Valuation Analysis of Partnership Interest - 5 Year Outlook

Name of Partnership:	**XYZ Apartments, LLC**	*Seller:*	**John Smith**
% of Interest for Sale"	**10.00%**	*Buyer*	**John Doe**

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Item Description - Comment	Total Ptr	% for Sale	Net Present Value & IRR 8%	12%	16%
	100%	10.00%	8%	12%	16%
1. Recoup of Negative Capital Account at Capital Gains Rate					
As of 12/31/05 the Capital Account = ($240,000) times 15% Tax Rate (No Discounting)	n/a	($36,000)	($36,000)	($36,000)	($36,000)
2. Subtract Capital Improvement Requirements - Cash — Capital Improvements over the next 2 years - Seller (No Discounting)	($400,000)	($40,000)	($40,000)	($40,000)	($40,000)
3. Cash Flow Distibutions: Average of last 5 years cashflow - projected for the next 5 years. divide by 5 = Avg per Year; Projected over next 5 Years	$375,000	$37,500	$149,727	$135,179	$122,786
4. Residual Interest of Cash Proceeds upon Sale of Asset (5 yrs away). Equals $4,361,348 Cash for Distribution	$4,361,348	$436,135	$296,826	$247,475	$207,649
Total Range of Value of Partnership Interest			**$370,553**	**$306,654**	**$254,435**

3. Cash Flow Distibutions:

Average of last 5 years cashflow - projected for the next 5 years.

Year	Cash Flows
2001	$ 450,000
2002	$ 360,000
2003	$ 380,000
2004	$ 295,000
2005	$ 390,000
Total	$ 1,875,000

divide by 5 = $375,000 Avg per Year — Projected over next 5 Years

4. Residual Interest of Cash Proceeds upon Sale of Asset (5 yrs away).

A. NOI in 2005	$850,000	
B. Apply Cap Rate	$8,500,000	(Using a Cap Rate of 10%)
C.Value in 5 Years	$9,854,050	(Using a 3% Inflation Rate per Year)
D. Sales Expense	($492,703)	(Using 5% of Sales)
E. Minus Mortgage	($5,000,000)	(as of April 30, 20XX - 5 years from now)
Equals	$4,361,348	Cash for Distribution

Prepared by William E. Bryant, CPA, CVA

Valuation Analysis of Partnership Interest - Methodology & Assumptions

Name of Partnership:	**XYZ Apartments, LLC**
% of Interest for Sale"	**10.00%**

Seller:	**John Smith**
Buyer	**John Doe**

Methodology:

1). The Partnership owns the entire underlying assets. Therefore, a partnership interest for sale can only reflect the value of that interest in that partnership, not necessarily the direct fair market values of the underlying assets, less liabilities.

2). The analysis worksheet takes into account some historical cash flows and the residual cash value of the underlying assets, should there be a sale. Each component is then discounted at an interest rate suitable for the risk of this purchase. No consideration was given here on the ability to refinance and draw cash from loan proceeds, due to a change in ownership.

3). The goal of this worksheet is to provide a fair range of value of future cash flows, discounted appropriately, to take into account the amount of risk associated with realizing those cash flows, as projected. A projected residual value will remain unrealized until there is an actual sale, which may not occur within the 5 year outlook.

4). No consideration was given to the net tax affect on the future cash flows and residual cash distribution.

Assumptions:

1). Since there was a negative capital account that the buyer will "step into", an adjustment was made on the tax affect of restoring that negative capital account to zero. Currently, the capital gains tax rate is 15%.

2). The anticipated capital improvement requirement was $400,000. This amount was not already reserved. No Discount was applied to that cash requirement. If that cost were covered by a loan, that would reduce the residual cash (# 4).

3). The historical cash flows were provided by the seller. Since there was no trend, we took a simple average of the last 5 years to use going forward for the next 5 years.

4). The residual value takes into consideration the most current NOI, applying a 10% Cap Rate, then applying an annual inflation rate in value of 3%, projected forward 5 years. We assume a 5% cost of sales, then we subtract the projected loan balances at that time to derive the net cash proceeds available for distribution.

5). No further analysis was given to assess the market risk of lease-up or the economic outlook over the next 5 years. Accordingly, there are always unknown factors that make it difficult to assess additional risks to consider as discounts in dollar value, or that there may be some unknown economic benefits that would justify paying a premium.