JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

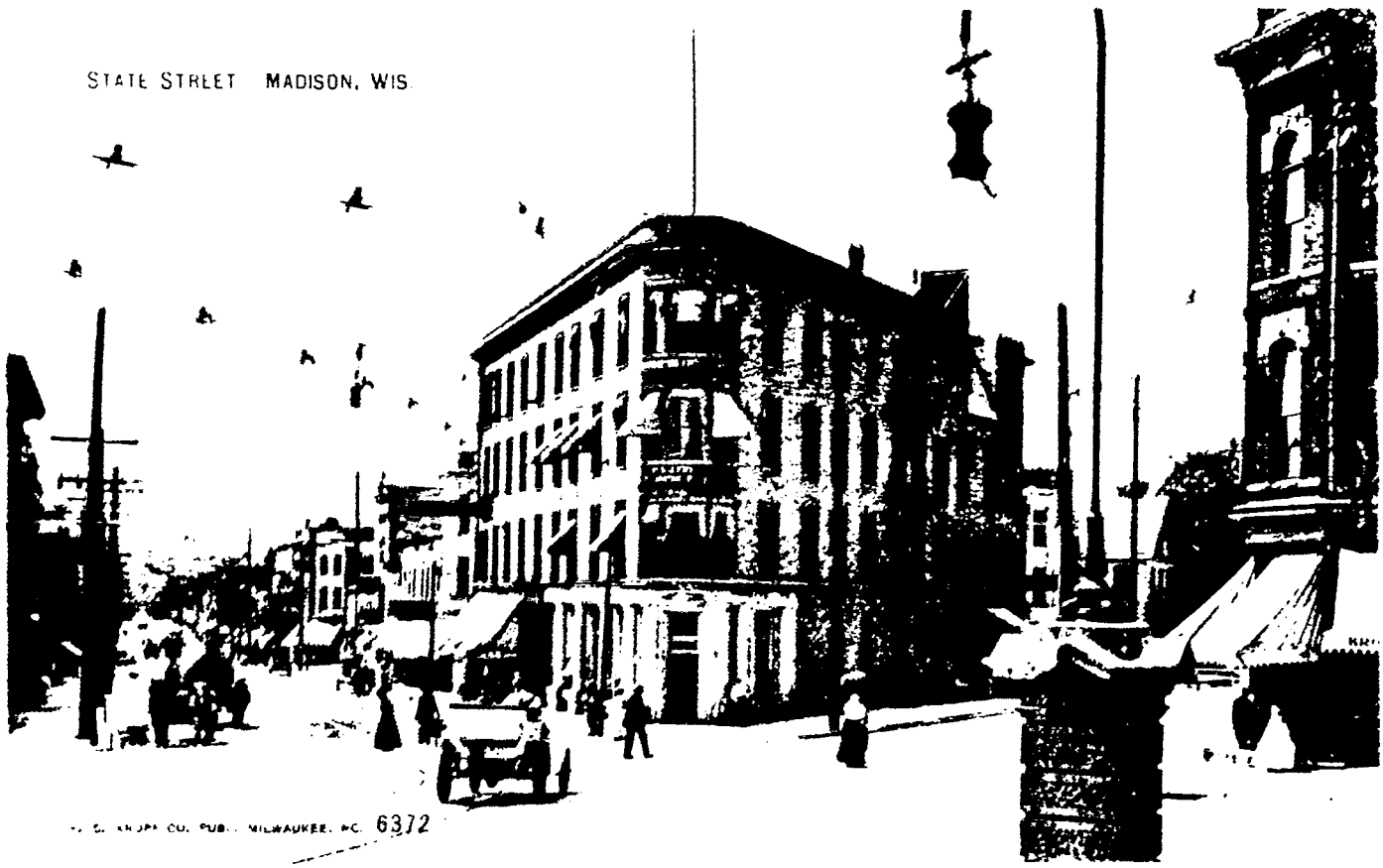
I. MANUSCRIPTS

A. Published Books

9. Appraisal of 102-114 State Street: Under the direction of James A. Graaskamp with students enrolled in Contemporary Real Estate Appraisal (Business 856), Fall 1980 and copyright by Wayne Reisenauer and published by Landmark Research, (1981)

Index

Appraisal of 102-114 State Street



APPRAISAL OF 102-114 STATE STREET

A Student Appraisal Report Selected for Excellence
from the Fall Semester 1980 Graduate Class,
Business 856, Contemporary Real Estate Appraisal

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Madison, WI 53711

Limited Edition of 50 Copies

PREFACE

This demonstration appraisal of 101-114 State Street is an exact copy of the report done by student Wayne E. Reisenauer in the fall 1980 class of Business 856, Contemporary Real Estate Appraisal offered at the University of Wisconsin. It has been reproduced because it represents a significant improvement over the prototype which he followed, my textbook, The Appraisal of 25 N. Pinckney, which we authored in 1977 to provide a model students might imitate and improve. The attention of the reader should be focussed on the alternative approaches to market value presented in Section IV beginning on page 35, especially Sections C, D, and E. Mr. Reisenauer proceeds from definition of comparables, divides them for most probable buyer differences, statistically chooses a space-time unit for purposes of comparison, and then uses both a dollars-per-point-per-unit simple average and a simple linear regression to estimate values. We prefer the mean of dollars-per-point-per-unit, as originally suggested by Gene Dilmore,as doing less statistical violence to a basically ordinal point system and resulting in a more realistic estimate of the standard error of the mean since n does not have to be reduced for a small sample as is required for the standard deviation of the regression estimate. These procedures have been the gospel in 856 for several years.

Formatting was controlled by the manual Techniques for Writing Business Reports, 2nd edition, by Frances R. Larson, Madison, Wis.: Landmark Research, Inc., 1980. The underlying appraisal theory presented in the course is based on Ratcliff Readings on Appraisal and Its Foundation Economics by Richard U. Ratcliff, Madison, Wis.: Landmark Research, Inc., 1979.

The unique rotogravure cover was done by Wayne Reisenauer and a friend, Terry Schwartz, a high school printing teacher, who made 52 copies. That overrun determined the size of this edition which is available for educators concerned with improving contemporary appraisal technique.

Professor James A. Graaskamp
Madison, Wisconsin
March, 1981

December 15, 1980

Mr. Bruce Schultz, Building Manager
Commercial Marine Bank
102 State Street
Madison, WI 53703

Dear Mr. Schultz:

I am herewith submitting the appraisal report that you requested for the property located at 102-114 State Street, City of Madison, County of Dane, Wisconsin.

In a letter authorizing this work, you indicated that the value conclusion would serve as a benchmark for listing and negotiating the sale of the subject property. The enclosed report has concluded that the most probable selling price of the property on December 1, 1980, is

FOUR HUNDRED FIFTY THOUSAND DOLLARS ($450,000).

This assumes that current market conditions continued and that the seller will accept financing at 12% interest on a mortgage of 10-year term, 25-year amortization schedule, and 20-30% downpayment. The price was arrived at through market comparison and reconciliation of the trade-off between the potential leaseback, mortgage terms, and price. The probable transaction zone is $435,000 to $465,000. The upper end of the range could be achieved by the seller accepting pass through of utility and real estate tax rate increases on a lease term of 10 years and by establishing for the buyer an escrow account of excess funds applied to the higher purchase price for projected renovation of the improvements. The lower end of the range would result if the buyer paid cash. In this way the buyer would want to avoid the leaseback provision and also sacrifice the seller's offering of below-market financing for market flexibility.

The value conclusion is sensitive to both renovation cost and potential revenue estimates. The property at 114 State Street will require major modification to meet minimum building code requirements for occupancy of the second and third floors of this structure. Minimal changes are required for the four-story structure; however, to ensure marketability of space, major renovation costs will be necessary. The renovation costs are subject to substantial variations. As no funds were provided for architectural, legal, or engineering fact-finding, the feasibility of the most probable use assumption, which is critical to the value estimate, must be regarded as only preliminary.

You will also note that the current Madison assessment of $715,000 is seriously out of line with market values on State Street and the Square. There is little negotiation advantage by deferring your appeal of the assessment which is excessive on both buildings combined by at least $250,000 and would contribute more than $5,500 per year to your tax bill in excess of market value.

I hope you find the details of this narrative appraisal relevant to your decision, and I would be happy to answer any questions you might have.

Sincerely,

Wayne E. Reisenauer

Wayne E. Reisenauer

WER:gm
enclosure

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LIST OF EXHIBITS

DIGEST OF FACTS, ASSUMPTIONS, AND CONCLUSIONS

Property: An occupied three- and four-story structure known as the Commercial Marine Bank Building at 102-114 State Street, Madison, Wisconsin.

Type of Estate: Fee simple, encumbered by building code restrictions.

Present Owner: Commercial Marine Bank, part of the Marine Bank system.

Age of Building: Approximately 73 years old, remodeled.

City Description: Madison, Dane County, Wisconsin: State capital, county seat, site of University of Wisconsin, and second largest city in Wisconsin (population 172,000).

Neighborhood: The original plat of Capitol Square, the Central Business District, and facing the State Capitol Building.

Lot Size: Part of lots 2 and 3, block 7, of original plat, triangular shape, 137 × 60 × 51 × 137 for a total of 7,605 square feet.

Improvements: 75 years old, four-story building approximately triangular in shape, joined to a three-story building, both of brick mill or ordinary construction; approximately 7,605 square feet of first-floor office and a total of 28,000 gross square feet of floor space in the two structures, excluding basement area.

Legal Constraints: Zoning, C-4; Capitol Preservation View District; Capitol Fire Zone District; Capitol Concourse Plan District (special cost assessment and conditional use approvals); building code violations (only one exit, 3rd floor 114 building).

Most Probable Use: Renovation of three-story building into residential apartments on the upper floors. Major remodeling of the four-story structure to open interior office space. First-floor of three-story used for small retail shop; first floor of four-story minimal renovation for use as personal service office space.

Most Probable Buyer: Investor-purchaser looking for renovatable building and appreciation potential of investment.

Probable Terms of Sale: Most comparable properties in the Central Business District of Madison sell on land contracts or some equivalent form of seller financing. Terms of seller-financed sales are typically 20-30% down with interest at 12% over a 5- to 10-year term and balloon payment.

Market Transaction Inference: Comparable sales, ranked by price-quality regression model, predict a central tendency of $314,000 for the four story structure (standard error of $15,000), and $128,000 for the three-story building (standard error of $5,000). The total for both buildings is approximately $440,000 with a total standard error of $20,000 for a seller-financed transaction.

Most Probable Selling Price: As of December 1, 1980, the seller might obtain a price of $450,000 if he supplies a favorable mortgage at 12% interest, 10-year term, and balloon payment. If the seller is willing to accept pass through provisions on a 10-year lease and provide an escrow account to fund building renovation, a price of $465,000 might be obtainable. If conditions shift or buyer dislikes leaseback arrangement and prefers a cash deal, the price could go as low as $435,000.

Current Assessed Value:

	Land	Improvement	Total
102 State Street	$ 150,000	$ 370,200	$520,000
114 State Street	52,200	142,800	195,000
Total assessed value:			$715,000

Total assessment should be appealed. Based on a tax rate of 22 mills, tax bills are $5,500 too high.

I. PROBLEM ASSIGNMENT

The content of an appraisal report is determined by the decision for which it will serve as a benchmark and the limiting assumptions inherent in the property, data base, or other factors in the decision context. This appraisal is made to assist the owner in determining the cash sales price for which the property will most probably sell.

A. The Appraisal Issue

The question to which this report is directed is what the seller might receive on offering the property at 102-114 State Street for sale as of December 1, 1980. The important issues that are inherent in answering this question are discussed in this section.

The Marine Bank Holding Company has acquired a land mass one block off the Square at 100 North Fairchild Street in downtown Madison. Their plans for this site include building a condominium office-tower complete with parking ramps and drive-up banking facilities. Strict banking regulations require bank holding companies like the Marine to maintain a capital-to-asset ratio of not more than 40%. The recent acquisition of the North Fairchild property has precipitated a need for the Marine Bank to reduce this ratio. This is where the subject property comes in. The sale of the subject would help reduce the bank's capital-to-asset ratio. With plans for a new building, Marine will not need the space that office workers currently occupy at 102 State Street. At the same time the Marine Corporation recognizes the need for visibility on the Square and consequently would like to maintain a pay station for their pedestrian customers in the form of their present first-floor customer service operation. Since the first-floor space of 102 State Street might in the buyer's mind be considered for higher return uses, we must redefine the issue in terms of the tradeoff that the seller might have to make with regard to price and terms of sale.

The redefinition comes about in the context of the bank's need to reduce its capital asset account. In this light, we have assumed the owner is not looking for cheap customer service space on the Square, but instead is looking for maximum sales price. The higher the price they receive, the more the bank can reduce the capital ratio--the stated reason for wishing to sell the property. At first glance, a leaseback provision appears contrary to the maximizing price assumption, and it is indeed to this issue that we address this report. The subject property shall be appraised as for sale unencumbered by leaseback provision to determine the most probable selling price. Then we will indicate the effect a leaseback provision might have on the probable price. It is hoped that this method of analysis will provide the client with the important elements in the decision to offer the property with or without a leaseback provision.

B. Legal Interest to Be Appraised

The subject property, 102-114 State Street, has combined part of two lots in the following legal description:

> Beginning at the intersection of southwest line of Carroll and north line of State, then west along north line of State for 136.1', then north 60.25' on a line that is at right angles to north line of State, then east parallel with State for 3.82', then northeast 50.8' to Carroll on a line that is at right angles to Carroll, then southeast 136.5' to point of beginning.[1]

The information provided to the appraiser about the fee was that it was unencumbered by mortgages and therefore held by the Commercial Marine Bank in a fee simple interest. A variety of codes and public agencies have also constrained the future use of this site as discussed elsewhere in this report.

Fixtures or personalty to be included with sale are the bank vaults, teller booths and countertops, shelving, floor coverings, and other built-in fixtures or items of decor in the two occupied buildings. This appraisal does not include tables, desks, and other office equipment belonging to the bank or any tenants occupying space in 102-114 State Street.

C. Value Definition

For the purpose of this appraisal the most appropriate definition of value is that of "most probable selling price," as defined by Professor Richard U. Ratcliff:

> The most probable selling price is that selling price which is most likely to emerge from a transaction involving the subject property if it were exposed for sale in the current market for a reasonable time at terms of sale which are currently predominant for properties of the subject type.[2]

D. Implicit Assumptions

The Ratcliff definition recognizes that market value is not an intrinsic quality to be measured, but a price determined in the marketplace. The prediction of a future sales transaction price is the prediction of human behavior under given market conditions. It is a business forecast

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[1]Combination by appraiser of the two original legal descriptions found in Voo. 234, p. 174, document #324287; Vol. 158, pp. 83, 85, 87, 89, 91; documents #1258528 to 1258532.

[2]Unpublished quotation of R. U. Ratcliff speaking on his book, Valuation for Real Estate Decisions (Santa Cruz, CA: Democrat Press, 1972).

that has inherent uncertainty built into it. As a forecast it is best or appropriate to state the conclusion as a central tendency within a range of alternative outcomes that reflect market imperfections. In addition, the range helps the client establish a marketing and negotiating strategy. The method requires the appraiser to determine the most probable use of the property and the most probable buyer-investor for that type of property and then to infer a probable transaction price from recent transactions of similar properties. In the absence of market sales or as a test of value conclusion based on sales data, the appraiser may simulate the buyer calculus in making an offer to purchase.[1]

E. Application to the Subject Property

Over the past two years sales transactions in the subject area have characteristically been land contract sales. However, such sale terms would be unacceptable to bank auditors with respect to lowering the bank's capital-to-asset ratio. Buyer preference has been for some form of seller financing; land contracts are strongly preferred. Because of the desire to reduce its capital account, the seller is limited to a cash sale or some form of seller financing that includes transfer of title. This assumption must be recognized as a limitation on the reliability of the most probable price estimate.

