Two: The New Tax Laws................................15

Chapter Three: The Structure of Real Estate Syndications prior to the Tax Reform Act of 1986...........................29

Chapter Four: New Structures for Real Estate Syndications...39

Chapter Five: Summary: Where are Real Estate Syndications Going?..69

Appendix: Table of Exhibits.................................78

CHAPTER ONE: INTRODUCTION

When McDonald's began offering one free Smurf doll with the purchase of a McDonald's Happy Meal, an enterprising seven year-old neighbor of mine, Carol, developed a unique method to increase her Smurf collection. She found three friends who each liked a different part of the Happy Meal: hamburger, Coke, and fries. She then offered to buy each friend's item at a small discount and deliver it to their homes. Then by investing a small sum Carol was able to purchase the meal and get the Smurf at a substantial discount over the price in toy stores.

REAL ESTATE SYNDICATION DEFINED

Real estate syndications work in much the same way as Carol's method for acquiring Happy Meals. A real estate syndication partnership pools money for real estate purposes. Instead of hamburgers, Cokes, fries, and Smurfs, the partners

value elements of the project's benefit stream: cash flow (or the cash remaining annually after all debt is paid), the tax benefits (usually taxes losses generated by deducting depreciation and mortgage interest from the cash flow to determine the taxes due)[1], and the residual (or the value of the property at sale after all debt is repaid). The three parties typically involved in syndications (investor, syndicator, and developer) often value different parts of the benefit stream differently. Each seeks a different mix of risk and return not available to each separately. The result is that the sum of the parts is greater than the whole.

---

1 Losses offset income in tax calculations.

TAX REFORM ACT OF 1986 AND ITS IMPACT

The syndication industry survived for more than a decade on generous tax advantages given to real estate. Enormous tax losses were created by a shortened depreciation period and interest deductions which often went beyond the funds invested. When these tax benefits ran out after the first few years, inflation pushed values up high enough to produce lucrative returns. Even after Congress lengthened the depreciation period in 1984, the tax advantages remained substantial.

```
 ------------------------------
:      TOTAL REAL ESTATE       :
:     SYNDICATION INDUSTRY     :
:                     HH       :
-:$10-in billions     HH       :
:                     HH       :
:                     HH       :
:                     HH       :
-:8                   HH       :
:                     HH       :
:                     HH       :
:                  HH HH HH    :
-:6                HH HH HH    :
:                  HH HH HH    :
:                  HH HH HH    :
:                  HH HH HH    :
-:4                HH HH HH    :
:               HH HH HH HH    :
:            HH HH HH HH HH HH :
:            HH HH HH HH HH HH :
-:2       HH HH HH HH HH HH HH :
:         HH HH HH HH HH HH HH :
:      HH HH HH HH HH HH HH HH :
:0     HH HH HH HH HH HH HH HH :
 ------------------------------
 YEAR 79 80 81 82 83 84 85 86
 Source: Robert A. Stanger & Co.
```

However, the Tax Reform Act of 1986 (TRA'86) radically altered the benefit stream for all real estate projects and created a crisis in the real estate syndication industry. The diminished value of tax losses, the aspect of the benefit stream attracting investors, demanded that syndicators and developers create new structures for syndications to maintain

the investor's interest. From a peak of more than $10 billion in 1984, the industry sales collapsed to only $3.6 billion in 1986. (See graph)2 The shakedown most severely affected companies specializing in the sale of partnership shares to wealthy individuals seeking tax shelters.

UNDERSTANDING THE CHANGED STRUCTURE OF SYNDICATIONS

This paper will examine changes in the structure of real estate syndications resulting from the Tax Reform Act of 1986 (TRA'86). In the chapters that follow, I will describe and compare typical syndication deal structures before and after TRA'86.

This paper has two goals: to describe the new structures of syndication offerings and to consider the potential impact of the new tax laws on America's real estate stock.

The offerings analyzed in this paper are similar in two respects: First, the syndicator and the developer are the same party. Second,all of the real estate projects represented in the offerings involve upgrading either garden apartments or low- income housing. The underlying economic assumptions of each project will not be evaluated; this paper will focus

---

2.Albert Scardino,"Real Estate Syndicator's Shift: Tighter Focus at Winthrop," New York Times, June 25, 1987, p. D1.

solely on the allocation of the benefit stream to the various partners. All projects are assumed to deliver their proforma benefit stream.

The remainder of this chapter will further define syndication through a brief history of the industry and a discussion of typical partners' interests.

Chapter two describes how the new tax law affects real estate. The third and fourth chapters analyze the structure of specific real estate syndications prior to and after TRA'86, respectively.

A BRIEF HISTORY OF SYNDICATION

During the 1950s and 1960s most syndication offerings gave investors tax shelters through small private placements. The general partners, often accountants or lawyers, usually upgraded properties.

By the late 1960s and early 1970s, the syndication industry expanded; many major syndicators joined the business offering larger, more sophisticated public and private offerings. The Securities and Exchange Commission required that more detailed information be provided to investors as the deals became more complex.

Limited partnerships were excellent investments throughout the 1970s. Inflation increasingly caused the value of properties to rise while the mortgage interest rate remained relatively low.[3] By the end of the 1970s, the real estate syndication business was booming as investors received not only tax shelters but economic gains in the form of residuals and /or cash flow. Limited partnerships often out-performed alternative investment options, as shown in the table below:

"AVERAGE ANNUAL RATES OF RETURN FOR VARIOUS INVESTMENT VEHICLES, 1970-1979*[4]

Investment Vehicle	Rate
Real Estate Funds	10.3%
S&P Stock Index	4.7%
Salomon Brothers Long Term Corp. Bonds Index	6.6%
90-Day Treasury Bills	6.3%
CPI	7.4%

* all figures adjusted for inflation

---

3. Peter C. Aldrich, "Note on Real Estate Syndication," Harvard Business School (9-385-152).

4. Aldrich, "R.E. Syndication", HBS.

A PROTOTYPICAL REAL ESTATE DEAL

A simplified example explains how a typical project generated its benefit stream prior to TRA'86. Exhibit 11 A and 11 B shows a property purchased for $10 million. The developer obtains a 30 year mortgage for $8 million at 10%. All fees (such as leasing, operating, property management, etc.) have already been deducted from the net operating income (as given in the example).

The cash flow, shown on the benefit stream table, results from deducting the annual mortgage debt service from the net operating income.

The taxable income is determined by deducting the annual interest payments and the substantial depreciation allowance created by the short depreciation period. As shown on the benefit stream table, tax losses resulted. Higher leveraged deals created even larger amounts of tax losses. These losses could be used to offset income from totally unrelated sources. Assuming a 50% marginal tax bracket, every $2 of losses offset $1 of income. Thus, the benefit stream schedule lists the tax benefits as 50% of the amount of losses.

Sales proceeds constitute the final element of the benefit stream. Besides repaying the mortgage, the parties must pay taxes upon sale. The capital gains tax allowed the property

EXHIBIT 11 Megan M. Dobroth

PRE-TAX REFORM '86 * (Assumes a 50% marginal tax bracket)

PURCHASE PRICE	10,000,000
MORTGAGE AMOUNT	8,000,000
INTEREST RATE	10.00%
TERM	30
DEPRECIATION (STRAIGHT LINE)	19
HOLDING PERIOD	7
SALES PRICE	12,000,000

CASH FLOW	1	2	3	4	5	6
NET OPERATING INCOME	850,000	850,000	890,000	895,000	900,000	901,000
LESS: ANNUAL DEBT SERVICE	(848,633)	(848,633)	(848,633)	(848,633)	(848,633)	(848,633)
CASH FLOW BEFORE TAXES	1,367	1,367	41,367	46,367	51,367	52,367

TAXABLE INCOME						
NET OPERATING INCOME	850,000	850,000	890,000	895,000	900,000	901,000
LESS: INTEREST	(800,000)	(795,136)	(789,786)	(783,902)	(777,428)	(770,308)
LESS: DEPRECIATION	(421,053)	(421,053)	(421,053)	(421,053)	(421,053)	(421,053)
REAL ESTATE TAXABLE INCOME	(371,053)	(366,189)	(320,839)	(309,955)	(298,481)	(290,361)

ADJUSTED BASIS	
ORIGINAL BASIS	10,000,000
LESS:DEPRECIATION	(2,947,368)
ADJUSTED BASIS	7,052,632

CALCULATION OF GAIN	
SALES PRICE	12,000,000
LESS:ADJUSTED BASIS	(7,052,632)
GAIN	4,947,368
AMOUNT OF GAIN TAXED (40%)	1,978,947
TAX LIABILITY ON SALE *	989,474

SALE PROCEEDS	
SALES PRICE	12,000,000
LESS: MORTGAGE	(7,583,601)
LESS: TAX LIABILITY ON SALE*	(989,474)
PROCEEDS AFTER TAXES	3,426,925

EXHIBIT 11 B Megan M. Dobroth

PRE-TAX REFORM
BENEFIT STREAM

YEAR	TAXABLE INCOME (LOSS)	TAX BENEFIT (COST)	NET DISTRIBUT CASH FLOW	ANNUAL AFTER-TAX CURRENT RETURN
1	(371,053)	185,526	1,367	186,893
2	(366,189)	183,094	1,367	184,461
3	(320,839)	160,419	41,367	201,786
4	(309,955)	154,977	46,367	201,344
5	(298,481)	149,240	51,367	200,607
6	(290,361)	145,180	52,367	197,547
7	(278,528)	139,264	56,367	3,622,556

INTERNAL RATE OF RETURN	15.97%
MODIFIED RATE OF RETURN (8% reinvestment rate)	14.52%
NET PRESENT VALUE	938,999
% Tax Benefits/Entire Retur	23.31%

to be taxed at much lower rate than ordinary income. Only 40% of the gain was taxed at the owner's marginal tax rate. Assuming a 50% marginal tax rate, the actual tax was only 20% of the total gain, a substantial savings.

THE PLAYERS

One syndicator told me that he markets fear and greed. His clients' greed makes them interested in his offerings and the fear that they will lose out closes the deals. Syndicators are opportunists, marketing partnerships which they think will sell. They respond to benefits created by Congress and market a product that fits well into the market. They target their products for potential investors by assessing the investor's interests. They work together with developers and lawyers to determine the appropriate risks and rewards for each partner given the needs of potential investors in a given economic market.

The syndicator's reward is earning lucrative fees for structuring and marketing equity investments for syndication as well as a piece of the residual. Before TRA'86 tax benefits were so substantial, investors could afford the syndicator's large fees, which could go as high as 35% of the funds raised.

The syndicator's share of the residual in a good market is worth even more than substantial fees.

The developer and the syndicator can be one in the same party. When they are, the syndicator initially takes on the capital risk by buying the target property before there are any investors or financing. The large fees they collect represents compensation for the large risks they take on.

Developers benefit from syndications in a number of ways. By raising the initial equity necessary for a new project, syndication allows developers to lay-off the project's largest risk (known as the capital or front-money risk) onto passive investors. It also provides a means for developers to become involved with larger, more complex projects by giving them access to larger sources of equity capital. In addition to raising equity capital, the typical limited partnership structure also generates ongoing fees to the developer for a variety of services such as acquiring, developing, managing, and leasing the property.

Until TRA'86 investors bought limited partnerships largely for the tax shelters they offered. Many limited partnerships offered investors as much as $3 or $4 of losses in the initial years for every dollar invested. It was not unusual for individuals to purchase a limited partnership in late December

and receive tax benefits for the entire calender year. The tax benefits were not prorated.

Purchasing a limited partnership in real estate did not eliminate an investor's tax liability; it only deferred the liability to the future. Tax deferral created savings in two ways. First, the investor deferred the cost of taxes and reduced the real cost of the taxes due to the time value of money. Second, when the taxes finally became due at the time of sale, the tax rate was reduced from 50% to 20% because the net effect of tax deferral was to convert ordinary income to capital gain.

In addition, syndications offered investors an interest in a real estate with limited liability (usually only the capital invested is at risk), some portion of the cash flow and residual, and a hedge against inflation. Many syndications were extremely good economic deals and the investors benefited greatly.

SUMMARY

Congress enacted tax advantages to stimulate real estate investment, and the syndication industry responded by making real estate investment more accessible to the small investor. In short, markets responded and the availability of real

estate limited partnerships increased. The syndication industry dramatically grew.

However, there were excesses with many non-economic deals where the sole purpose was to create tax losses. Public attitudes towards tax shelters changed . The result was the Tax Reform Act of 1986 which made significant changes in the tax code. These had profound implications for real estate syndications.

The next chapter will examine these changes.

CHAPTER TWO: THE NEW TAX LAWS

"The pastoral ideal has been used to define the meaning of America ever since the age of discovery, and it has not yet lost its hold upon the native imagination."

Leo Marx, The Machine in the Garden, 1964

In the classic Gone with the Wind Scarlett finally declares that "Tara is all that really matters," and we understand. It is the American dream to own one's own home and land.

The tax system has long reflected this American obsession by allowing tax advantages for real estate investments that have never been available to other investments. The Tax Reform Act of 1986 dramatically reduced or eliminated many of these advantages. This chapter will review some of the changes, their intent, and their effect on real estate syndication. These changes include:

* Dividing income into three categories: active, passive, and portfolio. Losses can only offset income from the same category.

* Reducing individual tax rates. The highest bracket,formerly 50%, now is only 28%.

* Lengthening the depreciation period from 19 years to 27 years for residential and 31.5 years for commercial properties.

* Eliminating preferential capital gains treatment for long-term investments.

* Limiting the amount of investment interest deductions.

* Extending the "at-risk" rules as they apply to real estate.

* Limiting the availability of Investment Tax Credit (ITC) for low-income housing to certain classes of investors.

* Reducing the amount of ITCs available for historic properties.

This chapter will not detail every clause of the new tax law but rather will serve as an overview.

LIMITATION OF PASSIVE LOSSES

TRA'86 redefines income into three categories: active, passive, and portfolio. Active income is income "actively" earned such as wages. All real estate income (losses and credits) earned in activities in which an individual does not "materially participate" is defined as passive income. Thus, most investors' income (losses and credits) from limited partnerships is defined as passive. Portfolio income is earned from investments other than real estate and royalties.

Congress' intended to eliminate tax shelters through this provision, and appears to have been successful. An investor's share of tax losses from a limited partnership now can not be used to offset salary, other professional earnings, or portfolio income. This rule alone radically changed the market

for real estate syndications. Prior to TRA'86 almost all limited partnerships offered the investor her investment back in the form of tax losses; these losses were often large enough to offset the taxes of the wealthy. Investors purchased limited partnerships at the end of the year, received the tax advantages for the entire year, and had their capital free most of the year.

Some observers thought this new provision would create a market for limited partnerships with low or no leverage properties in order to create the necessary passive income to offset the passive losses investors had acquired through debt-laden pre-TRA'86 limited partnerships. In fact, new limited partnerships can almost never offer enough passive income to offset the losses of pre-TRA'86 deals. Consider the case of a prototypical investor we shall call Danielle.

In 1984 Danielle owed over $50,000 in taxes and she decided to invest in a limited partnership. For the first three years she paid-in $10,000 a year and received $30,000 in losses in each of the first three years, then lower amounts of losses in later years. These high write-offs occur because of the use of non-recourse debt financing for the project; debt which Danielle gets to include in her depreciable basis. Thus, by investing $10,000 in 1984, Danielle was able to offset $30,000 of income. In a 50% marginal tax bracket, she reduced

her tax liability by $15,000. Thus, in the first year of the investment she had no out-of-pocket expense, and realized a net benefit of $5,000.

In 1987 during the phase-in period of the new tax law, Danielle could only use a portion of the losses from the limited partnership to offset her income. She needed some passive income to offset the remaining losses from the limited partnership, now defined as passive losses. She decided to investigate no-leverage limited partnerships offering passive income. She invested $10,000 per year for the next three years in a limited partnership offering a guaranteed 7% return. The first year she earned $700 in passive income of which $400 was already sheltered by the project's depreciation.

So for the same $10,000 for which she earned $30,000 in losses in 1984, Danielle now earned $300 of passive income. Danielle will never be able to invest enough to offset the passive losses from her pre-TRA'86 limited partnership. There are, however, other reasons for the popularity of the new low or no-leverage limited partnerships. These reasons will be discussed in chapter four.