The most probable use for the subject property will most likely involve some form of renovation, although the property could be used as is. The four-story structure at 102 State Street just meets code for office space use. Any extensive renovation of existing office space or a change in building use will require conformity to the standards set by the City of Madison and State of Wisconsin building codes. Dollar estimates provided by the appraiser in order to project the anticipated remodeling cost must be recognized as a second major factor limiting the reliability of the most probable price.

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[1]James A. Graaskamp, SREA, CRE, The Appraisal of 25 N. Pinckney: A Demonstration Case for Contemporary Appraisal Methods (Madison, WI: Landmark Research, 1977), p. 24.

II. PROPERTY ANALYSIS TO DETERMINE ALTERNATIVE USES

Property analysis is the first step in the identification of the most probable use of the subject. An inventory of the property's attributes will include physical characteristics of the site and improvements, legal/political constraints on the subject's use, environmental aspects of the site as related to off-site systems or impact areas (linkages), and the preestablished perceptions of the site that citizens tend to have. Therefore, an inventory of the space, the improvements and the location is critical to the analyst in determining sources of the costs and benefits of the user.

A. Physical Attributes

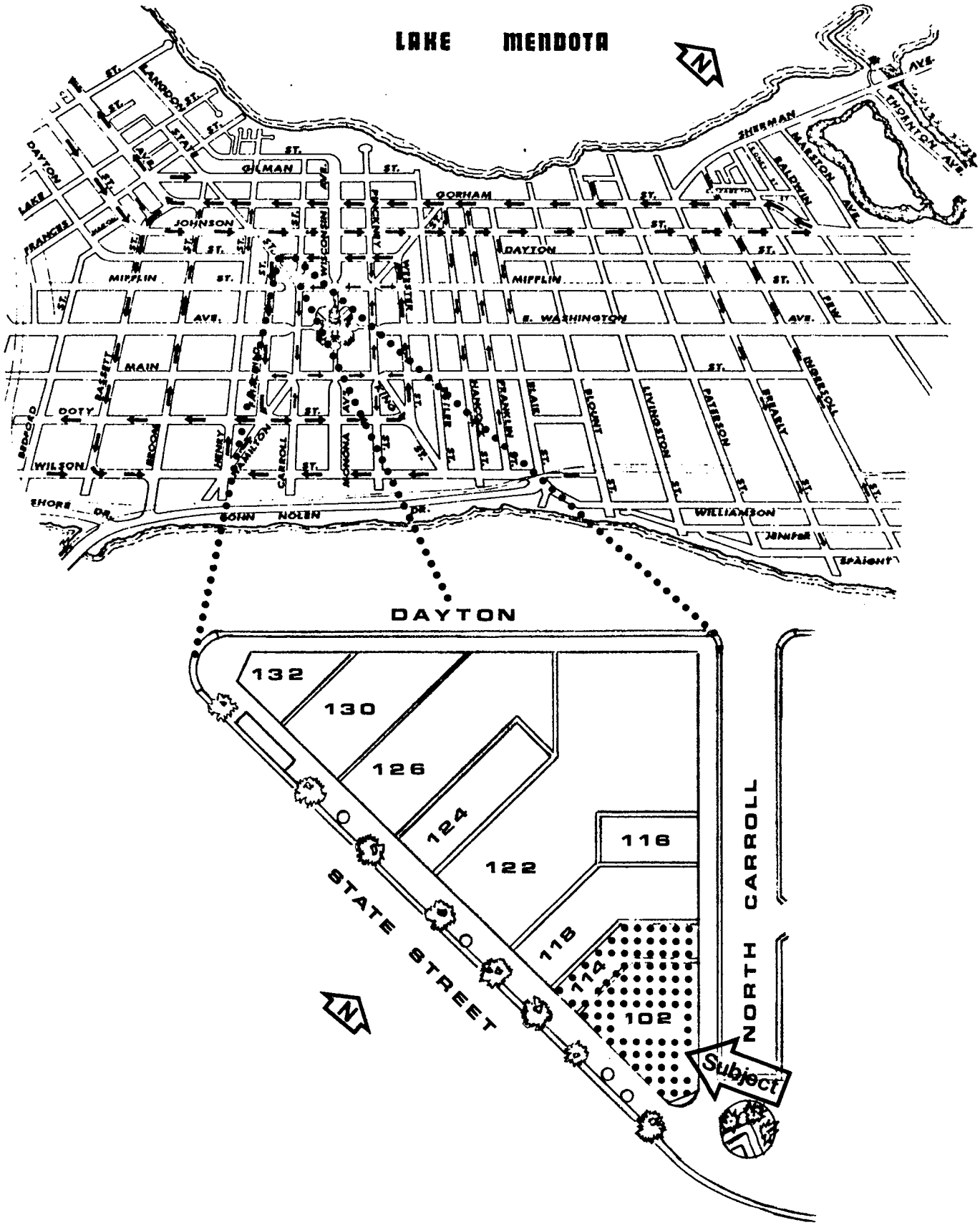
The subject site is located at the three-point intersection of North Carroll Street, West Mifflin Street, and State Street. The lot is triangular with 137' of frontage on State Street and a similar footage on North Carroll Street, providing a gross area of 7649 square feet (Exhibit 1). However, some of this area includes city sidewalk adjacent to the buildings on the site limiting effedtive lot size to approximately 7605 square feet. The site slopes to the west from an elevation of approximately 895' above sea level on the east to 887' on the west. This translates to a slope of about 6%.

Pleistocene glacial activity near Madison left in its wake a rolling terrain accented by several lakes. Ablation ground moraine areas similar to the downtown topography consist of ablation till that was deposited under conditions of a retreating ice front. The soil parent material is usually well-drained sandy and silty loam with pockets of stratified drift deposits. The soil is Dodge silt loam in the 2%-6% slope classification as indicated by the "Soil Survey Interpretations" sheet of the Soil Conservation Service. This soil has low corrosiveness to uncoated steel and concrete, average depth-to-water table, and a depth-to-bedrock greater than 7'. Plaster walls and joints inside the four-story building do not show any significant settling cracks on the outer bearing walls and so we may assume that the stone foundation is structurally sound. The soil conditions do not indicate any structural limitations for the present structure or new commercial buildings.

The site is serviced by a 6" sewer main on State Street which could support increased loads if required. In addition, there is an 8" main along North Carroll Street into which a lateral could be connected if need be. Storm sewer requirements of the site are currently met by catch basins in front of the property on State Street and near the pedestrian rest area adjacent to the site on North Carroll Street. The site is also serviced by a 4" water main on North Carroll Street. Gas laterals from a 4" medium pressure main on State Street meet the site's energy requirements. Gutter,

EXHIBIT 1

LOCATION OF SUBJECT SITE ON STATE STREET



curb, and sidewalks abutting State Street and North Carroll Street are provided and maintained by the city. North Carroll Street has been closed off at the intersection of State and West Mifflin Streets to provide a mall rest area consisting of wooden park benches and assorted greenery. This area is immediately adjacent to the subject property.

B. Legal Constraints

1. Zoning

The zoning regulations applicable to the site are City of Madison C-4. The C-4 zoning represents the Central Business District (CBD) of Madison. This zoning ordinance allows a broad range of retail, office, and residential uses. The goal for this area, as stated in the city's master plan, is to encourage the development of professional and governmental offices, prime and specialized retailing, and various cultural, recreational, and educational activities. In this area virtually any use is conditional on approval of the city planning department.

2. Planning Bodies

The present city administration is deeply committed to the redevelopment program known as the Capitol Concourse project discussed elsewhere in this report. It is in this context that city planners view proposals for renovation or demolition of any building in the downtown area. They point out that any new construction or major alteration of an exterior building face will be viewed in light of the community's objective to develop and maintain this district as a community and statewide center for business, service, and government. The two regulatory bodies specifically concerned with exterior remodeling and renovation of State Street buildings are the City Planning Department and the Urban Design Commission. Presently the City Planning Department is the primary approval body to which State Street property owners may petition for exterior remodeling. Given that a change is tastefully designed and in harmony with the appearance and feeling of the mall itself, the alteration will likely be approved. Both bodies view demolishment of any State Street or Capitol Square building with great hesitancy. Strong economic and financial justification would be required for demolishment of the subject property.

A possible future limitation on remodeling would be the creation of State Street as an Urban Design District. Such a district delineates an area of the city as a specified zone with a set plan and objective for future redevelopment or building facade alteration. Within the district, buildings are earmarked for their potential remodeling or renovation. The adoption of this district would impose stricter limitations on the subject site. However, approval is not foreseeable before January 1982. Eventually, though, the plan will be approved and future buyers of State Street buildings should be aware of this potential remodeling restriction.

3. City of Madison Building Code

Additional limitations on the remodeling of existing buildings comes from ordinances regarding fire and safety provisions, barrier-free design for the handicapped, and height restrictions for buildings in the Concourse Mall area. Madison Building Code Section 29.37(4)(b) currently requires that remodeling or repair to an extent of 50% of the replacement cost less depreciation value of the building will require fireproof construction. This code will soon be amended to read 50% of "fair market value," meaning assessed valuation. It should be noted here that renovation costs are not cumulative and that therefore up to 50% of the assessed building value may be incurred in remodeling cost each year without requiring complete fireproofing of the existing building. Any new construction on State Street is limited to not less than two nor more than four stories in height by Sec. 28.09(5)(f) of the Madison code. Madison zoning ordinances 28.04(6)(b) and 28.04(9)(a) require that parcels created by subdivision each have a minimum of 50' frontage on the principal street and gross area of 6,000 square feet. While this seemingly precludes a separate sale of the two subject buildings, both presently have individual tax parcel numbers, and apparently could be sold separately. It is a possible negotiating point for a buyer to consider especially if housing is planned for one of the units. A final applicable section (28.09)(5)) requires under a point system for apartment construction that at least half of the apartments be two-bedroom units.

4. Special Assessment District

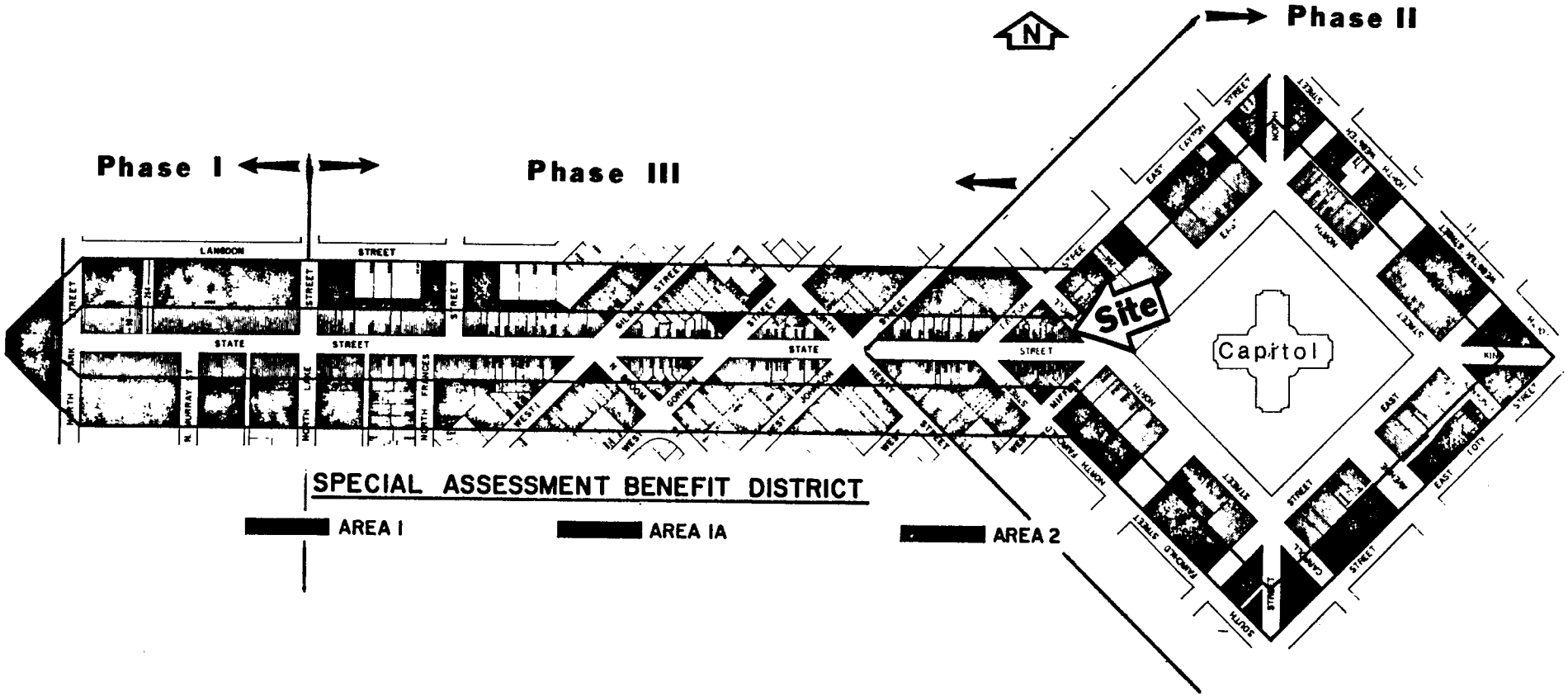
The subject property is located within a special assessment district that takes in an area known as the Capitol/State Street Mall. The district covered by the mall project and the location of the subject property therein is noted in Exhibit 2. The construction phases of the project are also noted in the exhibit. The main emphasis of the project as outlined in the city's brochure, "Capitol Concourse/State Street Mall, Madison, Wisconsin" prepared by M. Paul Friedberg and Associates, is to "change the physical character and use patterns of street space from one oriented toward vehicular traffic to that concerned with pedestrian activities."

Phase I of the Capitol Concourse, completed in June 1976, ended State Street at Lake Street and made a mall from Lake Street west to Park Street. Phase II, completed in the spring of 1979, rebuilt the Square and State Street in front of the subject. This phase included widening of sidewalks, landscaping, and installation of street furniture. State Street was narrowed to two lanes to be used by transit lines and bicycles only--no private vehicles. The Square itself was remodeled to include widened sidewalks, brickpaved pedestrian crossings, and traffic lanes. Traffic within the Square travels counterclockwise with designated lanes for private, bus, and bicycle travel.

The one-way traffic loop of the Capitol Concourse separates existing parking facilities from the Square and requires patrons to walk uphill to reach their shopping destinations. A recent parking study by the

EXHIBIT 2

LOCATION OF SUBJECT SITE IN SPECIAL ASSESSMENT DISTRICT



planning department revealed a shortage of approximately 2,000 parking spaces when considered in light of required parking spaces per square foot of retail area. No attempt has been made to provide any easily accessible, free parking as is provided in the competitive suburban centers.

The goal of revitalizing the CBD as a commercial center has yet to be realized. Ease of parking and the stable environment of the suburban enclosed malls have captured a major portion of retail sale activity forcing some merchants to vacate downtown retail space. Recently, Manchester's, a major department store, announced the sale of its building and the closing of its operations on the Square. Such closings indicate a weakening base of retail activity for the area. In addition, mall merchants have long been feeling the squeeze of special assessments. Exhibit 3 outlines the assessments broken down into the original capital cost assessment and a new maintenance cost assessment for the subject property. The maintenance assessment represents a 30% increase in assessment costs for the subject property.