The Congress set up a phase-in period and also allowed for some losses for individuals earning less than $150,000. Most passive losses will be carried forward and used to offset

taxes due on sale. With the time value of money, these losses diminish in value each year an investor holds them. These provisions have cushioned the impact of TRA'86 in the short-run. However, the change in an individual's[5] ability to offset income with passive losses fundamentally changes the incentives for purchasing real estate syndications. Investor's interests no longer lie with losses.

REDUCTION OF INDIVIDUAL TAX RATES

TRA '86 reduced individual marginal tax rates. The highest tax bracket (50%) was reduced to 28% and is triggered at $29,750 (jointly) and $17,850 (for individual).

This new provision has implications mainly for limited partners of pre-TRA'86 debt-laden real estate syndications. Looking at Danielle's case again, she would owe $84 of tax from her $300 of passive income if she had not had passive losses to shelter it from taxes. Before tax reform, she would have owed $150 of taxes for the same $300 of income if she did not have losses to offset it. As a result of tax reduction suddenly the passive losses worth $150 are now only worth $84 and only for a limited class of income.

---

5. Rules for corporations are different.

DEPRECIATION

Before TRA'86 all property was depreciated over 19 years as a result of the 1984 tax laws. Now, commercial property placed in service after December 31, 1986 is depreciated over 31.5 years. Residential properties, including low-income housing, now have a depreciable life of 28 years.

The impact of changing the depreciable life of a building can be illustrated using the same $10 million property discussed in chapter one. Exhibit 12 A and 12 B shows the same property with the same mortgage under the new tax law. I have assumed that the property is placed in service after the phase-in period. The changed depreciable life affects two major elements: the amount of losses and the property's basis at sale. With a depreciable life of 31.5 years, the amount of losses, now defined as passive losses, are substantially reduced. In addition, the adjusted basis of the property at sale ($8.2 million) is much higher than in the pre-TRA case ($6.9 million) which causes the amount of gain ($3.8 million) to be lower than the gain in the pre-TRA'86 example ($5.1 million).

EXHIBIT 12 A Megan M. Dobroth

POST TAX REFORM '86 EXAMPLE (Assumes a 28% tax rate and all passive losses are carried forward to sale.)

PURCHASE PRICE	10,000,000
MORTGAGE AMOUNT	8,000,000
INTEREST RATE	10.00%
TERM	30
DEPRECIATION (STRAIGHT LINE)	31.5
HOLDING PERIOD	7
SALES PRICE	12,000,000

CASH FLOW	1	2	3	4	5	6	
NET OPERATING INCOME	850,000	850,000	890,000	895,000	900,000	901,000	905,0
LESS: ANNUAL DEBT SERVICE	(848,633)	(848,633)	(848,633)	(848,633)	(848,633)	(848,633)	(848,6
CASH FLOW BEFORE TAXES	1,367	1,367	41,367	46,367	51,367	52,367	56,3
TAXABLE INCOME							
NET OPERATING INCOME	850,000	850,000	890,000	895,000	900,000	901,000	905,0
LESS: INTEREST	(800,000)	(795,136)	(789,786)	(783,902)	(777,428)	(770,308)	(762,4
LESS: DEPRECIATION	(253,968)	(253,968)	(253,968)	(253,968)	(253,968)	(253,968)	(253,9
REAL ESTATE TAXABLE INCOME	(203,968)	(199,104)	(153,754)	(142,870)	(131,396)	(123,276)	(111,4

(Now defined as passive income(losses))

ADJUSTED BASIS

ORIGINAL BASIS	10,000,000
LESS:DEPRECIATION	(1,777,778)
ADJUSTED BASIS	8,222,222

CALCULATION OF TAX LIABILITY ON SALE

SALES PRICE	12,000,000
ADJUSTED BASIS	(8,222,222)
GAIN	3,777,778
PASSIVE LOSSES	(1,065,813)
TAXABLE GAIN	2,711,965
TAXES DUE (28%	759,350

SALE PROCEEDS

SALES PRICE	12,000,000
LESS: MORTGAGE	(7,538,601)
LESS: TAX LIABILITY ON SALE*	(759,350)
PROCEEDS AFTER TAXES	3,702,049

EXHIBIT 12 B

Megan M. Dobroth

POST-TAX REFORM
BENEFIT STREAM

YEAR	NET DISTRIBUTABLE CASH FLOW	ANNUAL AFTER-TAX CURRENT RETURN
1	1,367	1,367
2	1,367	1,367
3	41,367	41,367
4	46,367	46,367
5	51,367	51,367
6	52,367	52,367
7	56,367	3,756,416

INTERNAL RATE OF RETURN	10.44%
MODIFIED RATE OF RETURN (8% reinvestment rate)	10.38%
NET PRESENT VALUE	305,849

INDIVIDUAL CAPITAL GAINS

Under the new legislation, the 60% long-term capital gain exclusion was eliminated. This rule permitted deferral of taxes and also effectively converted ordinary income to capital gains. Taxing 40% of the gain in the 50% tax bracket amounted to a tax of 20% under the old rules.

Gain is now taxed at the same rate as ordinary income (28% in most cases). Some of the incentive for investing in long-term investments like real estate over other more liquid investments are removed. Without tax deferral, real estate syndication investors are more interested in immediate cash flow rather than losses and a part of the residual.

In the example of the $10 million property, the owner pre-TRA'86 had to pay taxes on 40% of a gain of $5.1 million or on $2 million. In the 50% marginal tax bracket, the tax due on sale was $1 million. Under the new tax laws, the passive losses ($1 million) can be used to offset the already lower gain of $3.8 million. The taxable gain ($2.7 million) is taxed at a higher rate of 28% (as opposed to an actual 20% tax rate under the old laws) producing a tax liability of $760,000.

At first glance it may appear that the owner is paying less tax under the new tax rules. But under the old tax law

over $1 million of taxes were sheltered during the life of the project; under the new tax laws, none of the tax is sheltered. Thus, the net amount of taxes paid under the old law was $200,000 ($1.2 million sheltered and $1 million paid) and $760,000 under the new tax laws.

LIMITATION ON INVESTMENT INTEREST

TRA'86 expands the investment interest limitations in several ways. Investment interest is interest paid or accrued on debt incurred for purchasing or carrying a property. It is now deductible only to the extent of net investment income. These new rules will have little impact on syndications since interest attributable to the passive loss rules will not be subject to investment interest provisions.

"AT-RISK" RULES EXTENDED

Perhaps the most significant allowance historically given real estate was an exclusion of the "at-risk" provision. Even though a taxable owner may not have been personally liable for the underlying mortgage debt, the owner was able to depreciate the full cost basis of the asset, including the portion financed by debt.

The new law extends the "at-risk" rules to encompass real estate activities, including the holding of personal property.

In the case of real estate syndications, a limited partner's depreciable basis includes not only the taxpayer's cash she has invested and debt for which she is personally liable, but also that partner's share of qualified non-recourse debt.6 To qualify for inclusion in basis, non-recourse debt must be obtained from and guaranteed by the federal, state, or local government or from a financial institution whose primary activity is lending. As a practical matter, these rules do not significantly inhibit the ability of limited partners to obtain the benefits of non-recourse debt because of the wide availability of such financing from qualified lenders. However, the use of non-recourse debt now generates passive losses which have lower value than before tax reform.

COMPLICATED REQUIREMENTS FOR LOW-INCOME HOUSING ITC

Low-income housing is a classic example of use of the tax code to achieve socially desirable objectives. The typical low-income housing partnership offered no real cash flow and

---

6. Philip J. Wiesner,CPA,"Syndications. Is There Life After Tax Reform?", Journal of Accountancy, November 1986, p.122.

had little or no appreciation. Tax benefits in the form of losses were one of the few true elements of value used to entice investors.

In the past, these tax benefits from low-income housing have been as high as $4 of losses for each $1 of cash invested. TRA'86 changed the benefits in two significant ways: lengthening the depreciation period from 15 year 200% double declining balance to 27.5 years, and reducing individual tax rates. The result of these changes is that during the first five years of an investment the tax benefits are only 22% of what they were before tax reform.7

Congress now offers tax credits to attract investors to low-income housing. Tax credits work differently from tax losses. The credits can be used for a dollar for dollar direct reduction of taxes due. There are numerous and often tricky requirements that a syndicator or developer must meet to qualify for purchase.

Investor requirements have also changed. Investors in low-income housing have traditionally been very high income earners. Under TRA'86 individuals with adjusted gross income under $200,000 may credit up to $25,000 a year against taxes owed on income from any source (not just passive).

---

7. R. G. Richardson, "Subsidized Housing after Tax Reform," Financial Product News, January- February 1987, p.26.

individuals with incomes between $200,000 and $250,000 may use increasingly smaller percentages of the credit. This means that the ideal investor is someone who knows that her income will not go over $200,000 throughout the holding period of the project and will not use up the $25,000 reduction allotment on other shelters.

REDUCTION OF ITCs AVAILABLE FOR HISTORIC PROPERTIES

The rehabilitation tax credit is retained but reduced to 20% for certified historic properties and 10% for non-historic properties placed in service before 1936.

HOW THE NEW RULES WORK TOGETHER

The operating rules governing investment interest, depreciation, and "at-risk" rules are applied first, followed by the new rules limiting passive losses. Any passive losses that are not used are carried forward for use at sale.

SUMMARY

The example of the $10 million dollar property shows the dramatic change in the benefit stream for a property under the

new tax laws. Exhibit 12 A and 12 B shows the same property purchased at the same price with the same mortgage and the same projected net operating income. The modified rate of return (with an 8% reinvestment rate) is only 10.38% compared with a 14.36% return before tax reform. The net present value is only $306,000 compared with $978,000 before tax reform.

Given these changes in the tax law, the market for limited partnership syndications must have changed. The next chapter will describe the structure of limited partnerships prior to tax reform. The ways in which syndications have adapted is the subject of chapter four.

CHAPTER THREE:
THE STRUCTURE OF REAL ESTATE SYNDICATIONS PRIOR TO THE TAX REFORM ACT OF 1986

Syndicators and developers seek equity to fund new projects and, therefore, structure their limited partnership offerings to attract investors. This chapter will describe the structure of four typical and successful pre-tax reform syndications: two conventional upgraded garden apartment buildings and two low-income apartment buildings. In all cases the developer and syndicator are the same party.

CONVENTIONAL GARDEN APARTMENTS

The two syndicated projects chosen for this study, Rolling Green[8] and Stony Brook[9], raised $1.7 million and $1.85 million, respectively. Stony Brook is a midwestern 248 unit apartment complex. The syndicators planned to spend $400,000 to upgrade the project. Rolling Green is a 170 unit apartment complex also located in the midwest.

---

8. See Exhibit 1A and 1B.

9. See Exhibit 2A and 2B.

SYNDICATOR'S FEES

One financial planner with whom I spoke referred to syndicator's fees as "revolving mirrors" because so many of the fees can be hidden in the syndication offering. Careful investigation of the prospectuses of Stony Brook and Rolling Green shows that 26.7% and 20.3% of the equity raised, respectively, was paid directly to the syndicators for their efforts. These fees were paid in the first year. They included fees for sales, acquisition, organization, consulting, and salaries.

In his article, "How to Read a Syndication Prospectus,"10 Allen Cymret warns that any time a syndicator's fees are greater than 15% of the capital raised and are paid in the early years of the project, it may be a sign that the project is non-economic. While many syndicators claimed fees of 10%-15% in the early years, once adjusted for fees hidden in complicated legal clauses the percentages often climb closer to 25% to 30%. In order to understand whether the project was truly economic, it is important for the investor or her

---

10. Allen Cymret,"How to Read a Syndication Prospectus," Real Estate Review, p.68.

financial planner to investigate the underlying economic assumptions of the projects.

Many fees are hidden. The syndicators of both projects have a provision to receive any remaining funds from a reserve account they have called the "Operating Deficit Reserve Account". In both cases the reserve fund covers any deficit due to operation. Many syndicators have as many as three different reserve accounts in which they collect the remaining funds. The Rolling Green syndicators, for example, created provisions giving them the benefits of any remaining working capital and any upside of interest rate changes. This type of hidden fee can create perverse incentives for the syndicator/developer. Since he profits for any unused funds, he may choose to cut corners in order to save money rather than spending necessary funds. None of these fees or the syndicator's share of the benefit stream are included in the upfront fees discussed above.

SPLITS

The components of the benefit stream of any project are the cash flow, tax benefits, and the residual. The allocation of the benefit stream between the partners is often called the splits. The general partners of both Rolling Green and Stony

Brook named an affiliate to receive a percentage of the splits. For the purposes of this paper, the total of the splits of both the general partner and his affiliates is considered the syndicator's share.

The splits for both Rolling Green and Stony Brook are the same. The investor received 98% of the cash flow and 98% of the tax benefits. At sale or refinancing the investor received all of his initial capital back and 80% of the remaining proceeds.

LEVERAGE

Since these projects are highly leveraged, the investors received most of their investment back initially as tax losses. Rolling Green is 65% leveraged In other word, 65% of project covered by debt and 35% by equity. When the syndicator's fees are taken into account, the amount of equity in the project goes down and the leverage goes up to 69.8%. Similarly, Stony Brook is 72.1% leveraged and adjusting for the syndicator's fees makes the leveraged percentage increase to 77.44%

RATE OF RETURN

These syndications offered their investors excellent rates of return. The internal rate of return for Rolling Green is 26% and for Stony Brook is 26.3% Modified rates of return, assuming an 8% rate of reinvestment, are a better measure of performance. The modified rates of returns were 19.7% and 22.9% respectively. Since the investor's contribution is paid over four years, the modified rate of return is still a bit high.

Syndicators offer an installment schedule for investor payment for a number of reasons. Not only is the rate of return higher, but the investor can deduct the interest to create more losses. Also, more investors are able to pay smaller sums over time than to pay one large lump sum. This makes the investment very attractive to end-of-the-year purchasers. By investing small out-of-pocket savings, they can reduce their tax liability substantially.

Tax benefits comprise the large portion of the investor's return in both syndications. The Rolling Green return is 56% tax benefits. Stony Brook return is almost entirely tax based with 91% of the return made up of tax benefits.

LOW-INCOME HOUSING

Syndications for low-income housing projects were very different from other syndicated projects. The investors received $2, $3, or even $4 in tax benefits for each dollar invested. Instead of paying taxes to the government, investors paid for low-income housing.

The two low-income housing syndication offerings chosen for this study, Palm Court and Redwood Forest, raised $3.2 million and $15.3 million, respectively. Palm Court is a 60 unit new low-income housing development. The Redwood Forest offering was comprised of a little more than a 1% interest in each of five different existing low-income housing projects located in Georgia and Texas. The total number of housing units in all five projects is 354.

SYNDICATOR'S FEES

Low-income housing syndications had very high fees. Since the investors were offered enormous tax losses, they would tolerate (or more likely they did not care about) the large syndicators' fees.

The Palm Court project is an excellent example. Over 43% of the capital raised is paid to the syndicators within the

first three years. These fees are allocated to commissions (25%), organizational fees (50%), and acquisition and other fees (25%). They also receive an annual fee for their services and an additional portion of the splits.

The Redwood Forest syndicator's fees amount to 23% of the equity raised. In addition, the syndicator receives an average of 1.04% of each building's gross rental. Hidden fees also in this syndication change the splits.

THE SPLITS

Low-income housing does not offer significant cash flow or appreciation so that the only valuable part of the benefit stream is the tax benefits.

In the Palm Court deal, the investors receive 90.5% of the cash flow (not expected to be more than $555 per year) and 90.5% of the tax benefits. The general partners and their holding company receive the other 9.5%, apportioned 5% and 4.5% respectively. At sale or refinancing, the investors and the general partners split the proceeds after returning the initial capital.

After adjusting the splits for annual fees paid to the general partners, the investors in the Redwood Forest partnership receive 98.5% of the cash flow and the tax

benefits . At refinancing or sale, the investors receive 99% of the proceeds after paying a hefty disposition fee to the general partners.

Since low-income housing does not appreciate in value and can actually decline in value due to the deterioration of the property, most investors do not plan on receiving any monies at the end of the holding period.

LEVERAGE

Low-income housing is highly leveraged; many of the mortgages come from the government. The Palm Court project is 69% leveraged. When the syndicator's fees are taken into account, the leverage goes up to 89%. The Redwood Forest projects are leveraged an average of 61%. Adjusting for syndicator's fees the leverage amount goes up to 65% and adding in the interim loan for investor pay-in, the leverage goes up to 75%.

ANNUAL RATE OF RETURN

Both syndications offer their investors excellent rates of return. Palm Court has an internal rate of return of 42% and Redwood Forest has 53.5%. Modified rates of return, assuming an 8% rate of reinvestment offer a better measure of performance. Palm Court then offers a 15.4% return and Redwood Forest offers a 20% rate of return. These returns are largely comprised of tax benefits. Tax benefits comprise 86% of the Palm Court return and 97% of the Redwood Forest return.

SUMMARY

Analysis of typical limited partnership deals show that their structure capitalized on investors' interest in tax benefits. By using high leverage and financing investors' contributions, syndicators achieved the highest proportion of tax benefits possible. Many of the offerings sought ways to maximize write-offs and minimize the economics of the deal. Some critics of real estate syndications have alleged that syndicators went so far as to buy buildings that were loosing money, put a high amount of leverage on them, and then not attempt to improve profitability in order to create the largest amount of tax losses possible. They claimed that

programs sought to maximize write-offs and minimize economics.11

Since tax benefits comprised the largest proportion of investors' benefit, the returns on these limited partnerships had a high degree of certainty. Regardless of the project's performance, the tax benefits remained the same. Tax reform or a decline in a taxpayer's shelterable income were the only ways that investors would not receive the tax related portions of the benefit stream.

Many investors did not care about the economics of a project, assuming that they would receive adequate return form the tax benefits alone. If the project succeeded, then the additional benefits provided by cash flow and appreciation (in the form of the residual) were seen as gravy.

Chapter four analyzes at how syndication structures have changed since tax reform.

---

11. Quoting Gregory Nooney of Nooney Co. in: Margaret Opsata, "Leveraged Perceptions," Financial Planning, May 1987, p. 68.

CHAPTER FOUR:

NEW STRUCTURE FOR REAL ESTATE SYNDICATIONS

Chapter one discussed how real estate tax incentives provided by Congress achieved their primary goal: investment in real estate. Syndicators used the incentives created by tax laws and developed a product which attracted investors. This chapter will examine how syndicators have adapted to the new market created by tax reform.

TRA'86 reduced the value of tax losses to investors. Cash flow has become more important and the goal of syndicators is to maximize cash flow. There are many ways to increase a project's cash flow; these include changing the amount of leverage and diversifying the make-up of the offering's holding to include non-real estate investments. Both of these options require returns that are based on the economics of the project. A real estate asset can perform poorly economically for any number of reasons. It can be poorly located and does not lease, or it can be poorly managed and does not release or any number of other reasons. Thus, syndication deals are riskier investments since TRA'86.

This chapter will look at several new products which have been introduced into the market since TRA'86. An examination of the structure of these products show how syndicators have

dealt with the issues of leverage, fees, returns to investors, and the division of the benefit stream. Three different kinds of syndications will be analyzed: conventional garden apartment syndications with financial projections, blind pools for conventional projects where the property is not specified, and low-income housing blind pools.

EFFECTS OF LOWERING OR ELIMINATING LEVERAGE

Many of the new programs have reduced or eliminated leverage. Many investors mistakenly have come to view leverage and shelters as one-in-the-same because leverage contributed heavily to the creation of tax shelters. Many investors are seeking all-cash limited partnerships, forgetting that much of the wealth of the country was made with the use of leverage.

All-cash projects concentrate capital, decreasing the ability to diversity. Unleveraged properties are very safe; investors have very limited exposure. They also produce more cash flow because there is no debt service. If an investor has only $100,000, she can probably invest in only one property worth $100,000. The use of leverage gives investors the opportunity to diversify their portfolio holdings. Using leverage, she can probably invest in $800,000 worth of

property in four different geographic locations. While she would have more exposure with each property, using leverage allows her to expand her portfolio and diversify the risk involved with a single investment. Although the cash flow may be reduced, equity appreciation potential is far greater. When deals are all-cash, real estate is not as certain a hedge against inflation.

There is an inherently negative side to eliminating leverage. It reduces the prospects for significant equity appreciation. For example, suppose that an investor purchases the same $10 million property discussed in chapter 1 and holds it for seven years. It appreciates significantly and is sold for $16 million. Exhibit 13 compares the effect of financing the property with an $8 million interest only mortgage (or 80% leverage) to buying it all-cash (unleveraged). While the property appreciated the same amount in both scenarios, the equity appreciated far more with leveraged. The rate of return of the leveraged property is significantly higher at 19.49% as opposed to 5.54% return of the all-cash property.

In the present economic climate, all-cash deals can also lose out on the effects of positive leverage. A building that produces a 10% cash flow and is financed at 9.5% benefits from the effect of positive leverage.

EXHIBIT 13 Megan M. Dobroth

EFFECT OF LEVERAGE ON POST TAX REFORM '(Assumes a 28% tax rate)

LEVERAGED		UNLEVERAGED	
PURCHASE PRICE	10,000,000	PURCHASE PRICE	10,000,000
MORTGAGE AMOUNT	8,000,000	MORTGAGE AMOUNT	0
INTEREST RATE	10.00%	INTEREST RATE	
(Interest only)		TERM	
DEPRECIATION (STRAIGHT LINE)	31.5	DEPRECIATION (STRAIGHT LINE)	31.5
HOLDING PERIOD	7	HOLDING PERIOD	7
SALES PRICE	16,000,000	SALES PRICE	16,000,000
ADJUSTED BASIS		ADJUSTED BASIS	
ORIGINAL BASIS	10,000,000	ORIGINAL BASIS	10,000,000
LESS:DEPRECIATION	(1,777,778)	LESS:DEPRECIATION	(1,777,778)
ADJUSTED BASIS	8,222,222	ADJUSTED BASIS	8,222,222
CALCULATION OF TAX LIABILITY ON SALE		CALCULATION OF TAX LIABILITY ON SALE	
SALES PRICE	16,000,000	SALES PRICE	16,000,000
ADJUSTED BASIS	(8,222,222)	ADJUSTED BASIS	(8,222,222)
GAIN	7,777,778	GAIN	7,777,778
PASSIVE LOSSES	0	PASSIVE LOSSES	0
TAXABLE GAIN	7,777,778	TAXABLE GAIN	7,777,778
TAXES DUE (28%)	2,177,778	TAXES DUE (28%)	2,177,778
SALE PROCEEDS		SALE PROCEEDS	
SALES PRICE	16,000,000	SALES PRICE	16,000,000
LESS: MORTGAGE	(8,000,000)	LESS: MORTGAGE	0
LESS: TAX LIABILITY ON SALE*	(2,177,778)	LESS: TAX LIABILITY ON SALE*	(2,177,778)
PROCEEDS AFTER TAXES	5,822,222	PROCEEDS AFTER TAXES	13,822,222

YEAR	LEVERAGED	YEAR	UNLEVERAGED
1	(2,000,000)	1	(10,000,000)
2	0	2	0
3	0	3	0
4	0	4	0
5	0	5	0
6	0	6	0
7	5,822,222	7	13,822,222
INTERNAL RATE OF RETURN	19.49%	INTERNAL RATE OF RETURN	5.54%

The effects of leverage on the new syndications will be carefully analyzed in this chapter.

ALL-CASH DEALS

All-cash deals attract investors because of the security they offer. Now investors need to be more concerned with the economics of the building. Without a mortgage, the partnership is freed from the risk of losing its building through foreclosure. In addition, without a mortgage payment, the amount of cash flow is increased. With no mortgage, there is no mortgage interest deduction and the amount of tax losses are reduced. The lengthened depreciation period shelters enough of the income to give the investors the cash flow without taxes due.

A building occupied by AAA rated tenant with a triple net long-term lease is the ideal property for an all-cash syndication because it has a reduced releasing risk. This guarantees little, if any, fluctuation in the cash flow. In effect, an investment in such a building is akin to a bond with comparable returns. There is an inherent problem when an all-cash syndication chooses this type of property. The property must increase in value by 10%, 15%, or even 20% in order to overcome the cost of the front-end fees and still be

worth enough to return the investors' capital at the end of the first three years, as many syndicators offer.[12] That kind of appreciation without leverage can usually only be realized on a distressed property which has been turned around.

The typical proforma holding periods for all-cash syndications are the same as pre-TRA'86 syndications, 5 to 7 years. The holding period, prior to tax reform, was determined by analyzing when the interest deductions had declined so much that the tax benefits were not as valuable as capitalizing on the residual. The new holding period should be longer since tax benefits are no longer valued. A good income producing property should be held for a longer period of time.

All-cash syndications are more bond-like in nature and represent a shift toward more safe investments. The perfect investor for an all-cash deal is a very conservative individual who would trade appreciation for current yield and safety.

Finally, since many investors are purchasing without leverage, it has become more difficult to obtain discounts for all-cash purchases.

---

12. Margaret Opsata, "Leveraged Perceptions," Financial Planning, May 1987, p.71.

Before analyzing an all-cash deal, conventional syndications with leverage and financial projects will be analyzed.

CONVENTIONAL SYNDICATIONS

The two conventional syndications offerings examined in this chapter, Oak Park and Ocean Crest, raised $2.8 million and $50 million, respectively. Both offer investors financial projections. Oak Park is a garden apartment complex comprised of 296 units. Ocean Crest is a 1,222 unit high-rise market rate rental apartment complex.

SYNDICATOR'S FEES

The upfront fees in these syndications have not changed much from the pre-TRA'86 syndications. The syndicators' fees for Ocean Crest and Oak Park were 23% and 24% of the equity raised, respectively. These fees are paid in the first year.

The number of hidden fees in these offerings have increased and are paid later than the fees in the pre-tax offerings examined in earlier chapters. There are three typical kinds of extra fees, all of which were common in pre-

TRA'86 deals but were not all used in the pre-TRA'86 limited partnerships analyzed in this paper.[13]

In both the Oak Park and Ocean Crest projects, there is an annual fee paid to the syndicator from the net operating income. These fees are called investor services and partnership administration fees, and are charged for the administration of the partnership.

Both syndications also charge fees for arranging necessary services. The companies that provide the service, often an affiliate of the syndication company, also charge a fee. Thus, the partnership pays double fees for necessary services. Both syndications charge a fee for arranging for property management. They do not provide the service.

The last type of hidden fee was found in both of the pre-tax deals. Syndicators claim any remaining funds in any reserve account or take any advantage created by changes in the market which make the returns greater than forecasted. Ocean Crest has a number of these including:

* An incentive management fee equal to 20% of any excess of actual net cash flow distributable to investors in any year that the distributable cash flow is greater than forecasted for that year.

* A contingent fee equal to an amount, if any, by which interest actually paid on the commercial loan in any year is less than the forecasted amount after

---

13. See Exhibit 14.

deductions for repayment of any interest shortfall loans.

* A contingent fee equal to the amount, if any, by which interest earned on the reserve account is greater than the amount of interest forecasted to be earned in the financial forecast.

* The greater of $425,000 or 5% of the amount expended in connection with the renovation and capital improvement program.

The fee structure has adapted with individual fees based on cash performance of the project. Thus, the fees reflect the investor's need for a well performing cash flow.

SPLITS

The splits for these new partnerships appear to be not very different than the pre-TRA'86 deals. Investors receive 95% of the cash flow and 97% of the taxable income in the Ocean Crest offering. They get their capital back at sale plus an 8% cumulative non-compounded return and 75% of the remaining proceeds. Similarly, investors in the Oak Park receive 98% of the cash flow and the taxable income. At sale the investors receive their capital back plus an 8% cumulative non-compounding return, then 80% of the remaining proceeds. The splits are stated in a way that it is clear that the investor may not see the cumulative non-compounded return until the dissolution of the partnership. The new all-cash

deals, as will be seen, attempt to promise more. The returns for post-TRA'86 deals are only as good as the performance of the underlying real estate holdings.

The Oak Park limited partnership gives investors a small amount of portfolio income in the form of interest earned on the reserve accounts.

Both syndications give investors the option of using the passive losses during the transition period. All remaining losses are carried forward to offset the gain at sale.

Until the property is sold the only benefit the investor receives is cash flow. These syndications offer investors a larger annual cash return on their investments.

LEVERAGE

Some syndicators are now talking of offering properties with lower leverage in order to increase the cash flow.[14] In these syndication deals the amount of leverage has not changed.

The Oak Park project is 67% leveraged, much the same as the pre-TRA'86 limited partnerships. When this percentage is adjusted to take into account syndicator's fees (which

---

14. Opsata, "Leveraged Perception." FP.

decreases the amount of equity), the leveraged amount goes up to 72%.

The Ocean Crest project has a lower amount of debt over the life of the project. It is only 44% leveraged or 51% when the syndicator's fees are deducted from the equity, much lower than typical pre-TRA'86 deals. The amount of debt is greatly increased by the interim loan for the phased investor pay-in, bringing the leverage up to 93.5% for the first three years. The syndicators are the originators of this loan and earn the interest on it. The installment method benefits both investor and syndicator. The investor can more easily afford the limited partnership and receives a higher rate of return. The syndicator makes money on the loan. When the pay-in period ends, the reduced amount of leverage should provide more cash for the investors.

RATES OF RETURN

The rate of returns are lower than the pre-TRA'86 returns. The internal rates of return for Ocean Crest are 12.9% for the cash method and 18.1% for the installment method. The modified rate of return (assuming an 8% reinvestment rate) are 11.9% for the cash method and 14.4% for the installment method. Oak Park's rates of return are similar. The internal

rate of return is 18.1% (cash method) and 22.1% (installment method). The modified rate of return is 16.8% (cash method) and 25.4% (installment method). Looking at the Table Comparing All Syndication Components (Exhibit 14), the returns on Ocean Crest are much lower than the pre-TRA'86 deals. Oak Park offers only a slightly lower return than the pre-TRA'86 syndications.

All of these returns assume that the property will preform as projected. While the tax benefits of the pre-TRA syndications did not vary regardless of the economic climate, the returns of these limited partnerships are linked to the property's economic success. Unlike the TRA'86 returns which were largely based on tax benefits, these syndications' main benefit is the cash flow which must rely on the performance of the real estate assets.

BLIND POOLS

Blind pools are syndications that raise equity without specifying the properties to be purchased. They have become far more common since TRA'86. Prior to TRA'86 investors were less concerned when projects did not meet their financial projections since tax benefits did not depend on the economics of a project. Now that tax benefits are not the most important

EXHIBIT 14 Megan M. Dobroth

TABLE OF COMPARISON OF ALL SYNDICATION'S COMPONENTS

	PRE-TRA '86		*******POST- TRA'86************************				
	ROLLING GREENS	STONY BROOK	OAK PARK	OCEAN CREST	GLACIER VIEW (unlever)	GLACIER VIEW (lever)	TANGLE FALLS
SYNDICATOR'S FEES							
% Fees/ Capital Raised	20.24%	26.70%	23.29%	23.15%	18.00%	15.70%	13.85%
% Commission/ Upfront Fees	49.42%	0.00%	42.94%	38.88%	44.44%	***	57.76%
% Organizational cost/ Upfront Fees	11.63%	49.21%	14.26%	13.57%	22.22%	***	21.66%
Any remaining portion of operating reserve	yes	yes	no	yes	***	***	***
Any remaining portion of working reserve	yes	no	no	yes	***	***	***
Any benefit from change in loan terms	yes	no	no	yes	***	***	***
Annual fee for servicing partnership	no	no	yes	yes	***	***	***
Double fee for providing certain services	no	no	yes	yes	yes	yes	yes
% MBS/ Total Investment	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	30.00%
SPLITS (Investor: Syndicator)							
Taxable Income	98:02	98:02	**	**	**	**	**
Cash Flow	98:02	98:02	98:02	97:03	100:0+	100:0+	93:07+
Sales Proceeds (See individual exhibits.)							
LEVERAGED AMOUNT							
% Leveraged	64.86%	72.11%	67.22%	44.59%	0.00%	70.00%	0.00%
% Leveraged with adjustment for fees	69.75%	77.44%	72.77%	51.15%	0.00%	***	0.00%
% Leveraged with adjustment for fees and interim loan	69.75%	77.44%	72.77%	93.57%	0.00%	***	0.00%
RATES OF RETURN (Installment Method)							
Internal Rate of Return	26.00%	26.30%	22.10%	18.10%	++	++	++
Modified Rate of Return*	19.70%	22.90%	25.40%	14.40%	++	++	++
% Tax Benefit/ Total Investor Benefits	55.79%	90.77%	-2.23%	0.00%	++	++	++
RATES OF RETURN (Cash Method)							
Internal Rate of Return	++	++	18.10%	12.90%	***	***	***
Modified Rate of Return*	++	++	16.80%	11.90%	***	***	***
% Tax Benefit/ Total Investor Benefits	++	++	-2.23%	0.00%	***	***	***
GUARANTEED CURRENT YIELD	++	++	++	++	7.50%	5.00%	6.50%

* Reinvestment rate of 8%.
** Passive losses carried forward to sale.
*** Unknown.
\+ After certain returns and certain fees are paid.
++ Not Applicable.