EXHIBIT 3

CAPITAL AND MAINTENANCE COST ASSESSMENTS

Date of Assessment	Assessment Per Sq.Ft.	Total Assessment For Subject Property of 7,576 Effective Sq.Ft.[a]	1980 Installment Due 11/8/80	10 Year Amortized Installment at 6%
Capital Cost Assessment:				
1978	$1.67	$12,651.92	$1,872.45	$1,719
			BALANCE (September 1980) =	$10,121.35
Maintenance Cost Assessment:				
1982	$0.50[b]	$ 3,788.00		$3,788[b]
			ESTIMATED TOTAL ANNUAL PAYMENT =	$5,507

SOURCE: Robert Read, City Engineer.

[a]Effective square feet is the entire lot "prime area," and .30 of each additional square feet of subject lot in Area 2.

[b]Estimated.

5. Other

The subject site is in the Capitol View Preservation District (CVPD) and the Capitol Fire Zone (CFZ). The CVPD places restrictions on the height of structures based on their proximity to the Square. This restriction is overridden by the more comprehensive requirement in the Madison Zoning Code that buildings fronting on State Street cannot be less than two stories nor more than four stories high. This effectively limits new construction on State Street to a four-story height. None of the scenarios proposed later conflict with this section of the code.

The CFZ is a district in which special fire codes apply. Restrictions on the types of structures that may be replaced if the original is destroyed are covered by this code. This factor will need to be considered in choosing an alternative use for the subject property. None of the scenarios suggested would be rendered implausible because of these restrictions.

C. Political Constraints

The present city government, especially the planning department, is having considerable impact on development in the downtown area. The planning department is continuing to stress public transportation at the expense of providing for downtown parking and vehicle circulation. This has had a demoralizing effect on downtown merchants who have lost customers because of the inconvenient parking problem and at the same time have had additional assessments imposed. Recent growth of the political voices of tenant unions and neighborhood associations has increased landlord fear of rent control. The threat of increased architectural control and review by creation of an Urban Design District for State Street has not alleviated the situation.

Yet, the political necessity for turning the area around and attracting new business could provide an investor in the subject site with considerable negotiation leverage relative to interpretation of fire and zoning codes by City Hall. In turn, the city could become an ally relative to negotiation on some more restrictive code interpretations. A case in point is the development of 23-25 N. Pinckney Street, known as the Atrium. Here, city officials assisted the developer in negotiation with the state to allow a two-story open interior shaft that was restricted by a fire code. While this might be an exception rather than the rule, the success of the Pinckney development is a good reference point for negotiation on code interpretation issues.

D. Linkages

The linkage attributes are the key relationships of a particular use or site to networks, populations, or activity centers that generate a potential utility for a given use. The most significant linkages for the subject site are availability of off-site parking, the frontage on a mall

development and its attendant pedestrian traffic, access to the site for delivery purposes, the characteristics of the immediate neighborhood, proximity to the State Capitol as a landmark, and access to the interstate highway system.

The subject property is highly dependent on public parking facilities as there is no on-site parking. The closest parking ramp is the Dayton ramp located approximately one block north of the subject (Exhibit 4). This ramp, like most of the Square's parking facilities, is downhill from the shopping area it is intended to serve. This is an inconvenience for shoppers who now must cross several busy streets and walk uphill to get to their shopping destinations. In addition, Madison Area Technical College (MATC) student parking makes the ramp crowded during daytime hours.

Despite the parking inconvenience, the site does enjoy prime exposure on the State Street Mall. Its location serves as a focal point for public transit lines. As a result the pedestrian counts (Appendix A) in front of the subject site are the highest for any of the four-corner intersections on the Capitol Square. A primary reason for such high counts is that many mall shoppers use the intersection of State Street, North Carroll, and West Mifflin as their destination and pick-up point. So, while no private vehicle traffic passes in front of the property, the subject enjoys high pedestrian exposure.

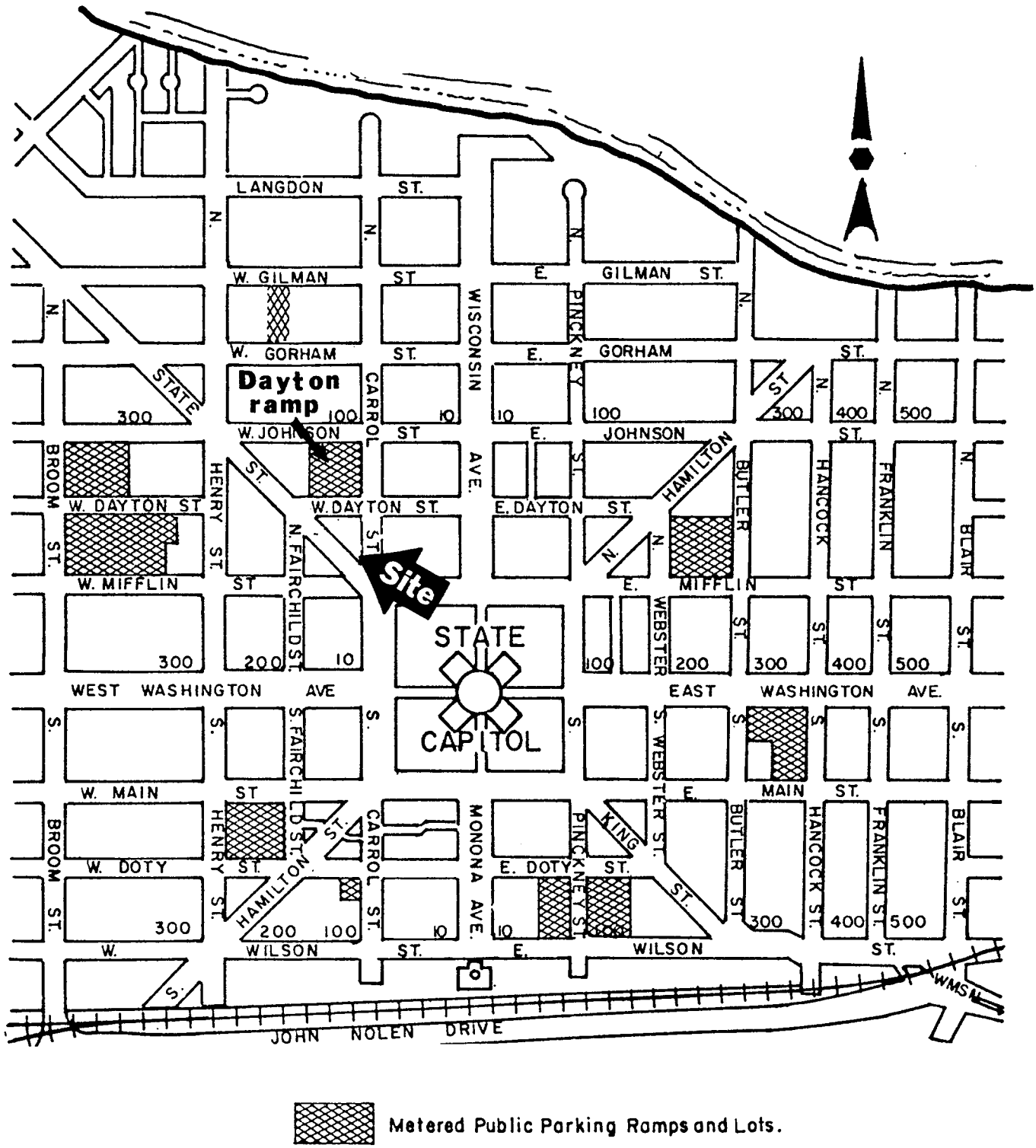
The closing of North Carroll Street at the intersection of State Street and West Mifflin makes delivery access to the site congested and difficult. Delivery trucks must either back in from Dayton Street or put up with maneuvering within a cul-de-sac turn to reach the side delivery door of the subject. Semitrailers would have a difficult time maneuvering in this space. There is no alleyway or rear entrance to the subject; this makes the Carroll Street side the only delivery point for merchandise. Garbage pick-up and street maintenance crews suffer the same inconvenience.

The subject property is at the hub of various close-by activity centers. The newly constructed Civic Center is one-and-a-half blocks west of the site on State Street. Evening and matinee performances and public functions generate a considerable amount of activity there. The MATC campus, one block north of the subject, brings an influx of students to the mall during class breaks and after school hours. Across the street from the subject on Carroll Street is the high-rise office building known as 30-On-The-Square. On the same block as the subject is the El Esplanade building that holds additional MATC classrooms, an ice cream shop, and a few offices. The Bittersweet restaurant at 117 State Street has become a popular watering hole for the younger crowd living in the downtown area. This brief inventory of the surrounding establishments shows that the primary types of use in a two-block area around the subject are small retail shops, office buildings, and restaurants. All of the uses generate pedestrian traffic but are also automobile dependent.

Besides neighborhood linkages, the site has a fairly strong identification with the State Capitol as a landmark. Four major avenues funnel employees and visitors to the state government seat each day. East

EXHIBIT 4

PARKING FACILITIES IN AREA OF SUBJECT PROPERTY



Metered Public Parking Ramps and Lots.

Washington Avenue on the east side of the Square is six lanes wide and connects with the interstate system approximately 10 miles from the subject. The Capitol is also accessible by West Washington Avenue from the west, Wisconsin Avenue from the north, and Monona Avenue from the south.

The main advantages for the site include its high pedestrian traffic, its link with the mall and Capitol Square, and its visibility from the Capitol and proximity to the Capitol as a landmark. These are all positive locational factors of the site.

E. Dynamic Attributes

The subject site enjoys a southern exposure and multidirectional identification with State Street and the Capitol Square. The building's facade, virtually unaltered since it was built, has an established image in relation to nearby building fronts. This image is probably more a result of its location at the intersection of State Street and the Square than anything else. Increasing vandalism has put merchants on the defensive in the area. City officials continue to allow street vendor permit-holders to solicit in high-use areas and add to the maintenance problems of keeping the mall clean. Despite the city's effort, citizens still perceive the downtown area as a hassle to shop in and as a place for confrontations with local vagabonds and unwanteds. This is a particularly sensitive issue to local businessmen who wish to clean up the Square's image. The social problems of vandalism and the mentally ill are stigmas that continue to plague downtown vitality. Yet, many merchants have held on and feel the corner has been turned vis-à-vis their image. Certainly, establishments like El Esplanade and the Bittersweet are encouraging signs of a new life.

F. Existing Improvements

1. Property Background and Classification

The bank building and the addition have remained much the same in outward appearance since construction in 1903. The photo presented in Exhibit 5 is an old postcard view of the building taken by photographer E. W. Curtiss, a tenant in the building at the time the picture was taken circa 1915. Research in the State Historical Society Iconographic Collection revealed that, since 1908, there has been a bank operation on the first floor of 102 State Street. Information from old photos of the building shows the first bank tenant as the Commercial National Bank. Other owner-tenants included the Commercial State Bank, and the present owner-tenant, Commercial Marine Bank. The 114 State Street building has consisted until most recently of first-floor retail space with residential apartments overhead. Presently the first floor is connected with 102 State Street.

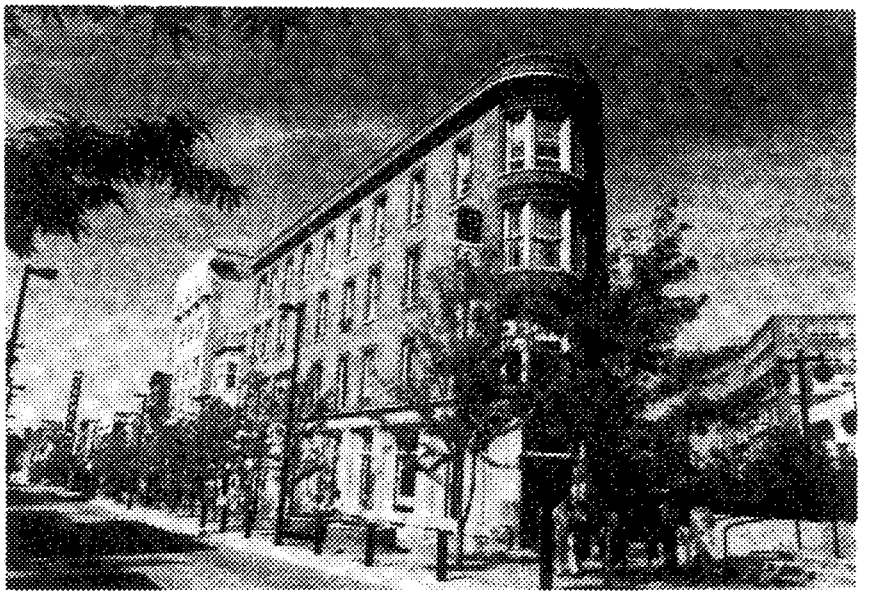
Photos of the present facade and interior structure (Exhibit 6) show the building's general condition on each floor. Some of the upper floors have been remodeled but none of them are really modern-looking. Hallways