EXHIBIT 15 Megan M. Dobroth

TABLE OF COMPARISON OF ALL SYNDICATION'S COMPONENTS LOW INCOME HOUSING

	PRE-TRA '86		*POST- TRA'86*
	PALM COURT	REDWOOD FOREST	BIRCH BLUFF
SYNDICATOR'S FEES			
% Fees/ Capital Raised	43.64%	22.39%	35.03%
% Commission/ Upfront Fees	25.16%	***	22.83%
% Organizational cost/ Upfront Fees	50.22%	***	23.18%
Any remaining portion of operating reserve	no	no	no
Any remaining portion of working reserve	no	no	no
Any benefit from change in loan terms	no	no	yes
Annual fee for servicing partnership	yes	yes	no
Double fee for providing certain services	yes	yes	yes
SPLITS (Investor: Syndicator)			
Taxable Income	(90.5):(9.5)	(98.5):(1.5)	94:06
Cash Flow	(90.5):(9.5)	(98.5):(1.5)	94:06
Sales Proceeds (See individual exhibits.)			
LEVERAGED AMOUNT			
% Leveraged	68.87%	61.12%	***
% Leveraged with adjustment for fees	75.93%	64.98%	***
RATES OF RETURN (Installment Method)			
Internal Rate of Return	42.00%	53.50%	51.80%
Modified Rate of Return*	15.40%	20.70%	25.00%
% Tax Benefit/ Total Investor Benefits	85.92%	97.19%	61.92%

* Reinvestment rate of 8%.
*** Unknown.

element of the benefits stream, blind pools have become a means for syndicators to avoid the difficulties of accurately projecting cash flow and residual amounts, both of which can easily change as a result of a number of economic factors. Any project expected to have cash flow shortfalls, as many do during their initial years, can be more attractively marketed in a blind pool syndication.

Investors have become more concerned with the economics of a syndication since returns are closely linked to performance. If investors are not provided with financial projections, they must rely heavily on the track record of the syndicator. Syndicators new to the industry will not find it easy to market blind pools.

The remaining four syndications analyzed in this chapter are all blind pools. Two of the syndication offerings, like many on the market today, describe the properties the syndicators intend to buy. No financial projections are offered in the prospectus for any of the limited partnerships.

TO BUY LEVERAGED OR UNLEVERAGED?

Although most syndicators believe that leveraged offerings are a better product for most people, many investors are more interested in unleveraged properties. Thus, most syndicators offer both types of syndications to investors.

Glacier View's two blind pools are examples of a typical syndicator's offerings. The unleveraged offering will raise a maximum of $25 million and will own 50% of a $42 million commercial property. The syndicator's fees reduce the amount of capital available for investment to $20 million. The leveraged offering will raise a maximum of $50 million and will invest in 8 to 10 properties worth approximately $140 million. The syndicator hopes to leverage 70% loan to value on the total value of all partnership properties on a combined basis. The leveraged limited partnership offers the advantage of a more diversified portfolio.

SYNDICATOR'S FEES

The unleveraged syndications spend 18% of the capital raised on syndicator's fees, somewhat lower than pre-tax reform syndications. In addition to the up-front fees, the syndicators charge a fee of 0.5% of the net value of all

partnership properties each year. This fee, together with 6% of the up-front fees, are lent by the syndicators to the partnership at an interest rate of 8.5% to be used to meet any shortfalls in investors' annual return from cash flow. Eventually these fees must be paid and the investors will pay fees with interest before receiving any of the sales proceeds. This requires that the property must appreciate substantially in order for the investors to get their capital contribution out of the back end. If the partnership is dissolved in the sixth year, then the property must appreciate a total of 66% or 11% a year in order to pay all the investors the 7.5% annual return (45% total) , the syndicators fees (18% upfront plus 3% over time), and return the investor's capital.

In the leveraged syndication offering, the syndicator structured his fees in a different manner. The marketing brochure for the deal assures investors that all of the capital raised will go directly into purchasing properties. The investors have secured a loan from an affiliate at a variable rate to pay for the front-end fees. The loan will also cover any portion of the partnership management fee which must be used to cover shortfalls in the investors' annual return of cash flow. This fee, which is designed to pay the syndicators for managing the syndication, is 0.5% of the gross asset value of all partnership properties. The interest on the

loan is paid monthly with a portion of it going to the affiliate for arranging the loan. The loan is paid off at sale after investors have received their initial capital back. Many all-cash syndications propose to deal with syndicators' fees in the same manner. If they do not use a variable rate loan, the syndicator may have to use a short-term call or some other form of protection for the lender, if favorable rate are not available at financing.

Investors may pay more for fees in the end than they did prior to tax reform when the fees are paid with a loan due at sale. In this case, the variable rate will be increased when the economy slows down, sales fall, companies cut expenses, and vacancies go up. Cash flow to the investor will probably have to be covered by the annual partnership management fee--which will now also be at a higher rate. The fees can grow to a rate where the sales proceeds available to investors are substantially reduced.

Syndicators structure their fees to maximize their profit. If they felt that they would get a better return by taking a percentage of the real estate's performance, they could have. It is interesting to note that the loans used to finance the fees bear higher coupon rates than the investors are guaranteed from their investment in the unleveraged property.

Since this is a leveraged property, equity appreciation will probably pay for most of the front-end fee loans and the investors will still receive more than their initial capital back at sale. In the case of all-cash deals, this method of paying for fees could mean no return from the residual for investors because the equity appreciation rate is too low.

In addition to these fees, the syndicator gets fees for a number of services. It appears that many of these service fees are double fees. For example, the property management fee is 6% of gross receipts if an affiliate provides the service, and 3% if it does not. Since investors are more concerned with the economics of the deal, they should be concerned that these services are well performed.

THE SPLITS

The unleveraged syndication guarantees investors a minimum of 7.5% per annum non-cumulative return, paid quarterly. The syndicators defer their fees if this amount is not achieved in any year. If the cash flow is greater than the 7.5% non-compounded return, investors get the any remaining cash flow which remains after the payment of syndicator's fees.

At sale investors receive their remaining capital contribution back, then 85% of the remaining proceeds. If the

85% is not enough to give investors a 125% priority return, then the syndicator gives up both his fees and his share of the residual until the priority return is paid. He is only guaranteed the $3 million not included in the front-end loan.

In the leveraged syndication investors are guaranteed a 5% return on their investment the first year. Then the syndicator receives his partnership management fee. If there is additional cash flow remaining, investors receive it all. After the first year, investors receive 100% of the cash flow after the syndicator's partnership management fee is paid. Since the properties are highly leveraged at 70%, the cash flow could remain small throughout the life of the project.

Investors get their true benefits at the dissolution of the partnership. At sale, investors receive their remaining capital contribution back before the front-end loan is repaid. Then investors receive 6% cumulative non-compounding return. Finally the remaining capital is split 80:20 between investors and the syndicator, respectively.

RATE OF RETURN

During the life of the limited partnership, the all-cash deal yields a rate of return of 7.5%, non-compounded, which is competitive with alternative investments such as money market funds and certificates of deposits. However, this figure is misleading since the 7.5% return is actually only a partial return of capital. At sale, the partnership pays investors the remaining portion of their capital contribution. Then the modest gain is divided. The investors are guaranteed that they will receive 125% return of their capital contribution so they are actually only guaranteed a 25% return over the life of the partnership. If the holding period is 5 years, then they will get a minimum non-compounded return of 5% annually. If the holding period is 10 years, the annual return is reduced to only 2.5%, non-compounded. Although the actual rates of return may be greater, the lack of leverage reduces the probability of actually achieving high returns. In fact, many all-cash deals do not guarantee returns before the syndicator's fees become due. All-cash deals may prove to be a poor investment compared to less risky money market or CDs. When the appreciation rate is average to low, all-cash deals may only return the original capital invested and a small yield.

The leveraged syndication promises a much better return. Although investors receive their capital back at a slower rate (5% the first year, and then 100% of a small cash flow), the equity should appreciate much more because of the heavy use of leverage. The syndicator's fees will reduce the amount of appreciation. If the property is held for seven years the syndicator's fees will amount to almost $14 million dollars. Even with these substantial syndicator's fees, investors should receive a better return than alternative less risky investments, or the expected return on the all-cash syndication.

HYBRIDS

Many syndicators were concerned that the all-cash syndications would not be able to attract investors if the annual cash flow was not greater than alternative investment options such as money markets and CDs. Some syndicators developed a new "hybrid" syndication more capable of assuring investors of a higher and more secured annual cash flow. This was accomplished by diversifying the portfolio within the limited partnership with other income producing investments.

A prototypical hybrid uses between 50% to 70% of the capital raised to buy real estate and the remainder to place

debt to unaffiliated borrowers. The equity component gives current cash flow from the net operating income and some promise of appreciation at sale. The debt component delivers a steady, predictable income from the mortgage payments. The combined yields satisfy many investors. It is also one of the safest investments.15 The main risk of unleveraged real estate lies in the lack of diversification--which the hybrid addresses. The debt element is often secured by the government with mortgage backed securities (MBS).

The hybrid blind pool analyzed for this paper is 70% unleveraged real estate and 30% mortgage back securities. The limited partnership plans to raise $250 million to invest in $151 million in real estate and the remainder in MBS.

SYNDICATOR'S FEES

The syndicator's fees, at 13.85% of the capital raised, are the lowest of all the partnerships discussed in this paper. These are the only syndicator's fees beside normal fees for services such as acquisition, brokerage, or property management.

---

15. Margaret Opsata, "Cultivating Hybrids," _Financial Planning_, April 1987, p.101.

To avoid the criticism that investors could easily purchase the MBS on their own, many syndicator either charge no fee for purchasing and managing the MBS or reduce their fees altogether.16

SPLITS

The splits are more complicated than all the syndications already discussed. Until 1991, the investors receive 6.5% non-cumulative annual return on their investments. Then, if there is cash remaining, the syndicator receives 5% of the cash flow. Next, if there is still money remaining, the investors receive up to 93% of the cash flow. Finally, the syndicator gets any of the remaining cash flow which could be as high as 2% of the total. After 1991, the investors still receive 6.5% non-cumulative annual return on their investment. The remaining splits are given until all of the cash flow has been distributed. The syndicator receives 5% of the cash flow; then investors receive up to 90%; next, the syndicator gets 7%; then the investors get 8%; finally the syndicator receives 3%.

When the property is sold the investor receives the first distribution of proceeds. They are paid the amount necessary to make the sum of all their annual payments equal to their

---

16. Opsata, " Cultivating Hybrids," p. 105.

initial investment. Next, the syndicator gets all invested capital back. The investors are first in line for the profits. They receive enough of the net proceeds to give them 12% per annum for all fiscal years If this is less than 90% of the cash flow, then they get the additional amount. The syndicators receive any of the remaining which could be as high as 10% of the cash flow.

RATE OF RETURN

One of the partnership goals is to "provide a possible hedge against disinflation in expectation that the partnership interest in MBS could be sold at a gain in the event of a general decline in interest rates." In fact, Ginnie Maes and other MBS are not good investments to hedge against disinflation. While they do offer great safety, their yields continue to drop as homeowners refinance their homes during periods of low inflation.

The annual returns of the hybrids promise to be higher than other all-cash syndications because the MBS assure a certain amount of cash flow. The cash flow distribution is a combination of passive and portfolio income. Investors owe taxes on the portfolio income which will not be sheltered.

When the partnership sells its assets, the appreciation rate on the equity will be very low because it is an all-cash investment. The real estate portion is further diluted because the MBS delivers little or no appreciation. Thus, the 90:10 split may mean little. 90% of nothing is nothing.

LOW-INCOME HOUSING

Congress never intended to reduce investment in low-income housing when it attacked abusive tax shelters. In order to keep low-income housing attractive, Congress introduced a tax credit that can be used to shelter income from any source.

Unlike the other new syndications, the tax credit is the main, if only, benefit in low-income housing syndications. There is little or no cash flow and no guarantee that investors will receive their initial capital investment back at the dissolution of the partnership. And unlike the other new syndications, the economic vitality of the project is not linked to whether the investors receive their benefits.

Qualifying a project for low-income housing can be difficult. Numerous complicated rules must be met. For investors the most troubling rules apply to time requirements. Even though the tax credits end after ten years, a project must be held for at least 15 years. Investors receive no

credits at all during the final years. They may continue to deduct property depreciation, but with the lengthening of the depreciation period from 15 to 27.5 years, the write-off is less valuable and it can only be used to offset passive income. In addition, if at any time during the 15 years the percentage of low-income tenants drops below the minimum standards, all or part of the tax credits are subject to recapture. This means that the investor must give the tax credits back to the government.17

The post-TRA'86 low-income housing syndication analyzed for the paper is a blind pool. Since the benefits are essentially assured regardless of the property, the syndicator has provided investors with a financial schedule of benefits. The Birch Bluff syndication raises $1.5 million dollars.

SYNDICATOR'S FEES

Syndicator's fees remain high with low-income housing syndications. Like the Palm Court pre-TRA'86 syndication, the fees are 35% of the capital raised. The syndicators have set up a two tiered partnership where they get fees for creating a partnership that holds the limited partners and the property.

17.Margaret Opsata, "New Rules, Old Economics," Financial Planning, February 1987, p.50.

By using this system, they receive more compensation both in the way of fees and in the partnership's shares of benefits. These fees are much higher than many low-income partnerships are reporting.18

THE SPLITS

The investors receive only 94% of the tax credits generated. While this is only 5% lower than most pre-TRA'86 partnerships, the tax credits are really the only benefits the investors can be receive. If there is cash flow, they receive 94% of it and if there is a sale, they receive their capital investment back and then 49.5% of the sale proceeds.

LEVERAGE

The partnership plans to highly leverage the property with government funds.

---

18. Opsata, "New Rules.." F.P., p.52.

RATE OF RETURN

This syndication offers investors returns similar to pre-TRA syndications. They are only slightly more risky than pre-TRA'86 syndications. The investors will only lose the tax credits if the project does not meet the government rules, if the investor does not meet government requirements19, or if the government changes the tax rules again. Assuming that the investor does not receive any proceeds at the dissolution of the partnership, the internal rate of return is 50.5%. If she does receive proceeds at sale the internal rate is 51.8%. A more accurate measure is the modified rate of return using an 8% rate of reinvestment. The rate of return is then 20.6% with out sale proceeds and 25% with them. These rates are similar to pre-TRA syndications of any kind. The tax benefits account for a large proportion of the return, 62%, like many of the pre-TRA'86 deals.

---

19. If the investor's income goes above $250,000 any time during the investment period, she may lose the tax credits.

SUMMARY

This chapter describes many of the syndication structures on the market today. While prior to tax reform limited partnerships offered investors very high returns with little risk, the new syndications' success depends upon the economic vitality of the real estate assets. The annual returns are often unpredictable and just competitive with less risky alternative investments when leverage is not used.

Low-income housing syndications are the one exception. They remain not strongly linked to the economic vitality of the real estate asset and offering a rate of return far above alternative investments.

The next chapter will look at the possible future of real estate syndications in their present form.

CHAPTER FIVE

SUMMARY: WHERE ARE REAL ESTATE SYNDICATIONS GOING?

Chapter one showed how syndicators recognized an opportunity in the market and created a product that attracted numerous investors. It was a product with little risk and high returns. The tax reform act altered the value of the benefits of real estate syndications. Chapter two described these changes. Chapter three analyzed the structure of limited partnerships prior to tax reform. Chapter four analyzed the new syndication structures and how the market has adapted to offer investors a new and better-suited product. This chapter will summarize and critique the new syndication market.

COMPARISON OF CONVENTIONAL SYNDICATIONS

Table 1 compares all the syndications discussed in this paper . The elements of comparison are the same as the ones discussed in this paper (e.g. syndicator's fees, splits, leverage, rate of return).

Syndicator's fees are lower now but still remain as high as syndicators think investors will accept. Only the limited partnerships with financial projections were similar to the

pre-TRA'86 syndicator's fees. Since these syndications had financial projections and took advantage of the transition period by offering their investors some losses, the true value of the syndicator's fees were clear. The remaining syndications were blind pools where a portion of the fees remain linked to the unknown performance of the property. If the cash flow does not return an adequate return to investors yearly, these fees are carried forward at a interest rate which give the syndicator's a substantially higher yield. In the case of the leveraged blind pool, the fees are entirely paid by the partnership at sale. The syndicator receives his fees at the front-end and the interest from the partnership to carry the cost to sale.

The new splits are similar to the pre-TRA'86 splits. Both favor the investor. The investors, however, cannot be as sure of achieving the advantages of the stated benefits. While the tax benefits, which were 50% to 97% of the total pre-TRA benefit stream, were assured regardless of the economic vitality of the real estate assets, the cash flow element of the new syndications are more risky. If the property is poorly located and does not perform, is poorly managed and does not release well, or experiences any other kind of economic trouble, the investors may not see their return. In many cases, the annual returns are actually only a partial

repayment of invested capital. If the first distribution at sale is repaying the _remaining_ capital investment, and then the syndicator gets his fee or a share of the proceeds, then the investor does not receive any real return until the third distribution of proceeds, and then only if there is capital remaining. In some all-cash deals, the proceeds may make returns unlikely if the real estate asset did not perform extremely well. A 99:1 sharing arrangement means little if there is nothing left to share.

The pre-TRA syndications used leverage to help create their major asset, tax benefits. Today's leveraged syndications offers modest write-offs from mortgage interest and depreciation, and places a major emphasis on growth. They are leveraged to almost the same degree as pre-TRA'86 syndications, at approximately 70%. In the future, more syndications may have a slightly lower leveraged percentage so that there is a better trade off between cash flow and equity appreciation.

The return on investment was much higher prior to tax reform. The days of returns as high as 25% or even 35% are gone. Most syndications which do not offer any losses during the transition period, will have high returns unless there is a period of high inflation. In that case, the annual cash return may be lower with the overall return higher.

Current yields of pre-TRA limited partnerships were guaranteed to the extent that returns were derived from tax benefits. Syndicators who say current yields are equivalent to tax benefits of pre-TRA'86 are blowing smoke. It is impossible to get as low a risk and as high a benefit. The annual current yields of all-cash deals, made up of cash flow, are between 5% and 7.5%, like the all-cash syndication in this paper. The current yield of the leveraged syndications, at times, may be a bit higher than present all-cash deals, partly due to the use of positive leverage. Since these rates are often the same or very slightly higher than much more secure investments like money markets and bank certificates of deposit, many syndicators developed hybrid limited partnerships with current yields of 8% to 10%. In the present economic environment these yields may look attractive. If inflation returns and CD offer a 16% yield, investors will not be pleased with their limited partnerships unless rents go up at a similar or greater rate. Many purchasers of all-cash syndications may be surprised when the partnership is sold and they receive no more than their original investment and the annual yield as their return.

MARKET DRIVEN PRODUCTS

Unleveraged limited partnerships are the hottest product on the market today. Market driven products do not always make solid economic sense. They can quickly create an oversold market based on poor economic sense, like Houston.

All-cash syndications and the hybrids are basically incompatible with real estate fundamentals. Real estate has never been a liquid asset; it is a patient asset which requires time to see appreciate. Leverage is the traditional means to create wealth. These syndications have discarded these elements and try to compete with more liquid assets on their terms. The future will show whether investors are willing to trade the traditional benefits of real estate for short term gains.

Syndicators sell people what they want rather than what they need. The slick marketing pieces of the unleveraged syndications have contributed to a large marketplace appeal. In the end the main benefit of these syndication may be that it has drawn more people into investing in real estate. My guess is that these unleveraged syndications will be short-lived.

Ultimately, investors must look beyond a syndicator's promises to the likelihood that the syndication, through its

structure and economic assumptions, will be able to meet its goals. The syndicator's track record is more important than in the past because it is harder to live up to the new promises of real estate syndication returns. Investors in blind pools must rely even more heavily in the syndicator's past performance. In light of these changes, the syndication industry should continue to consolidate.

THE FUTURE OF LOW-INCOME HOUSING

Table 1 compares low-income syndications before and after tax reform. The risk level and reward are only slightly lower. Even so, the future of low-income housing as an investment partnership and as a means to house the poor remains uncertain. The new restrictions on investor income changes the investor make-up from the wealthy to the middle class and reduces the amount of shelter that can be used. In addition, the complicated rules a project must meet to qualify makes it more difficult for low-income housing to be built.

Housing of the poor may reach crisis proportions unless there are modifications made to the tax laws dealing with low-income housing. The number of poor is growing as there is increasing disparity between the upper and lower classes in this society. The new tax rules do not easily promote the low-

income housing. In addition, the new tax laws are likely to increase the cost of rental housing throughout the country. Syndicated properties are rental by definition. As syndicators look to increase cash flow, one of the obvious solutions raising the rent. The difference between subsidized and market rent will increase with less low-income housing available. Many of the poor may have to look to the streets unless there are changes promoting low-income housing or a better voucher system which allows the poor more opportunity.

SUMMARY

The market for real estate syndication has been dramatically reduced since tax reform. The new syndications offer investors excellent opportunities when real estate fundamental are used in the structure. Leverage remains an important tool to increase wealth.

Syndicators will continue to develop new products as long as they can interest buyers. Fear and greed are a part of human nature and syndicators will always find a market.

BIBLIOGRAPHY

Aldrich, Peter C., Habib Rahman, and William J. Poorvu. "Note on Real Estate Syndication," Harvard Business School (9-385-152)

Brueggeman, William B. and Thomas G. Thibodeau. "Real Estate Responses to 1986 Tax Reform." Real Estate Review, 17, No.1, Spring 1987, p.69-75.

Cymret, Allen. "How to Read a Syndication Prospectus." Real Estate Review, p.66-70.

Davis, Jerry C. "Syndicators Promote Solid Image for Investments as Economically Beneficial, Not as Tax Shelters." National Real Estate Investor, August 1986, p.53-66.

Ferriter, Kaye B. "Real Estate: The New Landscape, The Tax Reform Act of 1986." Privately published for New England Women in Real Estate by Coopers and Lybrand, 1986.

Follain, James R., Patric H. Hendershott, and David C.Ling. "The Impact of the 1986 Tax Reform Act on Real Estate." Real Estate Review, 17, No.1, Spring 1987. p.76-83.

"How the Tax Reform Act of 1986 Affects Real Estate." National Real Estate Investor, Special Tax Issue, 31 December 1986, p.6-40.

Jarchow, Stephan P. "Sharing of Partnership Liabilities for Tax Purposes." Real Estate Review, 11, No. 3, Fall 1981, p.29-30.

-------. "What Lender Should Know about Syndications." Real Estate Review, p.28-34.

Leventhal, Kenneth. "Survey of Private Real Estate Syndications." Privately Published, p.6-37.

Lipman, Joanne. "Real Estate Syndicators Sweeten Deals in Bid to Win Back Investors." Wall Street Journal, 29 July 1985, Section 2, p.1.

BIBLIOGRAPHY (continued)

Manning, Christopher A. "Correct 'Bottom Line' Analyses of Syndication Offerings." Real Estate Review, 16, No.2, Summer 1986, p.42-50.

McMahan, John. "Impact on New Tax Reform Legislation on Real Estate." Privately Published by John McMahan Associates, Inc.

Opsata, Margaret. "Cultivating Hybrids." Financial Planning, April 1987, p. 100-105.

-------. "Leveraged Perceptions." Financial Planning, May 1987, p. 65-72.

-------. "Much Ado About..." Financial Planning, May 1987, p. 157-162.

-------. "New Rules, Old Economics." Financial Planning, February 1987, p. 48-52.

-------. "Space and Time." Financial Planning, January 1987, p. 60-65.

Pilzer, Paul Zane. "Structuring Real Property Acquisitions for Syndication." Real Estate Review, p.34-39.

Retkwa, Rosalyn. "The Longest Year." Financial Planning, April 1986, p.112-126.

Scardino, Albert. "Real Estate Syndicator's Shift." New York Times, 25 June 1987, p. D1.

Special Report, Senate Tax Bill: Analysis and Observations, Coopers & Lybrand Real Estate Newsletter Detriot, MI.

Stanger, Robert A. "Qualifying a Property for Syndication." Real Estate Review, p.32-37.

Wiesner, Philip J. "Syndications. Is There Life After Tax Reform?" Journal of Accountancy, November 1986, p.116-127.

APPENDIX

TABLE OF EXHIBITS

Notes on Syndications....83

ROLLING GREEN
Exhibit 1
A: Description of Project and Finances Partnership Splits.... 84
B: General Partner's Benefit Schedule Breakdown of Syndicator's Upfront Fees....84
C: Investor Benefit Schedule (Installment Method).... 85

STONY BROOK
Exhibit 2
A: Description of Project and Finances Partnership Splits.... 86
B: General Partner's Benefit Schedule Breakdown of Syndicator's Upfront Fees....86
C: Investor Benefit Schedule (Installment Method)....88

PALM COURT
Exhibit 3
A: Description of Project and Finances Partnership Splits....89
B: General Partner's Benefit Schedule Breakdown of Syndicator's Upfront Fees....90
C: Investor Benefit Schedule (Installment Method)....91

REDWOOD FOREST
Exhibit 4
A: Description of Project and Finances Partnership Splits....92
B: General Partner's Benefit Schedule Breakdown of Syndicator's Upfront Fees....93
C: Investor Benefit Schedule (Installment Method)....94

OAK PARK
Exhibit 5
A: Description of Project and Finances Partnership Splits....95
B: General Partner's Benefit Schedule Breakdown of Syndicator's Upfront Fees....96
C: Investor Benefit Schedule (Installment Method)....97
D: Investor Benefit Schedule (Cash Method)....98

OCEAN CREST
Exhibit 6
A: Description of Project and Finances Partnership Splits....99
B: General Partner's Benefit Schedule Breakdown of Syndicator's Upfront Fees....100
C: Investor Benefit Schedule (Installment Method)....101
D: Investor Benefit Schedule (Cash Method)....102

GLACIER VIEW (leveraged)
Exhibit 7
A: Description of Project and Finances Partnership Splits....103
B: General Partner's Benefit Schedule Breakdown of Syndicator's Upfront Fees....104

GLACIER VIEW (unleveraged)
Exhibit 8
A: Description of Project and Finances Partnership Splits....105
B: General Partner's Benefit Schedule Breakdown of Syndicator's Upfront Fees....105

TANGLE FALLS
Exhibit 9
A: Description of Project and Finances Partnership Splits....106
B: General Partner's Benefit Schedule Breakdown of Syndicator's Upfront Fees....107

BIRCH BLUFF

BIRCH BLUFF
Exhibit 10 A: Description of Project and Finances
Partnership Splits........................108

B: General Partner's Benefit Schedule
Breakdown of Syndicator's Upfront Fees....108

C: Investor Benefit Schedule
(Installment Method).......................109

PRE-TAX REFORM '86 EXAMPLE
Exhibit 11 A: Financial Proforma........................110

B: Benefit Stream.............................111

POST-TAX REFORM '86 EXAMPLE
Exhibit 12 A: Financial Proforma........................112

B: Benefit Stream.............................113

EFFECT OF LEVERAGE ON POST TAX REFORM
Exhibit 13...114

TABLE OF COMPARISON OF ALL SYNDICATION'S COMPONENTS
Exhibit 14...115

TABLE OF COMPARISON OF ALL LOW-INCOME SYNDICATION COMPONENTS
Exhibit 15...116

NOTES ON ANALYSIS OF SYNDICATIONS OFFERINGS

The syndications offerings analyzed in this paper are confidential and have been disguised for use in the paper.

Syndicator's fees were defined as any fee which a developer would not have to pay if she was not syndicating the building. Fees for such services as leasing, property management, construction, or development, therfore, are not syndicator's fees unless the partnership is charged twice (or double) for them. Any fees for organizing, servicing, selling, or maintaining the syndication partnership are considered syndicator's fees.

NOTES ON ANALYSIS OF SYNDICATIONS OFFERINGS

The syndications offerings analyzed in this paper are confidential and have been disguised for use in the paper.

Syndicator's fees were defined as any fee which a developer would not have to pay if she was not syndicating the building. Fees for such services as leasing, property management, construction, or development, therfore, are not syndicator's fees unless the partnership is charged twice (or double) for them. Any fees for organizing, servicing, selling, or maintaining the syndication partnership are considered syndicator's fees.

ROLLING GREENS EXHIBITS 1 A and 1 B Megan M. Dobroth

Project Name:	ROLLING GREEN	
Based upon:	PRE- TRA '86	
Offering Date:	DECEMBER 31, 1985	
Type:	APARTMENTS	
Holding Period:	8 YEARS	
Total Project Cost:		4,909,000
Mortgage Amounts:		3,184,000
Advances from seller and/or buyer:		25,000
Capital Raised through Syndication:		1,700,000
Syndicator's Fees:		344,000
Equity Raised for property:		1,356,000
Interim Loan for LP pay-in period		0
% Fees/ Capital Raised		20.24%
% Leveraged		64.86%
% Leveraged (adjusted for syndicator's fees)		69.75%
% Leveraged (adjusted for syndicator's fee and installment pay-in)		69.75%

SPLITS	INVESTORS	GENERAL PARTNER	CLASS B PARTNERS
Taxable Income	98%	1%	1%
Cash Flow	98%	1%	1%
Sale Proceeds	Capital back based on $85,500 unit size, then 80% of remaining proceeds.	10% of any remaining proceeds after Investor receive capital back	10% of any remaining proceeds after Investor receive capital back

GENERAL PARTNER AND CLASS B PARTNERS BENEFIT SCHEDULE

YEAR	BROKERAGE & SYNDICATION FEES	NET** DISTRIBUTABLE CASH FLOW	TAXABLE** INCOME (LOSS)
1985	344,000	37	(3,115)
1986		542	(9,278)
1987		883	(8,217)
1988		1,406	(6,399)
1989		1,962	(4,532)
1990		2,485	(2,330)
1991		3,114	(784)
1992		3,295	(245)

BREAKDOWN OF SYNDICATOR'S UPFRONT FEES

% Fees/ Capital Raised	20.24%
% Commission Fees/ Total Upfront Fees	49.42%
% Organizational Fees/ Total Upfront Fees	11.63%

** These figures represent both the GP (1%) and Class B partners (1%) for a total of 2%.

(a) General Partner will receive the balance, if any, remaining Operating Deficit Reserve Account after the fourth installment date as an operating deficit guarantee fee and will recieve $50,000 in reimbursement of closing costs.
(b) In the event that at February 1, 1999 any or all of the $50,000 working capital reserve has not been exhausted, such amount will be paid to the General Partners.
(c) In the event that the costs and interest on the Commercial Loan are less than $252,000, the difference will be paid to the General Partners.

ROLLING GREENS EXHIBIT 1 C

****

INVESTOR BENEFIT SCHEDULE
INSTALLMENT METHOD

****

YEAR	CAPITAL CONTRIBUTION	TAXABLE INCOME (LOSS)	TAX BENEFIT (COST)	NET DISTRIBUTABLE CASH FLOW	ANNUAL AFTER-TAX CURRENT RETURN	PERCENT ANNUAL AFTER-TAX CURRENT RETURN
1985	7,500	(7,631)	3,816	90	3,906	52.1%
1986	22,000	(22,732)	11,366	1,327	12,693	43.0%
1987	20,000	(20,131)	10,066	2,163	12,229	24.7%
1988	18,000	(15,678)	7,839	3,444	11,283	16.7%
1989	17,500	(11,103)	5,552	4,806	10,358	12.2%
1990		(5,709)	2,855	6,088	8,943	10.5%
1991		(1,920)	960	7,629	8,589	10.1%
1992		(601)	301	8,326	8,627	10.1%
TOTAL	85,000	(85,505)	42,753	33,873	76,626	

This schedule assumes a 50% tax bracket.