EXHIBIT 5

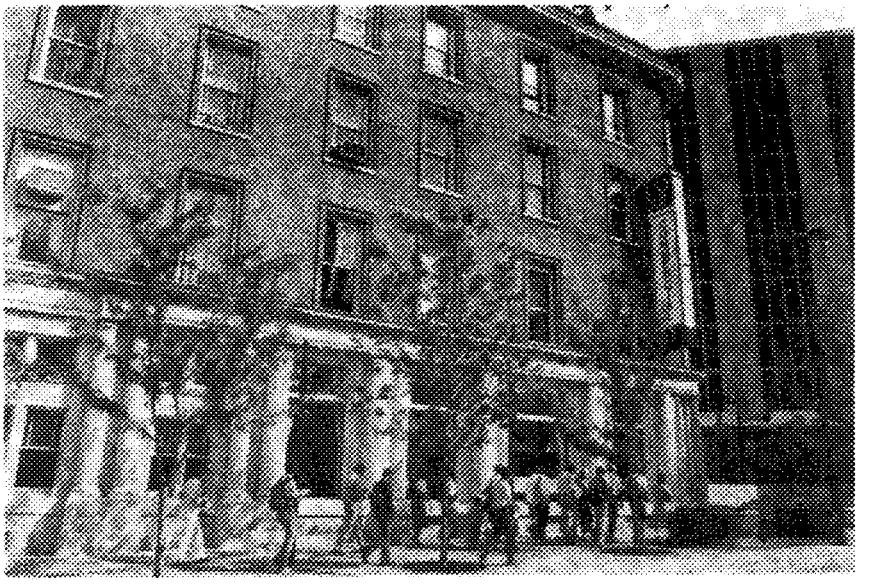
OLD PHOTO OF COMMERCIAL MARINE BANK BUILDING CIRCA 1915

EXHIBIT 6

CURRENT PHOTOS OF SUBJECT PROPERTY

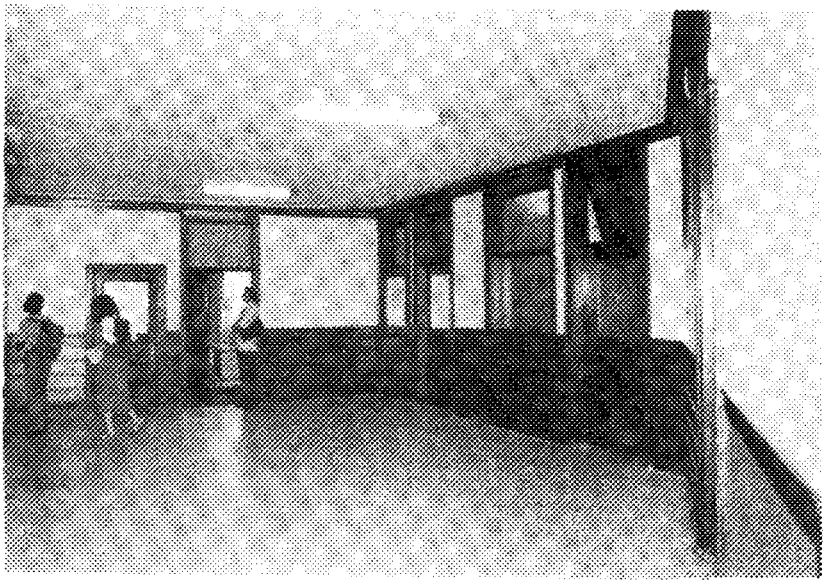


Front View

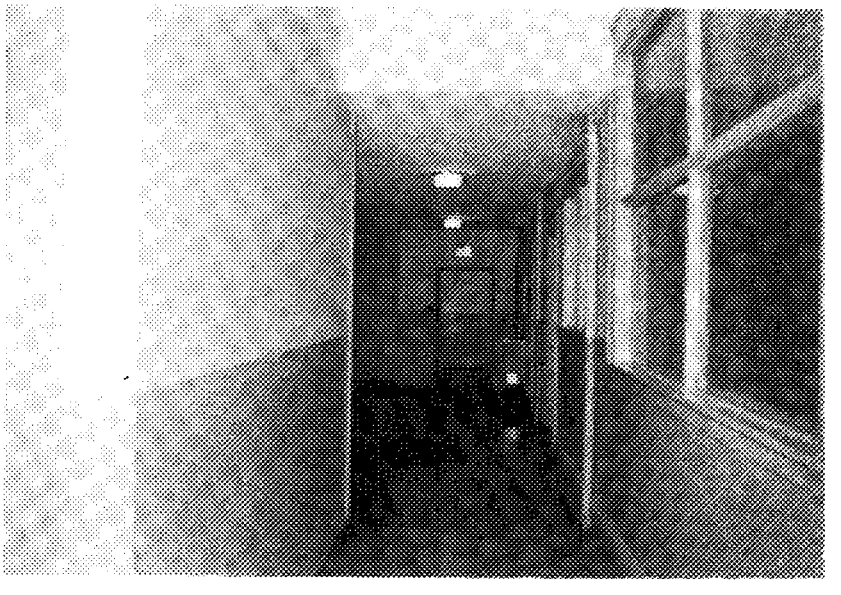


Side View

EXHIBIT 6--continued



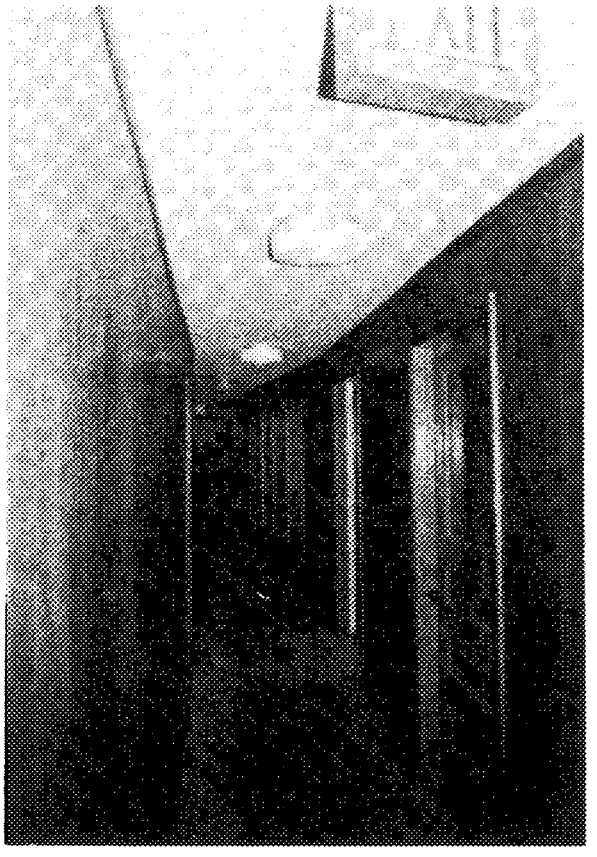
3rd Floor - Hallway



2nd Floor-Hallway

EXHIBIT 6--continued

4th Floor
Hallway



4th Floor - Office

on the third floor have shiplap horizontal wainscoting of a past architectural style. This is a representative example of the extent of remodeling on the 2nd-4th floors of the bank building.

The first floors of both buildings have been remodeled. Exhibit 7 shows the general layout of office space in this area. A complete set of floor-plan sketches is presented in Appendix B. Note that the triangular shape of the building has meant an odd-sized bay spacing for most office areas. The first floor is relatively open and unaffected by the configuration. The gross space footage for each floor was obtained by using the ground floor area listed on tax assessment records. Gross footage of the property is presented in Exhibit 8. Gross leasable office space areas were calculated from the floor plan sketches in Appendix B.

The shape of the building, typically called "flat-iron," presents some limitations on the efficient use of space under existing codes. The best example of this inefficiency is the large open hallway on the third floor. Despite these limitations, the building is of a size that might be renovated within the limits of justified economic investment.

2. Type of Construction

A general description of each structure is summarized in Exhibits 9 and 10; detailed building description is limited because the building plans were not made available to the appraiser. A cursory inspection of the building gives the following description for the structures.

The structural system for both buildings is masonry bearing outer walls with platform or ordinary construction. For the three-story building exterior, foundation walls are sandstone and plaster. Floor structure was not inspected for this building but believed to be adequate for intended uses. The four-story building has similar construction features. The building is platform framed with 2×18" full cut timber joists, 16" on center. Steel columns and either timber or steel girders carry the buildings' structural load.

3. Structural Condition and Code Conformity

The appraiser is not qualified to certify the structural integrity of the building other than by visual inspection. Investors who plan to renovate would require a detailed engineering report on the building before buying to satisfy the structural integrity requirements that are envisioned.

The four-story building barely meets code as an office building. The borderline points revealed on inspection are listed below. These items include:

- Rear interior stairway windows must be either blocked up or made fire resistant (State code 51.18(3)).

- Fire escapes as second exits require state approval.

EXHIBIT 7

FIRST FLOOR LAYOUT

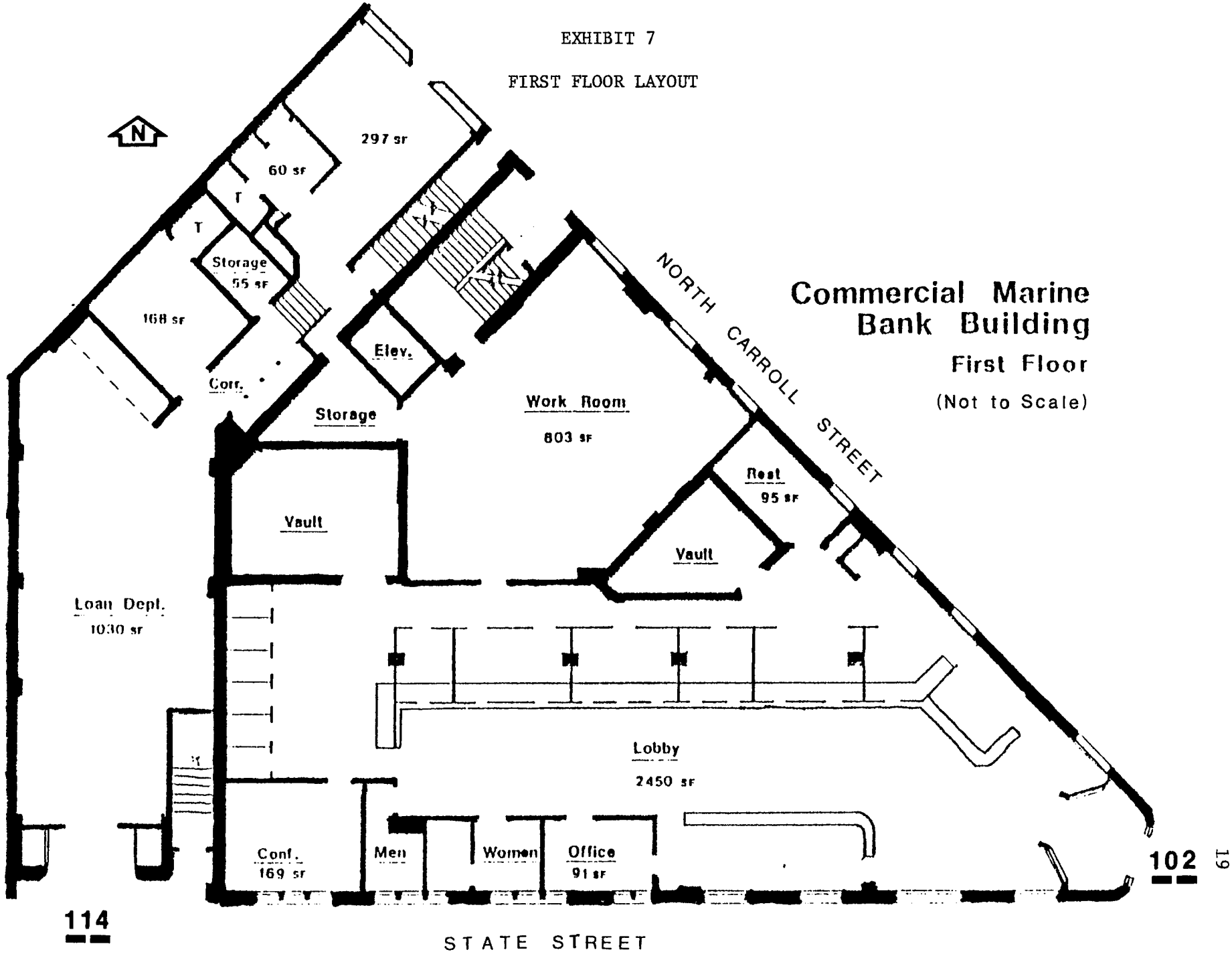


EXHIBIT 8

GROSS FOOTAGE OF THE SUBJECT PROPERTY

Area	4-Story Building	3-Story Building	Total	Estimated Cu. Ft.
1st floor	5,277	2,328	7,605	91,260
2nd floor	5,277	2,328	7,605	91,260
3rd floor	5,277	2,328	7,605	91,260
4th floor	5,277	...	5,277	63,224
Total	21,108	6,984	28,092	337,000

- Handicap access to second floor toilets is made inconvenient by a step up to the facilities. Strict code enforcement would require a ramp (52.09(6)).

These apparent violations are really borderline cases and have thus far been overlooked by the enforcing authority. However, change in use of the building would require correction of the stairway and handicap barrier problem.

The three-story building has more significant code violations requiring correction for 2nd and 3rd floor use. These items include:

- Third floor of building does not have two required exits. Only entrance is stairway from State Street.
- Existing stairwells require fire-resistant construction.
- For residential purpose, smoke detectors must be installed.
- Suspected plumbing and electrical code violations.

The 2nd and 3rd floors were not inspected; however, the manager of the building did note these code irregularities. The bank uses the first floor of the building as the loan department and has brought it up to code with the first floor of the four-story structure. It should be noted that the three-story structure use meets code; substantial renovation would, however, be required for 2nd and 3rd floor full-time use.

4. Interior Finishes

Interior finishes for each building vary in the context of the amount of remodeling done to them. The first floor of the bank building is the bank lobby, decorated with extensive plaster scrollwork on the columns and lintels. Teller booths consist of hardwood cage tops resting

EXHIBIT 9

DESCRIPTION OF IMPROVEMENTS IN THREE-STORY STRUCTURE,
114 STATE STREET (116 CARROLL STREET)

AGE:		Approximately 73 years
ROOMS:		
	Basement	NA
	1st floor	1 large office area, 2 small offices and storage spaces, 2 bathrooms
	2nd floor	Photo studio and open room, 1 bathroom
	3rd floor	Four rooms and spaces
EXTERIOR:		
	Foundation	Stone
	Walls	Brick mill
	Roof	Flat built-up asphalt and gravel
	Storefront	Plate glass, glass doors
	Windows	Double-hung bay on 2nd and 3rd floors
CONSTRUCTION:		
	Floors	Hardwood subfloor, linoleum tile floor
	Rafters	NA
	Joists	Full-cut 2×18 timber, 16" on center
	Beams	Timber and Steel
HEATING:		Steam radiator heat with gas-fired Kewaunee boiler
AIR CONDITIONING:		Central air on 1st floor; none on 2nd and 3rd floors
UTILITIES		2" water service; 6" sanitary sewer; 300 amp electrical service; 1.5" gas lateral
VERTICAL CIRCULATION:		Two inside stairways with unknown firewall rating; only 1 stairway reaches 3rd floor apartments

EXHIBIT 10

DESCRIPTION OF IMPROVEMENTS IN FOUR-STORY STRUCTURE,
102 STATE STREET

AGE:		Approximately 73 years
ROOMS:		
	Basement	NA
	1st floor	1 large bank customer service area; 2 restrooms, 2 bank vaults, work area and 2 small conference rooms
	2nd floor	22 rooms consisting of small offices, 2 restrooms, storage
	3rd floor	15 offices, 2 restrooms, mechanical area, plus open areas
	4th floor	15 offices, 3 small storage rooms
EXTERIOR:		
	Foundation	Stone
	Walls	Brick mill
	Roof	Flat built-up asphalt and gravel
	Bank front	False colonnade of granite
	Windows	Double-hung
CONSTRUCTION:		
	Floors	Hardwood subfloor, carpeting/linoleum, terrazzo floor coverings
	Rafters	NA
	Joists	Full cut 2×18 wood 16" on center
	Beams	Timber and steel
HEATING:		Steam radiator with oil-fired Kewaunee boiler
AIR CONDITIONING:		Comprised of some window units and central air
UTILITIES:		4" water service; 6" sanitary sewer; 200 amp electrical service
VERTICAL CIRCULATION:		Elevator to fourth floor; 1 inside stairway at rear of building; outside fire escape required as second stairway

on marble countertops. Walls, doors, and windows have stained oak casements and trim. Recessed fluorescent lighting provides illumination for the lobby while the adjoining workroom is lighted by suspended fluorescent lamps. Exposed steel lally columns in the workroom break up the area into roughly 10'×20' bays. Upper floor hallways are dimly lit with incandescent fixtures. The corridor walls are plaster and panel finished; the third floor hall has shiplapped softwood wainscoting to a height of about four feet. Ceiling heights in the halls and most office spaces vary from 8 to 10 feet in height. Interior office walls are both wood paneled and plaster finished. Recessed fluorescent lighting provides illumination for most upper level office areas. The first floor interior appointments are not as lavishly styled as the first-floor bank lobby. They include: linoleum tile flooring, recessed fluorescent lamp lighting, central air-conditioning, and gypsum ceiling and wall finishes. The upper floors of 114 State Street are in poor condition and, as noted in the code conformity section, presently unsuitable for their intended residential use. Floor plans are not available for the second and third floors. Each floor has four spaces noted as being amenable to apartment-use layout.

5. Renovation Problems

Existing public restroom facilities are conforming but dated. Men's and women's restrooms on the second floor are a step above the hallway floor level creating an awkward-appearing and hazardous entryway. In addition, it is a barrier to the handicapped and a code violation. Wisconsin Building Code 54.04 requires that both men's and women's bathrooms be accessible for the handicapped on all primary floors. A primary floor is one intended for use by the employees and patrons. All four floors of 102 and the first floor of 114 State Street are primary floors.