Cash Distibution from Proceeds*	119,429
Taxes Due***	(31,906)
Net Benefit Upon Sale	87,523
Cumulative Tax Benefit (Cost)	42,753
Cumulative Net Distributable Cash Flow	33,873
Total Net After-Tax Return Per Unit	164,149
Original Investment	85,000
Internal Rate of Return	26.0%
Modified Rate of Return (8% reinvestment rate)	19.7%
Net Present Value (8% discount rate)	32,188
% Tax Benefits/ Entire Return	55.79%

*Assumes a $35,000 sales price per unit.
***Assumes Capital Gains treatment

****
****

STONY BROOK EXHIBIT 2 A and 2 B Megan M. Dobroth

Project Name:	STONY BROOK
Based upon:	PRE- TRA '86
Offering Date:	AUGUST 8,1985
Type:	APARTMENTS
Holding Period:	4 YEARS

Total Project Cost:	7,176,600
Mortgage Amounts:	5,175,000
Advances from seller and/or buyer:	151,600
Capital Raised through Syndication:	1,850,000
Syndicator's Fees:	494,000
Equity Raised for property:	1,356,000
Interim Loan for LP pay-in period	0
% Fees/ Capital Raised	26.70%
% Leveraged	72.11%
% Leveraged (adjusted for syndicator's fees)	77.44%
% Leveraged (adjusted for syndicator's fee and installment pay-in)	77.44%

SPLITS	INVESTORS	GENERAL PARTNER	CLASS B PARTNERS
Taxable Income	98%	1%	1%
Cash Flow	98%	1%	1%
Sale Proceeds	Capital back based on $92,500 unit size plus an 8% cumulative non-compounded return, then 80% of remaining proceeds.	1% of any remaining proceeds after Investor receive capital back plus an 8% cumulative non-compounded return.	19% of any remaining proceeds after Investor receive capital back plus an 8% cumulative non-compounded return.

GENERAL PARTNER AND CLASS B PARTNERS BENEFIT SCHEDULE

YEAR	ACQUISITION AND OTHER FEES	NET** DISTRIBUTABLE CASH FLOW	TAXABLE** INCOME (LOSS)
1986	494,000	0	(12,426)
1987		0	(11,441)
1988		819	(9,642)
1989		1,219	(6,579)

BREAKDOWN OF SYNDICATOR'S UPFRONT FEES

% Fees/ Capital Raised	26.70%
% Commission Fees/ Total Upfront Fees	0
% Organizational Fees/ Total Upfront Fees	49.21%

** These figures represent both the GP (1%) and Class B partners (1%) for a total of 2%.

(a) General Partner will receive the balance, if any, remaining Operating Deficit Reserve Account after the fourth installment date as an operating deficit guarantee fee and will recieve $50,000 in reimbursement of closing costs.

ROLLING GREENS EXHIBIT 1 C

INVESTOR BENEFIT SCHEDULE
INSTALLMENT METHOD

YEAR	CAPITAL CONTRIBUTION	TAXABLE INCOME (LOSS)	TAX BENEFIT (COST)	NET DISTRIBUTABLE CASH FLOW	ANNUAL AFTER-TAX CURRENT RETURN	PERCENT ANNUAL AFTER-TAX CURRENT RETURN
1985	7,500	(7,631)	3,816	90	3,906	52.1%
1986	22,000	(22,732)	11,366	1,327	12,693	43.0%
1987	20,000	(20,131)	10,066	2,163	12,229	24.7%
1988	18,000	(15,678)	7,839	3,444	11,283	16.7%
1989	17,500	(11,103)	5,552	4,806	10,358	12.2%
1990		(5,709)	2,855	6,088	8,943	10.5%
1991		(1,920)	960	7,629	8,589	10.1%
1992		(601)	301	8,326	8,627	10.1%
TOTAL	85,000	(85,505)	42,753	33,873	76,626	

This schedule assumes a 50% tax bracket.

Cash Distibution from Proceeds*	119,429
Taxes Due***	(31,906)
Net Benefit Upon Sale	87,523
Cumulative Tax Benefit (Cost)	42,753
Cumulative Net Distributable Cash Flow	33,873
Total Net After-Tax Return Per Unit	164,149
Original Investment	85,000
Internal Rate of Return	26.0%
Modified Rate of Return (8% reinvestment rate)	19.7%
Net Present Value (8% discount rate)	32,188
% Tax Benefits/ Entire Return	55.79%

*Assumes a $35,000 sales price per unit.
***Assumes Capital Gains treatment

STONY BROOK EXHIBIT 2 C Megan M. Dobroth

INVESTOR BENEFIT SCHEDULE
INSTALLMENT METHOD

YEAR	INSTALLMENT DATE	CAPITAL CONTRIBUTION	TAXABLE INCOME (LOSS)	TAX BENEFIT (COST)	NET DISTRIBUTABLE CASH FLOW	ANNUAL AFTER-TAX CURRENT RETURN	PERCENT ANNUAL AFTER-TAX CURRENT RETURN
1986	JUNE 15	38,000	(30,444)	15,222	0	15,222	40.1%
1987	JUNE 15	30,000	(28,031)	14,016	0	14,016	20.6%
1988	JUNE 15	24,500	(23,623)	11,812	2,007	13,819	14.9%
1989			(16,118)	8,059	2,986	11,045	11.9%
TOTAL		92,500	(98,216)	49,108	4,993	54,101	

This schedule assumes a 50% tax bracket.

Cash Distibution from Proceeds*	149,829
Taxes Due	(55,800)
Net Benefit Upon Sale	94,029
Cumulative Tax Benefit (Cost)	49,108
Cumulative Net Distributable Cash Flow	4,993
Total Net After-Tax Return Per Unit	148,130
Original Investment	92,500
Internal Rate of Return	26.3%
Modified Rate of Return (8% reinvestment rate)	22.9%
Net Present Value (8% discount rate)	28,637
% Tax Benefit/ Total Investor Return	90.77%

*Assumes a $35,000 sales price per unit.

PALM COURT EXHIBIT 3 A Megan M. Dobroth

Project Name:	PALM COURT
Based upon:	PRE- TRA '86
Offering Date:	FEBRUARY 15, 1985
Type:	LOW INCOME HOUSING
Holding Period:	18 YEARS

Total Project Cost:	3,215,625
Mortgage Amounts:	2,214,600
Advances from seller and/or buyer:	316,025
Capital Raised through Syndication:	685,000
Syndicator's Fees:	298,900
% Fees/ Capital Raised	43.64%
% Leveraged	68.87%
% Leveraged (adjusted for syndicator's fees)	75.93%

SPLITS	INVESTORS	GENERAL PARTNER	CLASS B PARTNERS
Taxable Income	90.5%	5%	4.5%
Cash Flow	90.5%*	5%	4.5%
Sale Proceeds	Capital back based on $85,500 unit size, then 50% of remaining proceeds.	50% of any remaining proceeds after Investor receive capital back	4.5% of any remaining proceeds after Investor receive capital back

* This amount is not expected to be greater than $555 per annum and a limitation is imposed by the FmHA as an 8% limit.

PALM COURT EXHIBIT 3 B Megan M. Dobroth

GENERAL PARTNER AND CLASS B PARTNERS BENEFIT SCHEDULE

YEAR	BROKERAGE & SYNDICATION FEES	NET** DISTRIBUTABLE CASH FLOW	TAXABLE** INCOME (LOSS)
1985	298,900	380	(25,158)
1986		1,165	(34,775)
1987		1,165	(28,292)
1988		1,165	(23,046)
1989		1,165	(17,868)
1990		1,165	(15,227)
1991		1,165	(12,695)
1992		1,165	(10,333)
1993		1,165	(10,094)
1994		1,165	(9,901)
1995		1,165	(9,128)
1996		1,165	(9,760)
1997		1,165	(7,539)
1998		1,165	(7,434)
1999		1,165	(7,327)
2000		1,165	(4,556)
2001		1,165	1,039
2002	plus 31,300 (interest)	1,165	1,438

BREAKDOWN OF SYNDICATOR'S UPFRONT FEES

% Fees/ Capital Raised	43.64%
% Commission Fees/ Total Upfront Fees	25.16%
% Organizational Fees/ Total Upfront Fees	50.22%

** These figures represent both the GP (5%) and Class B partners (4.5%) for a total of 9.5%.

(a) An Investor Service Fee will be charged annually costing approximately $1400 per annum.
(b) The general contractor will be an affliate of the partnership.
(c) GP recieves $251,300 plus $76,700 as construction supervision fee.

PALM COURT EXHIBIT 3 C Megan M. Dobroth

INVESTOR BENEFIT SCHEDULE
INSTALLMENT METHOD

YEAR	CAPITAL CONTRIBUTION	TAXABLE INCOME (LOSS)	TAX BENEFIT (COST)	NET DISTRIBUTABLE CASH FLOW	ANNUAL AFTER-TAX CURRENT RETURN	PERCENT ANNUAL AFTER-TAX CURRENT RETURN
1985	6,000	(11,983)	5,992	181	6,173	102.9%
1986	8,300	(16,564)	8,282	555	8,837	61.8%
1987	6,700	(13,476)	6,738	555	7,293	34.7%
1988	5,500	(10,977)	5,489	555	6,044	22.8%
1989	4,200	(8,511)	4,256	555	4,811	15.7%
1990	3,550	(7,253)	3,627	555	4,182	13.6%
1991		(6,047)	3,024	555	3,579	11.7%
1992		(4,922)	2,461	555	3,016	9.8%
1993		(4,808)	2,404	555	2,959	9.0%
1994		(4,716)	2,358	555	2,913	9.3%
1995		(4,348)	2,174	555	2,729	9.0%
1996		(4,649)	2,325	555	2,880	10.0%
1997		(3,591)	1,796	555	2,351	8.3%
1998		(3,541)	1,771	555	2,326	9.4%
1999		(3,490)	1,745	555	2,300	9.3%
2000		(2,170)	1,085	555	1,640	6.6%
2001		495	(248)	555	308	1.2%
2002		685	(343)	555	213	0.9%
TOTAL	34,250	(109,866)	55,276	9,061	64,337	

This schedule assumes a 50% tax bracket and that the investor may not get his orginal investment back at sale

Internal Rate of Return	42.0%
Modified Rate of Return (8% reinvestment rate)	15.4%
Net Present Value (8% discount rate)	12,700
% Tax Benefits/ Total Investor Return	85.92%

REDWOOD FOREST EXHIBIT 4 A Megan M. Dobroth

Project Name:	REDWOOD FOREST (Five Low Income Housing Projects)
Based upon:	PRE- TRA '86
Offering Date:	MAY 29, 1984
Type:	LOW INCOME HOUSING
Holding Period:	18 YEARS

Total Project Cost:	15,277,742
Mortgage Amounts:	9,337,275
Advances from seller and/or buyer:	394,000
Interim Loan for LP pay-in period	1,485,467
Capital Raised through Syndication:	4,061,000
Syndicator's Fees:	909,237
Equity Raised for property:	3,151,763
% Fees/ Capital Raised	22.39%
% Leveraged	61.12%
% Leveraged (adjusted for syndicator's fees)	64.98%
% Leveraged (adjusted for syndicator's fee and installment pay-in)	75.32%

SPLITS	INVESTORS	GENERAL PARTNER
Taxable Income	99%	1%
Cash Flow	99%	1%
Sale Proceeds	99% after paying fee to GP	1% plus fees

ADJUSTED SPLITS*	INVESTORS	GENERAL PARTNER
Taxable Income	98.5%	1.5%
Cash Flow	98.5%	1.5%
Sale Proceeds	99% after paying fee to GP	1% plus disposition fee. Equal to 10% of gross proceeds of sale; 10% of refinancing; or 15% of gross proceeds of sales as condominuims or cooperatives.

* The adjustment shown is for an Administrative and Reporting Fee. Other fees may be added in the future.

PROPERTY	EXISTING MORTGAGE	LONG TERM NOTE	SHORT TERM NOTE	CASH	TOTAL ACQUISION	INTEREST ON SHORT TERM NOTE
1	2,706,920	1,390,029	750,031	100,000	4,946,980	156,969
2	538,350	592,000	151,003	60,000	1,341,353	28,997
3	315,535	259,908	90,602	36,000	802,043	17,298
4	1,613,800	903,226	373,026	150,000	3,040,056	75,972
5	473,750	443,757	120,803	48,000	1,086,310	25,197
TOTAL	5,648,355	3,588,920	1,485,467	394,000	11,216,742	303,533

REDWOOD FOREST EXHIBIT 4 B Megan M. Dobroth

GENERAL PARTNER AND CLASS B PARTNERS BENEFIT SCHEDULE (C)

YEAR	BROKERAGE & SYNDICATION FEES	NET** DISTRIBUTABLE CASH FLOW	TAXABLE** INCOME (LOSS)
1984	909,237	0	(17,184)
1985		0	(30,780)
1986		0	(26,720)
1987		0	(20,960)
1988		0	(18,883)
1989		0	(15,484)
1990		472	(12,085)
1991		472	(11,236)
1992		472	(11,519)
1993		472	(10,197)
1994		472	(9,725)
1995		472	(11,047)

(c) In addition to the above fees, the GP receives an average of 1.04 of each apartment building's gross rental income.

BREAKDOWN OF SYNDICATOR'S FEES

% Fees/ Capital Raised	22.39%
% Commission Fees/ Total Upfront Fees	0.00%
% Organizational Fees/ Total Upfront Fees	0.00%

REDWOOD FOREST EXHIBIT 4 C Megan M. Dobroth

****

INVESTOR BENEFIT SCHEDULE
INSTALLMENT METHOD

****

YEAR	CAPITAL CONTRIBUTION	TAXABLE INCOME (LOSS)	TAX BENEFIT (COST)	NET DISTRIBUTABLE CASH FLOW	ANNUAL AFTER-TAX CURRENT RETURN	PERCENT ANNUAL AFTER-TAX CURRENT RETURN
1894	7,800	(18,200)	9,100	0	9,100	116.7%
1985	14,400	(32,600)	16,300	0	16,300	113.2%
1986	13,200	(28,300)	14,150	0	14,150	51.3%
1987	11,100	(22,200)	11,100	0	11,100	28.7%
1988	10,000	(20,000)	10,000	0	10,000	20.5%
1989	9,000	(16,400)	8,200	0	8,200	14.2%
1990		(12,800)	6,400	500	6,900	12.0%
1991		(11,900)	5,950	500	6,450	11.2%
1992		(12,200)	6,100	500	6,600	11.4%
1993		(10,800)	5,400	500	5,900	10.4%
1994		(10,300)	5,150	500	5,650	10.4%
1995		(11,700)	5,850	500	6,350	11.9%
TOTAL	65,500	(207,400)	103,700	3,000	106,700	

This schedule assumes a 50% tax bracket and that the investor may not get his original investment back at sal

Internal Rate of Return	53.5%
Modified Rate of Return (8% reinvestment rate)	20.7%
Net Present Value (8% discount rate)	19,440
% Tax Benefit/ Total Investor Return	97.19%

****
****

OAK PARK EXHIBIT 5 A Megan M. Dobroth

Project Name:	OAK PARK	
Based upon:	TRANSITION PERIOD	
Offering Date:	SEPTEMBER 1,1986	
Type:	APARTMENTS	
Holding Period:	5-7 YEARS	
Total Project Cost:		8,541,000
Mortgage Amounts:		5,741,000
Capital Raised through Syndication:		2,800,000
Syndicator's Fees:		652,000
Equity Raised for property:		2,148,000
Interim Loan for LP pay-in period		0
% Fees/ Capital Raised		23.29%
% Leveraged		67.22%
% Leveraged (adjusted for syndicator's fees)		72.77%
% Leveraged (adjusted for syndicator's fee and installment pay-in)		72.77%

SPLITS	INVESTORS	GENERAL PARTNER
Taxable Income	98%	2%
Cash Flow	98%	2%
Sale Proceeds	Capital back based on $56,000 unit size plus an 8% cumulative non-compounded return, then 80% of remaining proceeds.	20% of any remaining proceeds after Investor Limited Partner receive capital back based on $56,000 unit size plus an 8% cumulative non-compounded return.

OAK PARK EXHIBIT 5 B Megan M. Dobroth

GENERAL PARTNER BENEFIT SCHEDULE

YEAR	ACQUISITION AND OTHER FEES	MANAGING AGENT FEES (b)	INVESTOR SERVICE FEE	NET DISTRIBUTABLE CASH FLOW	TAXABLE INCOME (LOSS)
1987	652,000	2,401	3,000	1,230	(8,560)
1988		3,119	3,000	2,956	(7,816)
1989		3,337	3,000	4,507	(5,567)
1990		3,537	3,000	4,609	(3,918)
1991		3,749	3,000	5,026	(1,310)
1992		3,974	3,000	6,255	611
1993		4,213	3,000	7,564	2,514
1994		4,466	3,000	8,958	4,416

(b) Assumes that 5% of the funds set aside for day to day property management is collected as a fee to the general partner's afffiliate.

BREAKDOWN OF SYNDICATOR'S UPFRONT FEES

% Fees/ Capital Raised	23.29%
% Commission Fees/ Total Upfront Fees	42.94%
% Organizational Fees/ Total Upfront Fees	14.26%

OAK PARK EXHIBIT 5 C Megan M. Dobroth

INVESTOR BENEFIT SCHEDULE
INSTALLMENT METHOD

YEAR	INSTALLMENT DATE	CAPITAL CONTRIBUTION	NET DISTRIBUTABLE CASH FLOW	TAXABLE INCOME PASSIVE (LOSS) (d)	TAXABLE INCOME PORTFOLIO (e)	TAX BENEFIT (COST)
1987	ADMISSION	18,000	1,205	(10,849)	82	(32)
1988	FEB. 15	19,000	2,897	(9,820)	278	(78)
1989	FEB. 15	19,000	4,417	(5,556)	457	(128)
1990			4,517	(3,840)	472	(132)
1991			4,925	(1,284)	472	(132)
1992			6,130	599	472	(132)
1993			7,413	2,464	472	(132)
1994			8,779	4,328	472	(132)
TOTAL		56,000	40,283	(23,958)	3,177	(898)

(c) In 1987 the marginal tax rate used is 38.5%; from 1988-1994 a 28% tax rate is used.
(d) All passive losses are held for disposition at sale.

Cash Distibution from Proceeds	169,086
Taxes Due	(42,054)
Net Benefit Upon Sale	127,032
Cumulative Tax Benefit (Cost)	(898)
Cumulative Net Distributable Cash Flow	40,283
Total Net After-Tax Return Per Unit	166,417
Original Investment	56,000
Internal Rate of Return	22.1%
Modified Rate of Return (8% reinvestment rate)	25.4%
Net Present Value (8% discount rate)	44,005
% Tax Benefit/ Total Investor Return	-2.23%

INVESTOR BENEFIT SCHEDULE
CASH METHOD

YEAR	INSTALLMENT DATE	CAPITAL CONTRIBUTION	NET DISTRIBUTABLE CASH FLOW	TAXABLE INCOME PASSIVE (LOSS) (d)	TAXABLE INCOME PORTFOLIO (e)	TAX BENEFIT (COST)
1987	ADMISSION	51,300	1,205	(8,389)	82	(32)
1988			2,897	(7,660)	278	(78)
1989			4,417	(5,456)	457	(128)
1990			4,517	(3,840)	472	(132)
1991			4,925	(1,284)	472	(132)
1992			6,130	599	472	(132)
1993			7,413	2,464	472	(132)
1994			8,779	4,328	472	(132)
TOTAL		51,300	40,283	(19,238)	3,177	(898)

(c) In 1987 the marginal tax rate used is 38.5%; from 1988-1994 a 28% tax rate is used.
(d) All passive losses are held for disposition at sale.
(e) Distributed interest on the working capital replacement

Cash Distibution from Proceeds	169,086
Taxes Due	(43,370)
Net Benefit Upon Sale	125,716
Cumulative Tax Benefit (Cost)	(898)
Cumulative Net Distributable Cash Flow	40,283
Total Net After-Tax Return Per Unit	165,101
Original Investment	51,300
Internal Rate of Return	18.1%
Modified Rate of Return (8% reinvestment rate)	16.8%
Net Present Value (8% discount rate)	41,561
% Tax Benefit/ Total Investor Return	-2.23%

OCEAN CREST   EXHIBIT 6 A   Megan M. Dobroth

Project Name:	OCEAN CREST	
Based upon:	TRANSITION PERIOD	
Offering Date:	SEPTEMBER 1,1986	
Type:	APARTMENTS	
Holding Period:	10 YEARS, 4 MONTHS	
Total Project Cost:		91,940,000
Mortgage Amounts:		41,000,000
Capital Raised through Syndication:		50,940,000
Syndicator's Fees:		11,790,239
Equity Raised for property:		39,149,761
Interim Loan for LP pay-in period		34,000,000
% Fees/ Capital Raised		23.15%
% Leveraged		44.59%
% Leveraged (adjusted for syndicator's fees)		51.15%
% Leveraged (adjusted for syndicator's fee and installment pay-in)		93.57%

SPLITS	INVESTORS	GENERAL PARTNER
Taxable Income	97%	3%
Cash Flow	97%	3%
Sale Proceeds	Capital back based on $90,000 unit size plus an 8% cumulative non-compounded return, then 75% of remaining proceeds.	25% of any remaining proceeds after Investor Limited Partner receive capital back based on $90,000 unit size plus an 8% cumulative non-compunded return.

SPLITS ADJUSTED FOR FEES (See notes c through i)		
Taxable Income	95%	5%
Cash Flow	95%	5%
Sale Proceeds	(same as above)	(same as above)

OCEAN CREST EXHIBIT 6 B Megan M. Dobroth

GENERAL PARTNER BENEFIT SCHEDULE

YEAR	ACQUISITION AND OTHER FEES	BROKERAGE & SYNDICATION FEES	PARTNERSHIP ADMINISTRATION FEE (c)	NET DISTRIBUTABLE CASH FLOW	TAXABLE INCOME (LOSS)
(a) 1986	5,605,639	6,184,600	0	840	(70,178)
1987			0	54,914	(118,142)
1988			110,000	69,776	(83,167)
1989			116,600	75,762	(43,675)
1990			123,596	106,904	(19,798)
1991			131,012	128,085	3,624
1992			138,872	151,087	3,974
1993			147,205	176,049	4,324
1994			156,037	203,147	79,123
1995			165,399	232,573	176,434
1996			175,323	264,503	211,515

(a) Represents 4 months (September 1-December 31, 1986)
(c) Annual Partnership and Investor Service Fee commencing in 1988 and increasing 6% annually.
(d) Annual property management feeequal to 4% if gross collections.
(e) Incentive Management Fee equal to 20% of any excess of actual net cash flow distributable to investors in any year over distributable net cash flow forecasted for that year.
(f) Contigent fee equal to amount, if any, by which interest actually paid on the Commercial Loan in any year is less than the forecasted amount after deductions for repayment of any Interst Shortfall Loans
(g) Contigent fee equal to the amount, if any, by which interest earned on the Reserve Account is greater than the amount of interest forecasted to be earned on the Reserve Account in the Financial Forecast.
(h) The greater of $425,000 or 5% of the amounts expended in connection with the Renovation and Capital Improvement Program.
(i) Syndicator may in the future provide various additional services such as insurance brokerage, at prevailing market rates.

BREAKDOWN OF SYNDICATOR'S UPFRONT FEES	
% Fees/ Capital Raised	23.15%
% Commission Fees/ Total Upfront Fees	38.88%
% Organizational Fees/ Total Upfront Fees	13.57%

OCEAN CREST EXHIBIT 6 C Megan M. Dobroth

INVESTOR BENEFIT SCHEDULE
INSTALLMENT METHOD

YEAR	INSTALLMENT DATE	CAPITAL CONTRIBUTION	TAXABLE INCOME (LOSS)	TAX BENEFIT (COST)	NET DISTRIBUTABLE CASH FLOW	ANNUAL AFTER-TAX CURRENT RETURN	PERCENT ANNUAL AFTER-TAX CURRENT RETURN
(a) 1986	SEPT.1	3,150	(6,229)	3,115	48	3,163	301.2%
1987	FEB. 1	29,968	(9,859)	3,796	3,137	6,933	20.9%
1988	FEB. 1	29,968	(6,423)	1,734	3,986	5,720	9.1%
1989	FEB. 1	26,914	(3,016)	814	4,328	5,142	5.7%
1990			(1,340)	362	6,107	6,469	7.2%
1991			207	(56)	7,317	7,261	8.1%
1992			227	(61)	8,631	8,570	9.5%
1993			247	(67)	10,057	9,990	11.1%
1994			2,645	(714)	11,605	10,891	12.1%
1995			10,079	(2,721)	13,286	10,565	11.7%
1996			12,083	(3,262)	15,110	11,848	13.2%
TOTAL		3,150	(1,379)	2,939	83,612	86,551	

(a) Represents 4 months (September 1-December 31, 1986) and return is annualized.

This schedule assumes a 50% tax bracket for the period September 1, 1986 through June 30, 1987 and a 27% tax bracket for the period July 1, 1987 through December 31, 1996. Capital gains rate is assumed to be 27%.

Cash Distibution from Proceeds	217,509
Taxes Due	(57,394)
Net Benefit Upon Sale	160,115
Cumulative Tax Benefit (Cost)	2,939
Cumulative Net Distributable Cash Flow	83,612
Total Net After-Tax Return Per Unit	246,666
Original Investment	90,000
Internal Rate of Return	18.1%
Modified Rate of Return (8% reinvestment rate)	14.4%
Net Present Value (8% discount rate)	44,673
% Tax Benefits/ Total Investor Return	0

OCEAN CREST   EXHIBIT 6 D   Megan M. Dobroth

INVESTOR BENEFIT SCHEDULE
CASH METHOD

YEAR	INSTALLMENT DATE	CAPITAL CONTRIBUTION	TAXABLE INCOME (LOSS)	TAX BENEFIT (COST)	NET DISTRIBUTABLE CASH FLOW	ANNUAL AFTER-TAX CURRENT RETURN	PERCENT ANNUAL AFTER-TAX CURRENT RETURN
(a) 1986	SEPT.1	79,200	(4,009)	2,005	48	2,053	7.8%
1987			(6,749)	2,598	3,137	5,735	7.2%
1988			(4,751)	1,283	3,986	5,269	6.7%
1989			(2,495)	674	4,328	5,002	6.3%
1990			(1,131)	305	6,107	6,412	8.1%
1991			207	(56)	7,317	7,261	9.2%
1992			227	(61)	8,631	8,570	10.8%
1993			247	(67)	10,057	9,990	12.6%
1994			4,520	(1,220)	11,605	10,385	13.1%
1995			10,079	(2,721)	13,286	10,565	13.3%
1996			12,083	(3,262)	15,110	11,848	15.0%
TOTAL		79,200	8,228	(523)	83,612	83,089	

(a) Represents 4 months (September 1-December 31, 1986) and return is annualized.

This schedule assumes a 50% tax bracket for the period September 1, 1986 through June 30, 1987
and a 27% tax bracket for the period July 1, 1987 through December 31, 1996. Capital gains rate is assumed t

Cash Distibution from Proceeds	217,509
Taxes Due	(57,697)
Net Benefit Upon Sale	159,812
Cumulative Tax Benefit (Cost)	(523)
Cumulative Net Distributable Cash Flow	83,612
Total Net After-Tax Return Per Unit	242,901
Original Investment	79,200
Internal Rate of Return	12.9%
Modified Rate of Return (8% reinvestment rate)	11.9%
Net Present Value (8% discount rate)	25,463
% Tax Benefits/ Total Investor Return	0

GLACIER VIEW (leveraged)   EXHIBIT 7 A and 7 B   Megan M. Dobroth

---

Project Name:	GLACIER VIEW (leveraged)	
Based upon:	POST- TRA '86	
Offering Date:	JANUARY 13, 1987	
Type:	UNKNOWN (many commercial)	
Holding Period:	4 to 9 YEARS	
Capital Raised through Syndication:		50,000,000
Syndicator's Fees:*		7,850,000
Equity Raised for property:**		50,000,000
% Fees/ Capital Raised		15.70%
% Leverage***		70.00%
Total anticipated asset value of properties		140,000,000
Line of Credit for purchase		78,000,000

* These fees will be paid by a loan to be repaid at Sale after investors capital has been returned. Monthly interest payments will be paid to GP affiliate for arranging and servicing loan.

** Because of the loan for front-end fees, all of the capital raised is considered to go for purchasing properties.

*** The partnership is hoping to leverage 70% loan to value. Up to 80% of the total purchase price of all partnership properties on a combined basis can be leveraged.

(a) Line of credit can be used to leverage chosen properties.
(b) GP receives fees for acquisition, construction contracts, brokerage, leasing, etc. It is unclear whether these are double fees.

PARTNERSHIP OBJECTIVES

---

1. Preserve and protect the investors' original capital contribution.
2. Provide capital appreciation through increases in value of partnership's real estate assets.
3. Provide current cash flow for distribution to investors on a quarterly basis, a portion of which will not constitute taxable income.
4. Increase cash distributions over the life of the partnership.

SPLITS

Taxable Income	++
Cash Flow	5% guaranteed return the first year (early investors receive incentive return) to investors, after GP receives fee of .5% of gross asset value of all properties. Then 100% of all cash flow to investors.
Sale Proceeds	Investor capital contribution returned , then 6% cumulative non-compoun return to investors after GP repays front-end fees loans. Finally, 80% of remaining proceeds to investors; 20% to GP.

GLACIER VIEW (leveraged)   EXHIBIT 7 A and 7 B   Megan M. Dobroth

BREAKDOWN OF SYNDICATOR'S UPFRONT FEES

% Fees/ Capital Raised	15.70%
% Commission Fees/ Total Upfront Fees	**
% Organizational Fees/ Total Upfront Fees	**

** Unknown

GLACIER VIEW (unleveraged) EXHIBIT 8 A and 8 B Megan M. Dobroth

---

Project Name:	GLACIER VIEW (unleveraged)
Based upon:	POST- TRA '86
Offering Date:	JANUARY 13, 1987
Type:	UNKNOWN (50% of commercial property)
Holding Period:	5 to 10 YEARS

Capital Raised through Syndication:	25,000,000
Syndicator's Fees:	4,500,000
Equity Raised for property:	20,500,000
% Fees/ Capital Raised	18.00%
% Leverage	0.00%
Total anticipated asset value of properties	20,000,000

(a) GP receives fees for acquisition, construction contracts, brokerage, leasing, etc.
It is unclear whether these are double fees.

PARTNERSHIP OBJECTIVES

---

1. Preserve and protect the investors' original capital contribution.
2. Provide capital appreciation through increases in value of partnership's real estate assets.
3. Provide current cash flow for distribution to investors on a quarterly basis, a portion of which will not constitute taxable income.

SPLITS

Taxable Income	++
Cash Flow	A minimum of 7.5% per annum non-compounding cumulative return, paid quarterly. Early investors receive an additional 1% cash flow the first year. After annual fee based on 0.5% of the net asset v of all partnership properties is paid to GP, investors get 100% of remaining cash flow.
Sale Proceeds	Investors recieve capital contribution back , then 85% of remaining proceeds. If 85% is not enough to give investors 125% of their capital return, then GP will forfeit their share until goal is reached.

++ Losses carried forward to sale.

+++ Annual acquisition fees if not paid because of cash flow shortfall for investors' priority return, then partnership pays 8.5% interest until paid out of excess cash flow or sale proceeds.

BREAKDOWN OF SYNDICATOR'S UPFRONT FEES

% Fees/Capital Raised	18.00%
% Commission Fees/ Total Upfront Fees	44.44%
% Organizational Fees/ Total Upfront Fees	22.22%

TANGLE FALLS EXHIBIT 9 A and 9 B Megan M. Dobroth

Project Name:	TANGLE FALLS (unleveraged)	
Based upon:	POST- TRA '86	
Offering Date:	JANUARY 13, 1987	
Type:	COMMERCIAL	
Holding Period:	5 TO 10 YEARS	
Capital Raised through Syndication:		250,000,000
Syndicator's Fees:		34,625,000
Equity Raised for real estate		150,762,500
Equity Raised for securities		64,612,500
% Fees/ Capital Raised		13.85%
% Leverage		0.00%
Total anticipated asset value of properties		150,762,500

(a) GP receives fees for acquisition, construction contracts, brokerage, leasing, etc.
It is unclear whether these are double fees.

PARTNERSHIP OBJECTIVES

---

1. Preserve and protect the investors' original capital contribution by investing in unleveraged properties and by acquiring MBS.
2. Provide capital appreciation through increases in value of partnership's real estate assets.
3. Provide current cash flow for distribution to investors on a quarterly basis, a portion of which will be sheltered.
4. Diversify the partnership investments to reduce its investment risk.
5. Provide a possible hedge against disinflation in expectation that the partnership interest in MBS could be sold at a gain in the event of a general decline in interest rates.
6. Provide a balanced conservative structure which, through the inclusion of cash flow generated by MBS, renders the occupancy level needed by the partnership's properties for break-even below that generally requuired of leveraged or unleveraged properties, and thereby decrease overall portfolio risk.