The heating systems of both buildings are workable units, but of the old style and are likely to be inefficient. The oil-fired Kewaunee boiler of 102 State Street was recently delimed. However, boiler and radiator maintenance costs presented by old systems like this are elements that would most likely make renovation mandatory. Present renovation procedures on similar buildings include installing roof top heating and cooling (HVAC) units and new zone control systems so that costs can be prorated to tenants. Both buildings suffer the obsolescence due to energy waste inherent in old heating systems.

Use of the second, third, and fourth floors as office space could continue to be used as presently arranged. The important part lacking is uniformity in remodeling. Third and fourth floor offices and hallways are part wood paneling and part plaster work. Office spaces likewise show non-uniform wall space, ceiling height, and floor area. All of this gives a hodge-podge image to the interior. The basic building configuration is much to blame for this appearance. Angled walls and odd-shaped office areas make it difficult to arrange office furniture without wasting space. Narrow hallways of the fourth floor contrast sharply with the dance-hall-sized corridor on the third floor. Such anomalies, when corrected, can often mean the difference in finding new tenants.

The three-story building is little better in terms of efficiency and layout. Here, a gas-fired Kewaunee boiler provides heating. The appraiser was not given access to the second and third floor levels but was told that existing spaces on both floors were amenable to apartment renovation. Bay windows on both State and Carroll Streets provide the only real window lighting for this floor area and are inadequate for the required window area to floor area ratio of residential uses. However, this problem could be overcome by either dropping an open-air light well to the second floor or providing skylight windows on the roof of the building.

Both buildings' facades are in good shape and appear much like their original construction. The windows need weatherization of some kind; an energy-wise move would mean replacement with bronze-tone metal casements. The general good condition of the building exteriors is a positive factor for the restoration-minded investor.

6. Current Uses and Tenancies

The first floors of both buildings are used by the owner for banking operations. Additional bank offices are found on the third and fourth floors of the four-story building. Currently the bank occupies approximately 14,000 square feet of space; 11,600 in the four story structure and the first floor of 114 State Street. All but the first floor in 102 State Street (about 5300 sq. ft.) would eventually be vacated by the bank upon an agreeable sale and leaseback arrangement. The largest tenant of the bank building is MATC; they occupy approximately 6500 square feet of the rentable office areas. The Veterans Administration (VA) and the Comprehensive Education and Training Agency (CETA) also rent office space for administrative purposes. The second and third floors of 114 State Street are partially occupied. A photography studio and dayroom are located on the second floor. The third floor is vacant.

III. MOST PROBABLE USE

This section involves a comparative analysis of alternative uses. We have completed an inventory of the positive and negative attributes of the property, the significant limitations on future use, and the immediate linkages of the location; our next step is to identify alternative uses. Each use must exploit the marketable attributes of the property, adhere to legal or political constraints, and operate within the limits of justified, prudent investment.

A. General Market Characteristics

Before any appropriate alternative uses can be identified, the basic characteristics of the area's real estate market must be delineated. Three basic types of space are available in the real estate market relevant to the subject property. They are office space, retail space, and residential space. The most prevalent uses in the neighborhood are first-floor retail space and low rise office space. The market for class B office space on and near the Square has been soft but is showing signs of rejuvenating. Recent vacancies (Exhibit 11) show some of the newer projects as nearing full occupancy. Centre Seven, located at 7 N. Pinckney, has a large amount of space that is now beginning to rent. In the area of the subject property, 30-On-The-Square has little available space. The projects have all undergone renovation and offer the user of small office space a rental range of $8-$9 per square foot for quality space. In contrast, on the southeast side of the Square, the Tenney Building has substantial vacant space, much of which has been vacant for over a year. Office space in the Tenney Building rents in the range of $6-$8 per square foot. With this rent range, tasteful renovation of the subject's office space would likely justify the investment of remodeling costs. The ability to sell the renovated space may depend a great deal on the ability of the developer. The Atrium at 23-25 N. Pinckney is a case in point. This renovated structure has found a unique niche in market demand; the developer capitalized on his ability to market the romance of the atrium rather than the utility of building convenience.

Class B office lease terms are usually gross, which requires the landlord to pay all real estate taxes, insurance, maintenance and utilities. Rent escalators may be tied to the Consumer Price Index (CPI) or some percentage of that index. Leases are commonly renegotiated at the end of one year terms. Recent renovation projects have also included pass-through provisions in leases for real estate taxes.

Retail space on the Square is currently soft (Exhibit 12). The recent announcement of a major department store--Manchester's--of leaving the downtown area has had a dampening effect on retail activity. Similarly, the J. C. Penney store on the east side of the Square is struggling.

EXHIBIT 11

CLASS B OFFICE SPACE VACANCIES AND RENTS ON THE CAPITOL SQUARE[a]

Building	Address	Approximate Available Sq. Ft.	Total Square Footage of Building	Percent Vacancy Rate	Period of Vacancy	Typical Rents (incl. utilities)
Insurance Bldg.	119 Monona Ave.	0	41,769	0	...	$7-8/sq. ft.
Tenney Bldg.	110 E. Main St.	9,000[b]	76,000	12	1 year	$6-8/sq. ft.
30-On-The-Square	30 W. Mifflin	900	71,844	1	1 year	$8.50/sq. ft.
Churchill Bldg.	16 N. Carroll	0	40,000	0	...	$6.50-7/sq. ft.
Atrium	23 N. Pinckney	525	15,000	4	due vacant 11/80	$8/sq. ft.
Centre Seven	7 N. Pinckney	12,000[c]	21,000	57	1 year	$8.25-9.75/sq. ft.
14 West	14 W. Mifflin	7,500	30,000	25	6 mos.	$9/sq. ft.
Total		29,925	295,613	10		

[a]Vacancy data collected by graduate student Art Pasquarella.

[b]Approximately 2000 square feet of the available square footage is basement area.

[c]Approximately 2500 square feet of the available square footage is basement area.

EXHIBIT 12

FIRST-FLOOR VACANT RETAIL SPACE ON THE CAPITOL SQUARE

Building	Address	Approximate Available First-Floor Sq.Ft.	Period of Vacancy
Northwestern Mutual	17 East Main[a]	5,632	3 years
30-On-The-Square (Rennebohm's/Walgreen's)	30 West Mifflin[b]	NA	option not renewed
Tenney Building (Leaf & Ladle Saladteria)	27 South Pinckney	2,000	recent
Abacus Squared Gift Shop	14 West Mifflin	2,000	recent
Manchester's	2 East Mifflin[b]	28,000	recently announced sale
Kastenmeier Political Headquarters	10 South Carroll[b]	2,600	probable November vacancy
Total available space		38,200+	

[a]Major renovation required to obtain occupancy.

[b]Probable future vacancy, but presently rented.

The whole Square area, particularly the Mall, seems to be shifting to the smaller specialty shops. Recent retail rates (Exhibit 13) show that this smaller space can bring rents in the range of $9-$10 per square foot. Again, these rates represent remodeled and renovated first-floor space on the Square. Other vacancies include approximately 2000 square feet of commercial space on the first floor of the Tenney Building at 110 East Main Street.

In the immediate neighborhood of the subject property, demand for retail space has been generally stronger than other areas on the Square. Although Rennebohm's-Walgreen's drugstore at the corner of Mifflin and Carroll has failed to renew their option, it is generally believed that a stronger tenant will be found for this space. Down the street from the subject site at 117 State Street, the Bittersweet Restaurant has had good success. The opening of the Civic Center a block-and-a-half west and the planned retail-residential complex by the Carley-Capital group (North Broom Street) will help strengthen retail activity in the area. The subject's location lends itself well to a change to a small retailing space. The first floor area of 114 State Street is more amenable to retailing. The floor area of 102 State Street could feasibly be renovated into a mini-mall layout. However, the window area, and interior decor, would be more amenable to a restaurant use than a retail use. Conversion to bar and food service would call for substantial renovation and up-to-code cost outlays.

The market for apartments has been strong; the city would like to see more residential units in this area. Most apartments adjacent to the Square are in converted and remodeled single-family homes that were built prior to 1900. Both occupancy and turnover rates are high. Efficiency and one-bedroom apartments rent anywhere in the range from $.40-.55 per square foot per month including heat. This works out to an average of approximately $575 per month for a two-bedroom unit. There appears to be a demand for this space by those who are in government or in offices around the Square. The second and third floors of 114 State Street would need substantial rewiring and plumbing renovation for occupancy. Building codes restrict the number of apartments because of the limited window area; also a factor is the single stairway to the third floor. By putting two bedrooms on the third floor and a living room below connected by an open spiral stair to the bedrooms above, code restrictions could be met. A light well along the west wall would solve the window area to floor area ratio problem and the interior staircase would eliminate any need for a second third-floor stairway. By providing the housing, additional negotiation leverage can be gained with the city to allow a later spin-off sale of the smaller unit.

B. Alternative Uses for 102-114 State Street

A combination of the physical characteristics of the property and the general demand characteristics on the State Street Mall and the Square suggest the following alternative use scenarios (Appendix C).

EXHIBIT 13

RECENT RETAIL RENTAL RATES IN DOWNTOWN MADISON/1980

Building	Address	Rental Rate/Sq. Ft. (1st Quarter of 1980)	Rent Escalators	Term	Services Provided
Atrium	23 N. Pinckney	$9.18	8% annual increase w/tax increase pass-through	5 year; first right of refusal on lessor term	None
Centre Seven	7 N. Pinckney	$9.75	40-50% of annual CPI increase	2 year/ renewal option	Utilities
14 West	14 W. Mifflin	$9.00	CPI increase each year or % of gross or operating expense pass-through	5-10 year; no renewal option	Heat
First Wisconsin Plaza	1 S. Pinckney	$9.30-10.00	Pass-through of operating expenses or % of gross or none	5-year; renewal option	Heat

Scenario #1: The buildings would be retained as is; the connection between them allows for continuous first floor office use. The second through fourth floors of the four-story building would be used for office space. The second and third floors of the three-story building would remain vacant.

Scenario #2: The present structure would be retained. The wall between the two buildings would be closed up; 114 State Street first-floor retail with the upper floors remodeled to create two 2-bedroom apartments. Expense to include fireproofing existing stairways with 2-hour firewalls. First floor of 102 State Street would be used as customer service office space. The upper floors would undergo minimum remodeling to maintain budget.

Scenario #3: Both buildings would undergo major renovation. 114 State Street residential renovation similar to Scenario #2 above. Office units on the second through fourth floors of 102 State Street would be completely revamped and rearranged to allow for central receiving desks, open lane to fire escape, and perimeter office suites. As in Scenario #2, the first floor of 102 State Street would be used as a personal service office area and undergo minimal remodeling to maintain its present decor.

Scenario #4: This scenario includes renovation of office and residential space as in Scneario #3 except that the top floor of 102 State Street would be renovated into one- and two-bedroom apartment units. Since existing window area is inadequate for residential development, the use of skylights would solve the window area to floor area ratio problem. In addition, the roof areas would be used as recreation space and be accessible to residents.

C. Legal/Political Compatibility of Alternatives

The support of city officials can have a marked effect on the viability of any alternative use chosen. None of the four scenarios suggested conflicts with either zoning codes or any known regulations. Those scenarios with extensive repair include major up-to-code costs incurred as a result of the project. However, the city will be strongly in favor of a use that will promote upgrading and renewal of the State Street buildings. This means that scenarios #2, #3, and #4 will receive favorable support from city officials, while scenario #1 would be opposed. It is difficult to determine how strongly the city will support or oppose a given use. This factor must nevertheless be considered in choosing a most probable use. The city will be strongly opposed to demolition of the property. Neighborhood associations, as well, will probably clamor that the building is a landmark.

D. Economic Ranking of Alternatives

The alternative uses that might be plausible for the subject property can next be ranked in terms of general budget parameters inherent in the revenues and expenses for each. These financial alternatives must then be screened for effective demand and risk. Justified investment in the subject property was determined by the model shown in Exhibit 14. Here, rents are converted to justified investment by determining a market rent for each use and assuming an acceptable cash break-even point for financial planning and budgeting. This model capitalizes funds available for debt service or cash dividends into amounts of justified investment. Caution must be exercised when interpreting these results. This residual approach can be misleading if there are even small errors in the cash flow forecast. If estimating bias is consistent when applied to the alternative uses, it will successfully rank the alternatives in terms of their ability to pay for the subject property as is.

The cost assumptions and calculations for each scenario are provided in Appendix C. The results of these calculations are included in the final decision matrix shown in Exhibit 15. On the basis of these criteria alone, without regard to future reversion value, the most preferable use is that of scenario #3.

E. Risk Ranking of Alternatives

There are three risks inherent in the four proposed alternatives. The first involves the renovation aspects. Renovation requirements pose a major risk to the success of the proposed use. The more extensive the renovation work required, the greater the possibility for time delays and cost overruns. Second, the marketability of the space to be provided will drastically affect the success of the selected use. Office space use is only now beginning to show signs of recovery. Vacancy rates have been high but are starting to recede. Retail space is soft and it remains to be seen what the effect will be of the larger retailers leaving the area. Any substantial additions to the office space supply may require a long absorption period. The effect by the government sector of the General Executive Facilities has not been as extensive a drain as most leasing agents had expected. Nevertheless, vacancy rates average 10%. Finally, the effect of government intervention and inspection of the uses suggested must be weighed. Recent rent control drives by tenant unions and stricter building code enforcements have led developers to shun major residential projects. Attendant to this risk are the parking requirements of downtown residents. Exhibit 15 summarizes the decision criteria for most probable use.

F. Conclusions

On the basis of the five decision criteria shown in Exhibit 15, scenarios #2 and #3 offer significant economic return with minimum negative influence. Since the justified investment for scenario #3 is significantly