SPLITS

Taxable Income	++
Cash Flow	6.5% non-cumulative annual return on investment, then the GP will get 5% of the cashflow, then investors additional cash flow to make total up to 93% of the cash flow. GP get remaining 2% of cash flow if not need to give investors 6.5% return. In 1991 6.5% non-cumulative annual return on investment, then the GP will get 5% of the cashflow, then investors additional cash flow to make total up to 90% of the cash flow. Then, GP gets 7% of cash flow, then investors get cash to up return to 8%, then GP gets, if any, 3% of the remaining cash flow.
Sale Proceeds	First investors get capital contribution back, then gp get invested capital back, then investors get enough net proceeds to give 12% per annum for all fiscal years, the remaining cash gives investors enough to have 90% of cash flow, GP gets, if any, remaining 10% of the cash flow.

BREAKDOWN OF SYNDICATOR'S FEES	
% Fees/ Capital Raised	13.85%
% Commission Fees/ Total Upfront Fees	57.76%
% Organizational Fees/ Total Upfront Fees	21.66%

BIRCH BLUFF   EXHIBIT 10 A and 10 B   Megan M. Dobroth

Project Name:	BIRCH BLUFF
Based upon:	POST- TRA '86
Offering Date:	APRIL 7, 1987
Type:	LOW INCOME HOUSING blind pool
Holding Period:	15 YEARS

Capital Raised through Syndication:	1,470,000
Syndicator's Fees:	515,000
Equity Raised for property:**	955,000
% Fees/ Capital Raised	35.03%

** Remaining amount is legal fees and expenses for setting up syndication.
(a) GP plans to get a mortgage from FmHA
(b) GP plan to get an interim loan for seven years to cover investor's pay-in period.
(c) GP will receive any advantage from a lower than plnned interest rate for interim loan.
(d) GP receives accrued interest on any acquision or development costs they incurred.
The interest and prinicpal is due at sale or refinancing prior to distribution of proceeds to any partners.
(e) If GP loan the project monies for shortfalls, the sum plus accrued interest is due at sale or refinancing.

SPLITS	INVESTORS	GENERAL PARTNER
Taxable Income	94%	6%
Cash Flow	94%	6%
Sale Proceeds	Capital back based on $42,000 unit size, then 49.5% of remaining proceeds.	50.5% of any remaining proceeds after Investor Limited Partner receive capital back

BREAKDOWN OF SYNDICATOR'S FEES	
% Fees/ Capital Raised	35.03%
% Commission Fees/ Total Upfront Fees	22.83%
% Organizational Fees/ Total Upfront Fees	23.18%

INVESTOR BENEFIT SCHEDULE
INSTALLMENT METHOD

YEAR	CAPITAL CONTRIBUTION	LOW INCOME HOUSING TAX CREDIT	SHELTERED DISTRIBUTABLE CASH FLOW	TOTAL BENEFIT	CUMULATIVE PASSIVE TAX LOSSES
1987	3,500	3,650	0	3,650	(2,500)
1988	6,800	7,000	50	7,050	(7,500)
1989	6,800	7,000	100	7,100	(12,500)
1990	6,800	7,000	100	7,100	(17,500)
1991	6,800	7,000	100	7,100	(22,500)
1992	6,800	7,000	100	7,100	(27,500)
1993	4,500	7,000	100	7,100	(32,500)
1994		7,000	100	7,100	(37,500)
1995		7,000	100	7,100	(42,500)
1996		7,000	100	7,100	(47,500)
1997		3,350	100	3,450	(52,500)
1998			100	100	(57,500)
1999			100	100	(62,500)
2000			100	100	(67,500)
2001			100	100	(72,500)
2002			100	100	(77,500)
TOTAL	42,000	70,000	1,450	71,450	(77,500)

	$1 Over Mortgage (Foreclosure)	Investor Capital
Distributable Cash Sale Proceeds	0	42,000
Income Taxes Due @ 28%	0	(406)
Net Sale Cash Benefit	0	41,594
Cumulative Low Income Tax Credits	70,000	70,000
Projected Cash Distributions	1,450	1,450
Total Cash Net After-Tax Return	71,450	113,044
Less: Original Investment	(42,000)	(42,000)
Net Cash Benefit	29,450	71,044
Deferred Losses Available on Sale	40,550	0
Internal Rate of Return	50.56%	51.8%
Modified Rate of Return (8% reinvestm	20.57%	25.0%
Net Present Value (8% discount rate)	13,668	25,808
Tax Benefit/ Total Investor Return	97.97%	61.92%

EXHIBIT 11 Megan M. Dobroth

PRE-TAX REFORM '86 * (Assumes a 50% marginal tax bracket)

PURCHASE PRICE	10,000,000
MORTGAGE AMOUNT	8,000,000
INTEREST RATE	10.00%
TERM	30
DEPRECIATION (STRAIGHT LINE)	19
HOLDING PERIOD	7
SALES PRICE	12,000,000

CASH FLOW	1	2	3	4	5	6
NET OPERATING INCOME	850,000	850,000	890,000	895,000	900,000	901,000
LESS: ANNUAL DEBT SERVICE	(848,633)	(848,633)	(848,633)	(848,633)	(848,633)	(848,633)
CASH FLOW BEFORE TAXES	1,367	1,367	41,367	46,367	51,367	52,367

TAXABLE INCOME						
NET OPERATING INCOME	850,000	850,000	890,000	895,000	900,000	901,000
LESS: INTEREST	(800,000)	(795,136)	(789,786)	(783,902)	(777,428)	(770,308)
LESS: DEPRECIATION	(421,053)	(421,053)	(421,053)	(421,053)	(421,053)	(421,053)
REAL ESTATE TAXABLE INCOME	(371,053)	(366,189)	(320,839)	(309,955)	(298,481)	(290,361)

ADJUSTED BASIS	
ORIGINAL BASIS	10,000,000
LESS:DEPRECIATION	(2,947,368)
ADJUSTED BASIS	7,052,632

CALCULATION OF GAIN	
SALES PRICE	12,000,000
LESS:ADJUSTED BASIS	(7,052,632)
GAIN	4,947,368
AMOUNT OF GAIN TAXED (40%)	1,978,947
TAX LIABILITY ON SALE *	989,474

SALE PROCEEDS	
SALES PRICE	12,000,000
LESS: MORTGAGE	(7,583,601)
LESS: TAX LIABILITY ON SALE*	(989,474)
PROCEEDS AFTER TAXES	3,426,925

EXHIBIT 11 B Megan M. Dobroth

PRE-TAX REFORM
BENEFIT STREAM

YEAR	TAXABLE INCOME (LOSS)	TAX BENEFIT (COST)	NET DISTRIBUT CASH FLOW	ANNUAL AFTER-TAX CURRENT RETURN
1	(371,053)	185,526	1,367	186,893
2	(366,189)	183,094	1,367	184,461
3	(320,839)	160,419	41,367	201,786
4	(309,955)	154,977	46,367	201,344
5	(298,481)	149,240	51,367	200,607
6	(290,361)	145,180	52,367	197,547
7	(278,528)	139,264	56,367	3,622,556

INTERNAL RATE OF RETURN	15.97%
MODIFIED RATE OF RETURN (8% reinvestment rate)	14.52%
NET PRESENT VALUE	938,999
% Tax Benefits/Entire Retur	23.31%

EXHIBIT 12 A Megan M. Dobroth

POST TAX REFORM '86 EXAMPLE (Assumes a 28% tax rate and all passive losses are carried forward to sale.)

PURCHASE PRICE	10,000,000
MORTGAGE AMOUNT	8,000,000
INTEREST RATE	10.00%
TERM	30
DEPRECIATION (STRAIGHT LINE)	31.5
HOLDING PERIOD	7
SALES PRICE	12,000,000

CASH FLOW	1	2	3	4	5	6	
NET OPERATING INCOME	850,000	850,000	890,000	895,000	900,000	901,000	905,(
LESS: ANNUAL DEBT SERVICE	(848,633)	(848,633)	(848,633)	(848,633)	(848,633)	(848,633)	(848,6
CASH FLOW BEFORE TAXES	1,367	1,367	41,367	46,367	51,367	52,367	56,3

TAXABLE INCOME

NET OPERATING INCOME	850,000	850,000	890,000	895,000	900,000	901,000	905,(
LESS: INTEREST	(800,000)	(795,136)	(789,786)	(783,902)	(777,428)	(770,308)	(762,4
LESS: DEPRECIATION	(253,968)	(253,968)	(253,968)	(253,968)	(253,968)	(253,968)	(253,9
REAL ESTATE TAXABLE INCOME (Now defined as passive income(losses))	(203,968)	(199,104)	(153,754)	(142,870)	(131,396)	(123,276)	(111,4

ADJUSTED BASIS

ORIGINAL BASIS	10,000,000
LESS:DEPRECIATION	(1,777,778)
ADJUSTED BASIS	8,222,222

CALCULATION OF TAX LIABILITY ON SALE

SALES PRICE	12,000,000
ADJUSTED BASIS	(8,222,222)
GAIN	3,777,778
PASSIVE LOSSES	(1,065,813)
TAXABLE GAIN	2,711,965
TAXES DUE (28%	759,350

SALE PROCEEDS

SALES PRICE	12,000,000
LESS: MORTGAGE	(7,538,601)
LESS: TAX LIABILITY ON SALE*	(759,350)
PROCEEDS AFTER TAXES	3,702,049

EXHIBIT 12 B Megan M. Dobroth

POST-TAX REFORM
BENEFIT STREAM

YEAR	NET DISTRIBUTABLE CASH FLOW	ANNUAL AFTER-TAX CURRENT RETURN
1	1,367	1,367
2	1,367	1,367
3	41,367	41,367
4	46,367	46,367
5	51,367	51,367
6	52,367	52,367
7	56,367	3,758,416

INTERNAL RATE OF RETURN	10.44%
MODIFIED RATE OF RETURN (8% reinvestment rate)	10.38%
NET PRESENT VALUE	305,849

EXHIBIT 13 Megan M. Dobroth

EFFECT OF LEVERAGE ON POST TAX REFORM '(Assumes a 28% tax rate)

LEVERAGED		UNLEVERAGED	
PURCHASE PRICE	10,000,000	PURCHASE PRICE	10,000,000
MORTGAGE AMOUNT	8,000,000	MORTGAGE AMOUNT	0
INTEREST RATE	10.00%	INTEREST RATE	
(Interest only)		TERM	
DEPRECIATION (STRAIGHT LINE)	31.5	DEPRECIATION (STRAIGHT LINE)	31.5
HOLDING PERIOD	7	HOLDING PERIOD	7
SALES PRICE	16,000,000	SALES PRICE	16,000,000
ADJUSTED BASIS		ADJUSTED BASIS	
ORIGINAL BASIS	10,000,000	ORIGINAL BASIS	10,000,000
LESS:DEPRECIATION	(1,777,778)	LESS:DEPRECIATION	(1,777,778)
ADJUSTED BASIS	8,222,222	ADJUSTED BASIS	8,222,222
CALCULATION OF TAX LIABILITY ON SALE		CALCULATION OF TAX LIABILITY ON SALE	
SALES PRICE	16,000,000	SALES PRICE	16,000,000
ADJUSTED BASIS	(8,222,222)	ADJUSTED BASIS	(8,222,222)
GAIN	7,777,778	GAIN	7,777,778
PASSIVE LOSSES	0	PASSIVE LOSSES	0
TAXABLE GAIN	7,777,778	TAXABLE GAIN	7,777,778
TAXES DUE (28%)	2,177,778	TAXES DUE (28%)	2,177,778
SALE PROCEEDS		SALE PROCEEDS	
SALES PRICE	16,000,000	SALES PRICE	16,000,000
LESS: MORTGAGE	(8,000,000)	LESS: MORTGAGE	0
LESS: TAX LIABILITY ON SALE*	(2,177,778)	LESS: TAX LIABILITY ON SALE*	(2,177,778)
PROCEEDS AFTER TAXES	5,822,222	PROCEEDS AFTER TAXES	13,822,222

YEAR (Leveraged)		YEAR (Unleveraged)	
1	(2,000,000)	1	(10,000,000)
2	0	2	0
3	0	3	0
4	0	4	0
5	0	5	0
6	0	6	0
7	5,822,222	7	13,822,222
INTERNAL RATE OF RETURN	19.49%	INTERNAL RATE OF RETURN	5.54%

EXHIBIT 14 Megan M. Dobroth

TABLE OF COMPARISON OF ALL SYNDICATION'S COMPONENTS

	PRE-TRA '86		******POST- TRA'86************************				
	ROLLING GREENS	STONY BROOK	OAK PARK	OCEAN CREST	GLACIER VIEW (unlever)	GLACIER VIEW (lever)	TANGLE FALLS
SYNDICATOR'S FEES							
% Fees/ Capital Raised	20.24%	26.70%	23.29%	23.15%	18.00%	15.70%	13.85%
% Commission/ Upfront Fees	49.42%	0.00%	42.94%	38.88%	44.44%	***	57.76%
% Organizational cost/ Upfront Fees	11.63%	49.21%	14.26%	13.57%	22.22%	***	21.66%
Any remaining portion of operating reserve	yes	yes	no	yes	***	***	***
Any remaining portion of working reserve	yes	no	no	yes	***	***	***
Any benefit from change in loan terms	yes	no	no	yes	***	***	***
Annual fee for servicing partnership	no	no	yes	yes	***	***	***
Double fee for providing certain services	no	no	yes	yes	yes	yes	yes
% MBS/ Total Investment	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	30.00%
SPLITS (Investor: Syndicator)							
Taxable Income	98:02	98:02	**	**	**	**	**
Cash Flow	98:02	98:02	98:02	97:03	100:0+	100:0+	93:07+
Sales Proceeds (See individual exhibits.)							
LEVERAGED AMOUNT							
% Leveraged	64.86%	72.11%	67.22%	44.59%	0.00%	70.00%	0.00%
% Leveraged with adjustment for fees	69.75%	77.44%	72.77%	51.15%	0.00%	***	0.00%
% Leveraged with adjustment for fees and interim loan	69.75%	77.44%	72.77%	93.57%	0.00%	***	0.00%
RATES OF RETURN (Installment Method)							
Internal Rate of Return	26.00%	26.30%	22.10%	18.10%	++	++	++
Modified Rate of Return*	19.70%	22.90%	25.40%	14.40%	++	++	++
% Tax Benefit/ Total Investor Benefits	55.79%	90.77%	-2.23%	0.00%	++	++	++
RATES OF RETURN (Cash Method)							
Internal Rate of Return	++	++	18.10%	12.90%	***	***	***
Modified Rate of Return*	++	++	16.80%	11.90%	***	***	***
% Tax Benefit/ Total Investor Benefits	++	++	-2.23%	0.00%	***	***	***
GUARANTEED CURRENT YIELD	++	++	++	++	7.50%	5.00%	6.50%

* Reinvestment rate of 8%.
** Passive losses carried forward to sale.
*** Unknown.
\+ After certain returns and certain fees are paid.
++ Not Applicable.

EXHIBIT 15 Megan M. Dobroth

TABLE OF COMPARISON OF ALL SYNDICATION'S COMPONENTS	LOW INCOME HOUSING		
	PRE-TRA '86		*POST- TRA'86*
	PALM COURT	REDWOOD FOREST	BIRCH BLUFF
SYNDICATOR'S FEES			
% Fees/ Capital Raised	43.64%	22.39%	35.03%
% Commission/ Upfront Fees	25.16%	***	22.83%
% Organizational cost/ Upfront Fees	50.22%	***	23.18%
Any remaining portion of operating reserve	no	no	no
Any remaining portion of working reserve	no	no	no
Any benefit from change in loan terms	no	no	yes
Annual fee for servicing partnership	yes	yes	no
Double fee for providing certain services	yes	yes	yes
SPLITS (Investor: Syndicator)			
Taxable Income	(90.5):(9.5)	(98.5):(1.5)	94:06
Cash Flow	(90.5):(9.5)	(98.5):(1.5)	94:06
Sales Proceeds (See individual exhibits.)			
LEVERAGED AMOUNT			
% Leveraged	68.87%	61.12%	***
% Leveraged with adjustment for fees	75.93%	64.98%	***
RATES OF RETURN (Installment Method)			
Internal Rate of Return	42.00%	53.50%	51.80%
Modified Rate of Return*	15.40%	20.70%	25.00%
% Tax Benefit/ Total Investor Benefits	85.92%	97.19%	61.92%

* Reinvestment rate of 8%.
*** Unknown.