EXHIBIT 14

BASIC LOGIC FOR RANKING ALTERNATIVE PROGRAM SCENARIOS BY JUSTIFIED PURCHASE BUDGET

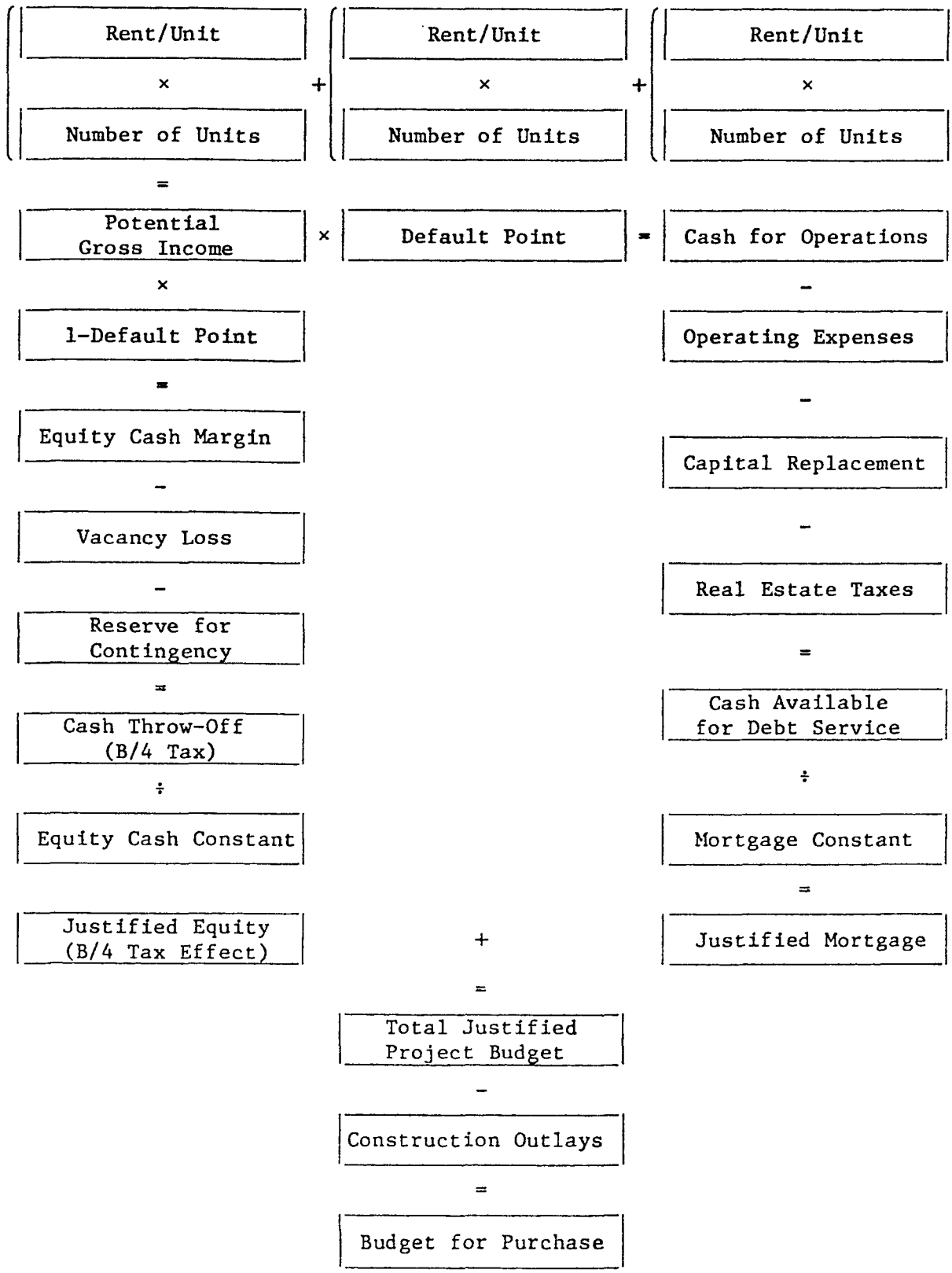


EXHIBIT 15

SUMMARY MATRIX OF FEASIBILITY OF ALTERNATIVE USES

Feasibility Factor	Scenario #1	Scenario #2	Scenario #3	Scenario #4
Justified investment	$143,015	$151,755	$183,199	$144,132
Remodeling risk	minor	moderate	significant	strong
Effective market demand	soft	moderate	moderate	moderate
Political acceptability	least acceptable	acceptable	acceptable	acceptable
Financial risks	strong/depend on ability to market space as is and loss of revenue from vacant space	moderate/depend on effective remoderling to attract users; minimize retail market weakness	moderate/depend on effective subdivision of space and property appreciation rate	strong/physically difficult to convert 4-story to residential use; office and residential would have to use same entrance

greater, it would be preferred. The moderate negative influences involved in the implementation of scenario #3 can be overcome. Additionally, the long-run potential economic returns are likely to be greater. The major risk of concern here is in the extensive remodeling called for in this scenario. The concern on cost increases and cost overruns are a legitimate reason for holding back major renovation. Scenario #2 offers less remodeling risk but cannot provide for property appreciation and the important return from future resale with its minimum remodeling plan.

The most probable use of the subject property would be to renovate each building's upper floors. Second and third floors of 114 State Street were converted to residential use with the first floor as small retail. 102 State Street would continue use as an office building; upper floors remodeled to office suites, first floor space as a personal service office area with minimal renovation.

IV. PREDICTION OF PRICE

This section will employ the market comparison approach to prediction of most probable price. This price will then be scrutinized by using two financial investment tests. The market comparison approach is based on the assumption that recent market sales in a given area are the most reliable predictors of most probable buyer behavior.

A. Most Probable Buyer

There are three buyer groups operating in the downtown area. They are owner-users, buyers for assemblage, and investor-purchasers. Sale data indicate that the owner-user group is typically a small specialty shop owner who has decided to purchase the building for his own use. The buildings usually are smaller and more retail-oriented like that of 114 State Street. The second buyer group, those who buy for assemblage, are usually looking to the future for a larger project consisting of an agglomeration of small parcels. An inventory of property owners in the neighborhood of the subject revealed three individuals with substantial investments that might generate a spirited bidding for the subject property. Representatives of two investors were interviewed for their outlook on the sale of the property.[1] The third possible investor is the former owner of the bank. His property lies adjacent to the bank on its west side and represents the most feasible direction for plottage. These interviews and a review of sales on the Square and along the State Street Mall enabled the appraiser to construct a most probable buyer profile that best fits into the third buyer group of investor-purchaser when considering both buildings under a single sale. However, the possibility of a spinoff sale of 114 State Street should also be considered in the scenario for buyers. In this situation the most probable buyer for the three-story structure would be the owner-user.

Investor-purchasers exhibit distinct characteristics with regard to prospective investments. Because of the recent increase in financing costs, many investors are looking for favorable seller financing. Instead of seeking a direct return on equity, many buyers of this type are looking to property appreciation potential. The property's potential to yield a fair return on future resale is a quality these investors prefer. They are sensitive to renovation costs and seem also to be sensitive to a building's layout and remodeling capacity. These investors have also looked on the Square redevelopment as a positive step; not overly concerned about the decline of major retailing, they are looking more to a rise in office demand and smaller retail shops.

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[1] Investor interviews conducted by Craig Manske and Paul Dennis, graduate students in real estate appraisal.

Therefore the most probable buyer will be an investor-purchaser who wishes to find favorable financing and a building having a potential for renovation. The investor might try to negotiate a deal with the seller to generate more funds than necessary for purchase. The additional funds could then be escrowed for renovation of the buildings. Since mortgage money is in short supply, this type of deal would help the buyer finance remodeling costs.

The owner-user purchaser is not looking so much to renovation potential but is instead concerned with his own use of the structure. Typically these buyers have been tenants in smaller-sized buildings and have decided that they would like to own their own building. Hence, buyer motivation is stronger and more heavily weighted. Owner-users will pay cash or look to mortgage financing. They are not as sensitive to building efficiency or price considerations as the investor-purcahser.

B. Most Probable Price

A number of transactions involving the sale and purchase of low-rise office/retail type of facilities have occurred in the State Street/ Concourse area. This makes it possible to infer from past transactions the probable price and range of sales price involving the subject property and the most probable buyer defined above. In order to reconcile some of the important differences between the subject property and these historical transactions, a ranking system will be used. This system, shown in Exhibit 16, results in a weighted score point total for each property. The appraiser believes that the scale presented in Exhibit 16 is applicable to both buyer types. The weighting of these features distinguished the two buyers as discussed above. The point totals are a measure of the desirability of the givern property to the most probable buyer. The purchase price of each comparable can then be weighted for property point total to provide a common denominator for comparison purposes. The common denominator can be further refined by weighting it for gross building area. The result is a dollar/point/square foot figure which is then related to sales price by means of a simple linear regression model. This statistical process provides a predicted price per unit (i.e., central tendency) and a means to estimate the range and reliability of the sale price prediction (i.e., standard error).

C. Market Comparison Approach to Probable Price

The first problem in real estate comparison is to define the unit of comparison. Various units and combinations thereof were tried for each building's cluster of comparables in a simple regression against price. That unit of comparison with the highest r^2 value was considered as the space-time unit that most reasonably correlated to the property's productivity in the buyer's mind. The results of these regression tests are shown in Exhibit 17. For both buildings the total area above grade proved to have the highest explanatory power. The remaining variance in price

EXHIBIT 16

SCALE FOR SCORING COMPARABLES ON PROBABLE BUYER CONSIDERATIONS

Location:	5 = Within 2 blocks of the Civic Center 3 = 2-3 blocks from the Civic Center 1 = More than 3 blocks from the Civic Center
Vacancy at sale:	5 = Mostly occupied, 10% or less vacancy 3 = Partially occupied 1 = Vacant at time of sale
Financial conditions:	5 = Land contract 3 = Mortgage 1 - Cash sale
Buyer motivation:	5 = Tenant purchase or purchase for use 3 = Buyer for assemblage 1 = Investor-purchaser buying for appreciation
Building condition and remodeling required:	5 = Minimal improvements required, good condition 3 = Average renovation, fair condition 1 = Masonry/wood structure, major renovation required, poor condition
Efficiency of retail layout:	5 = Wide rectangular space 3 = Normal rectangular space 1 = Triangular space
Time of sale:	5 - After September 1978-August 1980 (mall completion) 3 = Before June 1975 1 = July 1975-August 1978 (mall construction)

EXHIBIT 17

REGRESSION TESTS TO FIND UNIT OF COMPARISON

Unit of Comparison	114 State r^2	102 State r^2
Gross ground floor area	77.1%	20.8%
Gross buidling area	87.4	74.2
Front footage on primary street	20.0	47.1
Total front footage	12.3	46.6
Lot size	15.3	20.0

prediction will be explained in a second regression using the point system as previously described (points and price per spatial unit). Exhibit 18 shows the comparable sales considered for use in predicting price for each building.

EXHIBIT 18

PROPERTIES CONSIDERED FOR USE AS COMPARABLES

Property	Date of Sale	Terms of Sale
Comparable Sales for 114 State Street		
228-230 State Street	October 1, 1975	Mortgage
232-236 State Street	September 10, 1975	Cash
301 N. Broom	January 30, 1979	Land contract
115 E. Main	May 1979	Land contract
20-22 E. Mifflin	January 23, 1979	Land contract
214 State Street	January 25, 1976	Purchase money mortgage
18 E. Mifflin	December 1, 1973	Land contract
Comparable Sales for 102 State Street		
102 N. Hamilton	July 1979	Land contract
212 E. Washington	December 1977	Purchase money mortgage
20-22 E. Mifflin	January 23, 1979	Land contract
202 N. Henry	March 30, 1979	Land contract
23 N. Pinckney	April 1977	Purchase money mortgage
119 State Street	January 15, 1976	Land contract
22 N. Carroll	January 1, 1976	Land contract
16 N. Carroll	Sept. 1974 & Oct. 1977	Land contract & Equity trade
14 W. Mifflin	July 1978	Cash

The comparables for 114 State Street were screened for conformance with the following criteria:

- Property located in the central Madison area, preferably near the Civic Center.

- Arm's length transaction.
- Retail storefront capability/small building area.

All of the sales selected fit the criteria well except for 115 E. Main Street which was excluded because of its poor location relative to the Civic Center area. These sales were thought to be representative of the owner-user buyer profile.

The comparables for 102 State Street were screened for conformance with the following criteria:

- Property located in the central Madison area, preferably near the Civic Center.
- Arm's length transaction, no equity trades.
- Ordinary low/midrise construction types.

Of the seven sales selected, all contained some form of seller financing. This seemed to be predominant for the investor-purchaser buyer profile. The relevant sales data for the six comparable sales of 114 State Street are shown in Exhibits 19-24. Sales data for 102 State Street are given in Exhibits 25-30.

Each property was then scored for key attributes thought to influence buyer behavior shown in Exhibit 16. The scoring and weighting scheme for 114 State Street and 102 State Street is presented in Exhibits 31 and 32, respectively. Different weightings for buyer considerations resulted in different point score totals for sales used as comparables of both buildings.

Location within two blocks of the Civic Center was believed to be superior due to location on a busy mall and within walking distance of the State Capitol. The proximity to the Capitol Square as a retail/office space center and landmark is an additional locational advantage. Vacancy presented a depressing effect on price and was therefore viewed as a negative price influence. The ability to obtain seller financing has already been mentioned as a desirable feature and presumably has a positive effect on price. Buyer motivation was an additional attribute, albeit difficult to judge from sale data. The appraiser has assumed that an owner-user would be willing to pay a premium to own his rented space. Investor-buyers could afford to be more selective and negotiate for an eventual lower sales price. The amount of renovation required to bring the building up to a minimum standard was recognized as a negative influence on price. Well-maintained concrete structures were preferred over those either poorly maintained or of ordinary construction. The efficiency of the retail layout also affects price with a negative influence recognized for those buildings of irregular bay spacing and poor store frontage. Time of sale was a consideration because of the effect construction was believed to have on sales in the mall area. A negative influence on sales price was evident

EXHIBIT 19

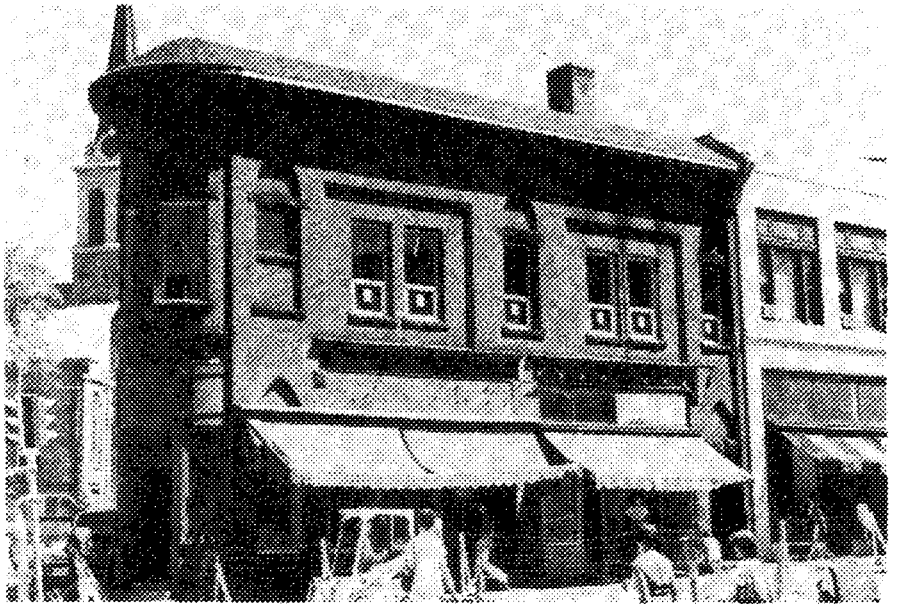
COMPARABLE PROPERTY #1

228-230 STATE STREET

Date of sale: 10/1/75
Sale price: $133,000
Recorded: Vol. 628, p. 642 and 644, Warranty Deed
Terms of sale: Cash $33,000 down or 25%, $100,000 mortgage
Grantors: One-half undivided interest, First Wisconsin National Bank as personal representative for estate of George Rentschler, and one-half undivided interest of M. E. Madigan, A. J. Meier, and L. S. Meier
Grantees: John C. and Fanny Garver, owner-occupant; Art Gallery and Crafts
Tax parcel no.: 0709-144-2706-2
Assessed value: Total $170,200--land $61,100, improvements $109,100
Sales price as % of assessed value: 78%
Lot size: 3,350 sq. ft.
Frontage: State Street 44 feet, Johnson Street 45 feet
Zoning: C-4
Gross building area: 7,870 sq. ft.
First floor commercial gross square footage: 3,350 plus mezzanine of 600
Second floor office footage: 3,350
Building description: Full glass show window, store front Bedford-Stone faced, concrete structural frame 2nd floor and mezzanine, 2nd floor dentist office; building in good condition
Present uses: Antiques, ethnic objects, art gallery; extensive remodeling first floor and mezzanine by new owner
Locational factors: Across State Street from Civic Center on proposed State Street Mall, 3/4 block from parking area; pedestrian count of 3,585
Available rental information: $1.54/sq. ft. for office floor

EXHIBIT 20

COMPARABLE PROPERTY #2

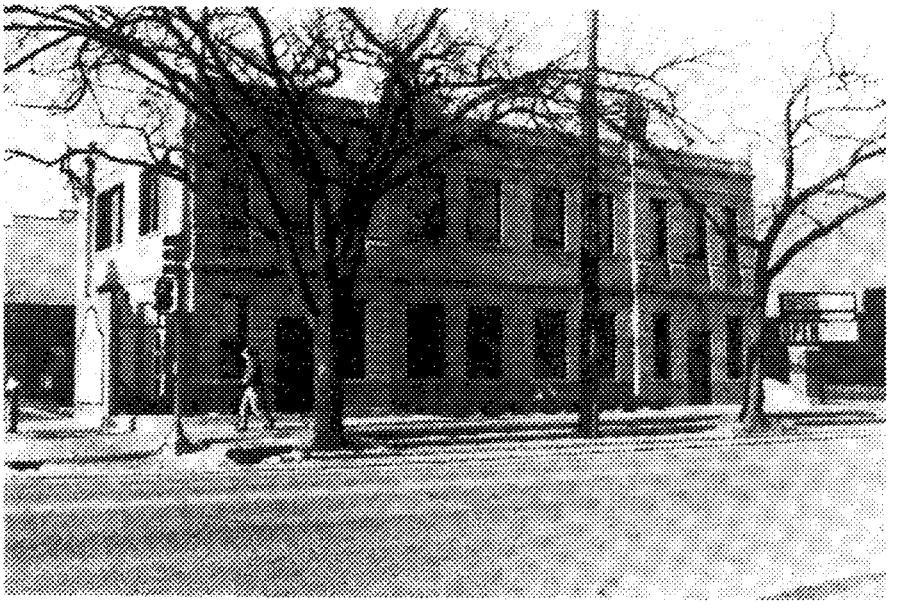


232-236 STATE STREET

Date of sale: 9/10/75
Sale price: $59,000 (T.F. $59.00)
Recorded: Vol. 613, p. 419, Warranty Deed
Terms of sale: Cash
Use at time of sale: Record shop and Christian Science Reading Room
Grantor: First Wisconsin National Bank as personal representative for estate of George Rentschler
Grantee: Bingo Gargano
Tax parcel no.: 0709-144-2707-0
Assessed value: Total $66,400--land $44,600, improvements $21,800
Sales price as % of assessed value: 89%
Lot size: 1,475 sq. ft.
Frontage: Johnson Street 70 ffet, State Street 50 feet
Zoning: C-4
Gross building area: 2,950 sq. ft.
First floor commercial gross square footage: 1,475
Other rentable square footage: 1,475
Building description: Two-story brick exterior, masonry bearing wall, wood interior structure, upstairs apartment in poor condition, shared toilet facilities
Present uses: 1st floor same as at time of sale--record shop, 30 ffet of frontage on State Street, Christian Science Reading Room, 20 feet of frontage on State Street
Locational factors: Corner lot, same block as Civic Center on proposed State Street Mall, 1/2 block to city parking ramp; pedestrian count of 3,585
Available rental information: Gross income $9,000

EXHIBIT 21

COMPARABLE PROPERTY #3



301 N. BROOM STREET

Date of sale: 11/30/79
Sale price: $110,000
Recorded: Vol. 1675, p. 18
Terms of sale: Land contract, $20,000 down, 8.75% interest; principal and interest payable in monthly installments of $795, provided entire purchase money and interest fully paid on or before August 15, 1984. Sale represents a portion of a larger conveyance of $450,000.
Use at time of sale: Vacant--previously fire station
Grantor: Estate of Sherman Martin Cox
Grantee: Frederic E. Mohs, et al.
Tax parcel no.: Not listed in assessment books
Assessed value: Not listed in assessment books
Sale price as % of assessed value: N/A
Lot size: 8,712 sq. ft.
Frontage: Broom Street 132 ft., W. Johnson Street 66 feet
Zoning: C-2
Gross building area: 5,760 sq. ft.
First floor: 1,920 square feet
Other rentable square footage: 3,840
Building description: Brick exterior, poured concrete bearing walls, concrete floors, heating and electrical systems had to be completely replaced; original structure was essentially a shell. Building is being completely renovated and has had an addition constructed.

Present uses: Basement area is tenant occupied; 1st and 2nd floors are being offered for rent at $10.25/sq. ft., including parking and janitorial services; absorption is reported to be somewhat sluggish.

Locational factors: 1 block west of State Street, corner of Broom and W. Johnson, heavy auto traffic flow along W. Johnson, on-site parking provided, pedestrian count unavailable.

EXHIBIT 22

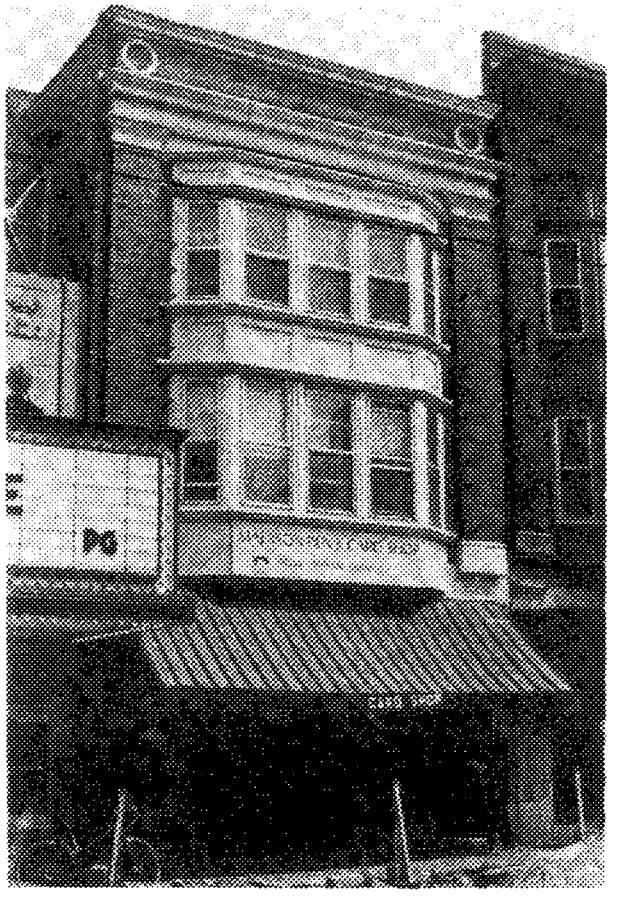
COMPARABLE PROPERTY #4

20-22 EAST MIFFLIN STREET

Date of sale: 1/23/79
Sale price: $280,000
Recorded: Vol. 1033, p. 583
Terms of sale: Land contract, $30,000 down, 9.75% interest, monthly payments of $2147, 10-year balloon
Use at time of sale: Candy store, optical store, dance studio
Grantor: D. M. Moore, Inc.
Grantee: James and Mary Banta, Ltd.
Tax parcel no.: 0709-144-2408-4 and 0709-144-2409-2
Assessed value: Total $283,000; land $133,700, improvements $149,300
Sale price as % of assessed value: 99%
Lot size: 5412 sq. ft.
Frontage: 40.5 feet
Zoning: C-4
Gross building area: 13,200 square feet
First floor commercial gross square footage: 4400 sq. ft.
Other rentable square footage: 8800 sq. ft.
Building description: Masonry bearing wall, interior wood structure, poor HVAC system, dance studio is finished with paneling and drop-tile ceiling, first floor has full glass storefronts
Present uses: Same as time of sale; however, second floor of 22 E. Mifflin is currently being offered for rent as office space
Locational factors: Located on west side of Square, 1.5 blocks to parking, pedestrian count of 3966.

EXHIBIT 23

COMPARABLE PROPERTY #5



214 STATE STREET

Date of sale: 1/25/76
Sale price: $86,000, downpayment $13,000 or 15%
Recorded: Vol. 651, p. 598, Warranty Deed
Terms of sale: Cash, 1st mortgage $58,500, 2nd mortgage to seller $14,500
Use at time of sale: Card shop
Grantors: Mr. and Mrs. W. D. Eck
Grantees: Mr. and Mrs. A. A. Witz
Tax parcel no.: 0709-144-2710-3
Assessed value: Total $65,500--land $34,100, improvements $31,400
Sales price as % of assessed value: 133%
Lot size: 1,475 sq. ft.
Frontage: State Street 22 feet
Zoning: C-4
Gross building area: 3,960 sq. ft.
First floor commercial gross square footage: 1,320
Other rentable square footage: 2,640
Building description: Three floors, masonry bearing wall, wood interior structure, two upper-floor apartments with six students each, bay windows on State Street, full glass store front
Present uses: 1st floor is same use; 2nd and 3rd floors--3 apartments
Locational factors: Across State Street from Civic Center, 1 block from parking; pedestrian count of 3,585
Available rental information: $4.55/sq. ft. for 1st floor

EXHIBIT 24

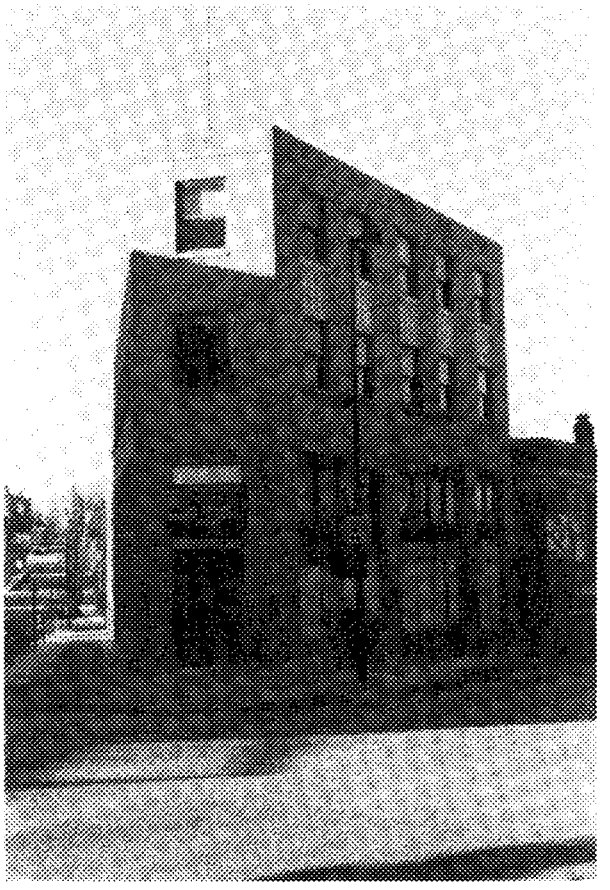
COMPARABLE PROPERTY #6

18 EAST MIFFLIN

Date of sale: 12/1/73
Sale price: $105,000
Recorded: Vol. 485, p. 359 and p. 361, Land Contract
Terms of sale: Land contract, $20,000 downpayment, 10-year term, 8% interest $750 per month
Use at time of sale: Vacant
Grantors: One-half interest from each of two brothers, H. H. Ratcliff and R. U. Ratcliff
Grantee: Gerald Condon, jeweler, occupant
Tax parcel no.: 0709-144-2407-6
Assessed value: Total $149,900--land $71,300, improvements, $78,900
Sales price as % of assessed value: 70%
Lot size: 2,640 sq. ft.
Frontage: 20 feet
Zoning: C-4
Gross building area: 4,680 sq. ft.
First floor commercial gross square footage: 2,340
Other rentable square footage: 2,240 gross
Building description: Masonry bearing wall, interior wood structure
Present uses: Jewelry store, first floor; John Charles Salon, second floor
Locational factors: Located on west side of Square, 1 1/2 blocks to parking; pedestrian count of 5,603
Available rental information: None

EXHIBIT 25

COMPARABLE PROPERTY #7

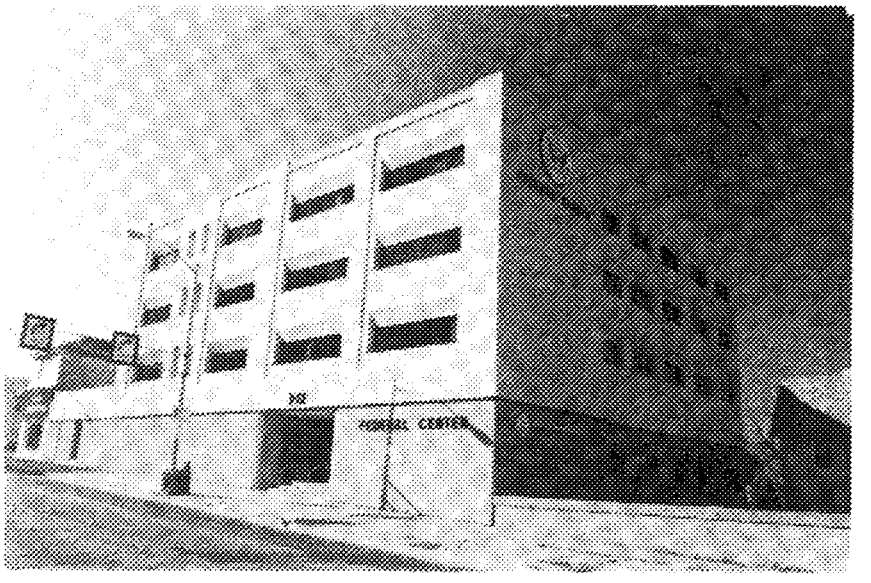


102 N. HAMILTON, 110 N. HAMILTON, PARKING LOT

Date of sale: 7/29/77
Sale price: $330,000 for three parcels
Recorded: Vol. 846, p. 371, warranty deed
Terms of sale: 5 year balloon mortgage @ 8.5% interest
Use at time of sale: 102 N. Hamilton vacant, 110 N. Hamilton restaurant
Grantor: Jackson Realty Corp.
Grantee: Gary J. DiVall
Tax parcel no.: 0709-144-1504-1
Assessed value at time of sale: Total $360,000; land $153,900, improvements $206,500
Sale price as % of assessed value: 92%
Lot size: Approximately 11,000 sq. ft.
Frontage: E. Mifflin 15 ft., N. Hamilton 46 ft., N. Pinckney 132 ft. for 102 N. Hamilton building
Zoning: C-4
Description: 102 N. Hamilton, gross building area 28,000 sq. ft., first floor gross area 6,700 sq. ft.; 110 N. Hamilton, gross building area 1,100 sq. ft., one-story above grade
Total gross building area: 29,100
Estimated net rentable area: 28,000 sq. ft.
Building description of 102 N. Hamilton: Concrete and steel structure, 3 stories, plus basement at grade entrance on N. Pinckney, 1st floor plus mezzanine; structure can carry more floors, automatic elevators
Locational factors: 2 blocks from State Street Mall, 4 blocks from City-County building, 2 blocks from GEF-1, 1.5 blocks to 1st Wis. Plaza
Rental information: Adjacent property, one of three parcels, has 1,000 sq. ft. @ $600/mo. net for restaurant use.

EXHIBIT 26

COMPARABLE PROPERTY #8

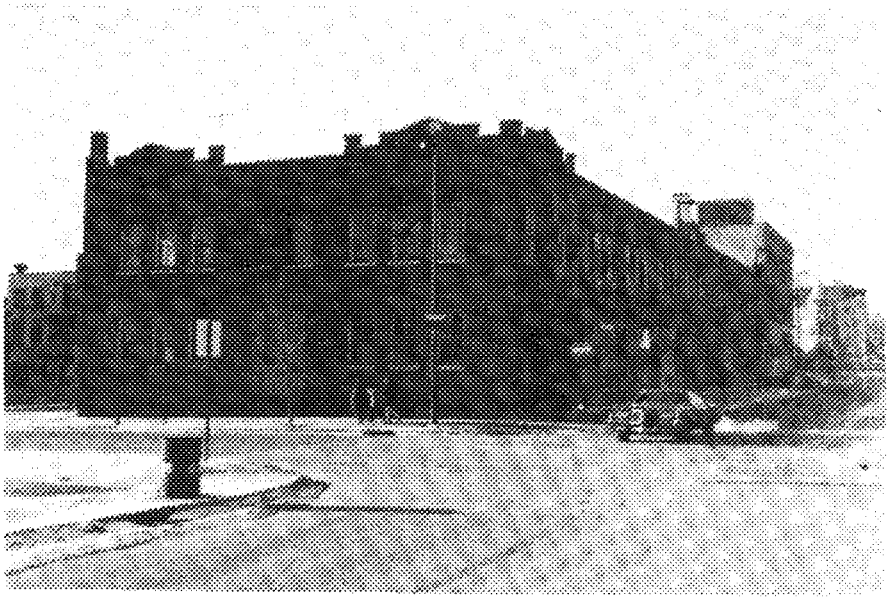


212 EAST WASHINGTON

Date of sale: 12/13/77
Sale price: $472,000
Recorded: Vol. 894, p. 695, warranty deed
Terms of sale: Seller took a $140,000 second mortgage; property also subject at time of sale to $190,000 mortgage with Wisconsin Alumni Research Foundation and $175,000 mortgage with Affiliated Bank. Grantee agreed to assume and pay latter two mortgages.
Use at time of sale: Offices for Ray-O-Vac Co.
Grantor: Carol M. and Jerome J. Mullins
Grantee: Washington Associates
Tax parcel no.: 0709-133-3103-2
Assessed value: Total $670,100; land $334,000, improvements $335,700
Sale price as % of assessed value: 70%
Lot size: 22,680 sq. ft.
Frontage: 189 ft. on E. Washington Ave., 120 ft. on N. Butler
Zoning: C-4
Gross building area: 48,000 sq. ft.
First floor gross area: 12,000 sq. ft.
Net rentable area: 38,000 sq. ft.
Building description: Four-story, fire resistant concrete and masonry structure, elevator
Present use: Office space; adjacent parking lot
Locational factors: 1 block from Square, 4.5 blocks from City-County building, directly across street from GEF-1, 4.5 blocks from State Street Mall
Rental information: None available.

EXHIBIT 27

COMPARABLE PROPERTY #9



202 NORTH HENRY STREET

Date of sale: 3/30/79
Sale price: $257,000
Recorded: Vol. 1048, p. 635, quit claim deed
Terms of sale: Seller assigned land contract to buyer; land contract originated 4/1/78, $185,000 at 10% amortized 20 yrs.; balloons 4/1/81
Use at time of sale: Vacant
Grantor: Roger K. Gaumnitz
Grantee: Michael G. Duffy
Tax parcel number: 0709-231-0601-1
Assessed value: Total $244,000; land $144,000, improvements $100,000
Sale price as % of assessed value: 105%
Lot size: 13,068 sq. ft.
Frontage: 198 ft. on N. Henry, 66 ft. on Dayton
Zoning: C-4
Gross building area: 26,000 sq. ft.
Estimated net rentable space: 24,000 sq. ft.
Building description: 2-story warehouse, brick exterior, concrete foundation, 2 garage entries on Henry, structurally sound, but needs extensive rehabilitation for occupancy
Present use: Vacant
Locational factors: Directly behind Civic Center (was old Ward's warehouse), 66 ft. from State St., 2 blocks to Square
Rental information: None available

EXHIBIT 28

COMPARABLE PROPERTY #10

23-25 NORTH PINCKNEY STREET

Date of sale: April 1977
Sale price: $150,000
Recorded: Vol. 796, p. 528
Terms of sale: $100,000 cash down payment, seller accepted 2nd mortgage of $50,000 at 8%, 5 year term
Use at time of sale: Vacant
Grantor: Abe Santee
Grantee: Contact Realty
Tax parcel no.: NA
Assessed value at time of sale: Total $285,000; land $214,000, improvements $71,000
Sale price as % of assessed value: 52%
Lot size: Approximately 8,712 sq. ft.
Frontage: 66 ft.
Zoning: C-4
Description: 3-story building approximately 100 years old, 44'×120' joined to 2-story building 22'×75', both of brick mill or ordinary construction
Total gross building area: 15,600 sq. ft.
First floor square footage: 6,886 sq. ft.
Present use: Remodeled into 1st floor retail, 2nd-3rd floor offices
Locational factors: Located on Capitol Square, 3 blocks from City-County building, 1/2 block from 1st Wisconsin Plaza, 1.5 blocks from nearest parking ramp

EXHIBIT 29

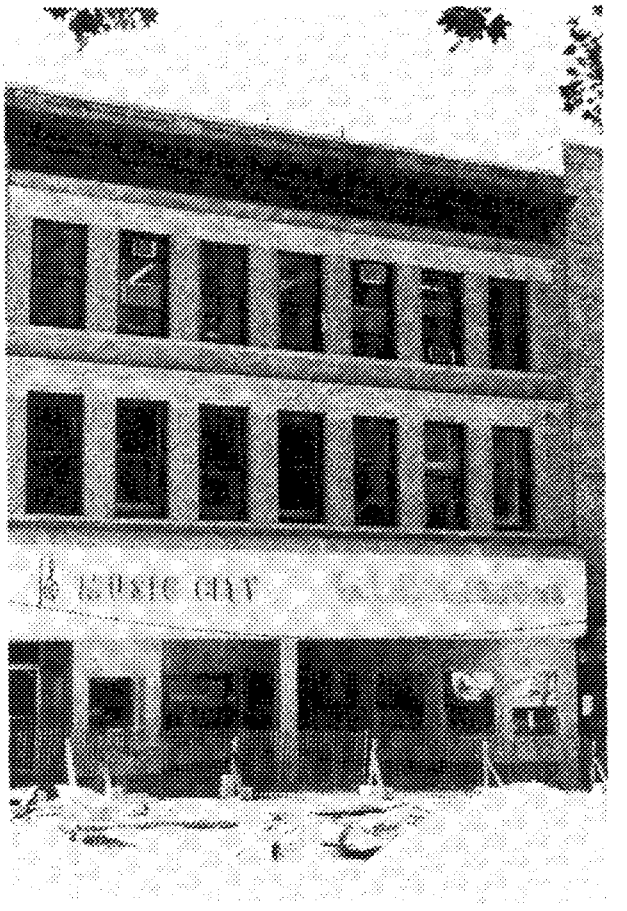
COMPARABLE PROPERTY #11

LEATH BUILDING, 119 STATE STREET

Date of sale: 1/15/76
Sale price: $110,000
Recorded: Vol. 737, p. 118, Land Contract
Terms of sale: Land contract, $10,000 down 6% interest 4-year terms, plus $15,000 of capital improvements by vendee within six months of purchase
Use at time of sale: Vacant
Grantor: First Wisconsin National Bank as trustee of M. V. O'Shea Trust
Grantees: Mr. and Mrs. N. H. Malley
Tax parcel no.: 0709-231-0105-3
Assessed value: Total $152,500--land $90,200, improvements $62,300
Sales price as % of assessed value: 72%
Lot size: 4,400 sq. ft.
Frontage: State Street 44 feet; Fairchild 44 feet
Zoning: C-4
Gross building area: 14,000 sq. ft.
First floor commercial gross square footage: 4,400
Other rentable square footage: Only 1st floor and mezzanine can be occupied
Building description: Elevator, two-story granite store front, 60% glass show window, top two floors used for furniture show rooms (presently closed to avoid four-story building classifications and access and exit requirement), brick veneer, brick mill structure
Locational factors: On proposed State Street Mall, 1 1/2 blocks from parking; pedestrian count of 2,710
Available rental information: None

EXHIBIT 30

COMPARABLE PROPERTY #12



KARSTENS BUILDING, 22 NORTH CARROLL

Date of sale: 1/1/76
Sale price: $175,000
Recorded: Vol. 638, p. 355
Terms of sale: Land contract, $15,000 down or 9%, 7.5 interest
Use at time of sale: Vacant
Grantor: Karstens, Inc.
Grantee: Fred Mohs, local investor, for assemblage
Tax parcel no.: 0709-231-0904-9
Assessed value: Total $189,300--land $145,000, improvements $44,300
Sales price as % of assessed value: 92%
Lot size: 5,800 sq. ft.
Frontage: 44 feet
Zoning: C-4
Gross building area: 16,380 sq. ft.
First floor commercial gross square footage: 5,461
Other rentable square footage: 10,922
Building description: 60 years old, 43×127×3 floors, all floors sprinklered and air-conditioned, concrete structure frame and brick facade, one central stairway, exterior fire escape, fair alley access
Present uses: Music instrument shop (20 ft. frontage), jewelry store (20 ft. frontage)
Locational factors: 2 blocks to nearest parking area, major city bus stop in front of building; pedestrian count of 3,651
Available rental information: 2nd and 3rd floors rented to Madison Credit Bureau for $4,400 annually, or $1.50/sq. ft.; 1st floor $5/sq. ft. plus utilities, tax escalator, and overage.

EXHIBIT 31

WEIGHTED MATRIX FOR COMPARABLE PROPERTIES OF 114 STATE STREET

Feature	Weight	Rating/Weighted Ratings						
		228-230 State	232-226 State	301 N. Broom	20-22 E. Mifflin	214 State	18 E. Mifflin	Subject Property
Location	.10	5/.5	5/.5	1/.1	3/.3	5/.5	5/.5	5/.1
Vacancy at sale	.10	1/.1	3/.3	1/.1	5/.5	5/.5	1/.1	3/.3
Financial conditions of sale	.20	3/.6	1/.2	5/1.0	5/1.0	3/.6	5/1.0	3/.6
Buyer motivation	.25	5/1.25	5/1.25	5/1.25	3/.75	5/1.25	5/1.25	5/1.25
Building condition and remodeling required	.15	1/.15	5/.75	1/.15	3/.45	5/.75	5/.75	1/.15
Efficiency of retail layout	.10	3/.3	1/.1	3/.3	3/.3	5/.5	5/.5	3/.3
Time of sale	.10	1/.1	3/.3	5/.5	5/.5	1/.1	3/.3	5/.5
Total weighted score	100%	3.0	3.4	3.4	3.8	4.2	4.4	3.2
Selling price		$133,000	$59,000	$110,000	$280,000	$86,000	$105,000	...
Total floor area GBA (sq.ft.)		7,870	2,950	5,760	13,200	3,960	4,680	6,984
Price per sq. ft. of GBA		$16.90	$20.00	$19.09	$21.21	$21.71	$22.43	...
Mean price per point per sq. ft.		$5.63	$5.88	$5.61	$5.58	$5.17	$5.10	...

EXHIBIT 32

WEIGHTED MATRIX FOR COMPARABLE PROPERTIES OF 102 STATE STREET

Feature	Weight	Rating/Weighted Ratings							
		102 N. Hamilton	212 E. Washington	20-22 E. Mifflin	202 N. Henry	23 N. Pinckney	119 State St.	22 N. Carroll	Subject Property
Location	.10	3/.3	1/.1	3/.3	1/.1	3/.3	5/.5	3/.3	5/.5
Vacancy at sale	.10	3/.3	3/.3	5/.5	1/.1	3/.3	1/.1	3/.3	5/.5
Financial conditions of sale	.10	3/.3	3/.3	5/.5	5/.5	3/.3	5/.5	5/.5	3/.3
Buyer motivation	.15	5/.75	1/.15	3/.45	1/.15	3/.45	3/.45	3/.45	1/.15
Building condition and remodeling required	.20	3/.6	5/1.0	3/.6	1/.2	1/.2	1/.2	1/.2	3/.6
Efficiency of retail layout	.20	1/.2	3/.6	3/.6	3/.6	3/.6	1/.2	3/.6	1/.2
Time of sale	.15	1/.15	1/.15	5/.75	5/.75	1/.15	1/.15	1/.15	5/.75
Total weighted score	100%	2.6	2.6	3.7	2.4	2.3	2.1	2.5	3.0
Selling price		$330,000	$472,000	$280,000	$257,000	$150,000	$110,000	$175,000	...
Total floor area GBA (sq. ft.)		29,100	48,000	13,200	26,000	15,600	14,000	16,380	21,108
Price per sq. ft. of GBA		$11.38	$9.83	$21.21	$9.88	$9.62	$7.86	$10.68	...
Mean price per point per sq. ft.		$4.37	$3.78	$5.73	$4.12	$4.18	$3.74	$4.27	...

for transactions taking place during construction of the Mall and Concourse area. Sales occurring before construction started and those occurring after most of the construction was completed were thought to be superior. The feeling during this time (after September 1978) was that the mall project was going to be a success and higher prices may have resulted.

Total weighted scores representing dollar/point/square foot rankings were then applied to regression analysis. Computation of the linear regression coefficient, the price prediction for the subject property, and the standard error of the estimate are provided for each building in Exhibits 33 and 34. The residual errors shown all fell within two standard deviations of the mean. As a check on the regression and standard error estimate, the mean price per point per square foot was calculated for each property. In both cases the error range for the regression was less (tighter fit) than the mean price per point per square foot error range.

EXHIBIT 33

COMPUTATION OF LEAST SQUARES FIT OF SALES PRICE AND PROPERTY SCORES FOR SMALLER RETAIL UNITS BOUGHT BY OWNER-USERS

Comparable	Price y	Score x	Residual
1. 228-230 State St.	16.90	3.0	-.62
2. 232-236 State St.	20.00	3.4	.77
3. 301 N. Broom St.	19.09	3.4	-.14
4. 20-22 E. Mifflin	21.21	3.8	.28
5. 214 State St.	21.71	4.2	-.93
6. 18 E. Mifflin St.	22.43	4.0	.64

y = sales price/sq. ft. of gross building area
x = weighted score
a = intercept
b = slope of price-point relationship

The regression equation is:

$$Y = a + bx$$
$$= 4.72 + 4.27x$$

Applied to subject:

$$Y = 4.72 + 4.27\ (3.2)$$
$$= 4.72 + 13.66$$
$$= 18.38/\text{sq. ft. GBA}$$

6,984 sq. ft. GBA @ $18.38/sq. ft. = 128,365 or $128,000
Standard error of estimate = $.76/sq. ft. GBA
High estimate = 6,984(18.38+.76) = $133,673 or $133,000
Low estimate = 6,984(18.38-.76) = $123,058 or $123,000
Coefficient of determination: .86

SOURCE: MINITAB, statistical computer program.

EXHIBIT 34

COMPUTATION OF LEAST SQUARES FIT OF SALES PRICE AND PROPERTY SCORES FOR LARGER COMMERCIAL UNITS BOUGHT BY PROFESSIONAL INVESTORS

Comparable	Price y	Score x	Residual
7. 102 N. Hamilton	11.38	2.6	-.11
8. 212 E. Washington	9.83	2.6	-1.66
4. 20-22 E. Mifflin	21.21	3.7	.45
9. 202 N. Henry	9.88	2.4	.07
10. 23 N. Pinckney	9.62	2.3	.65
11. 119 State St.	7.86	2.1	.57
12. 22 N. Carroll	10.68	2.5	.02

y = sales price/sq. ft. of gross building area (GBA)
x = weighted score
Y = predicted price/sq. ft. GBA
a = intercept
b = slope of price-point relationship

The regression equation is:

$$Y = a + bx$$
$$= -10.4 + 8.42x$$

Applied to subject:

$$Y = -10.4 + 8.42\ (3.0)$$
$$= 14.86/\text{sq. ft. GBA}$$

21,108 sq. ft. GBA @ 14.86 = $313,664 or $314,000
Standard error of estimate = .86
High estimate = 21,108(14.86+.86) = $331,817 or $330,000
Low estimate = 21,108(14.86-.86) = $295,512 or $300,000
Coefficient of determination: .96

SOURCE: MINITAB, Statistical computer program.

The market comparison price estimate for 114 State Street is approximately $128,000 with a standard error of $5,000; the price estimate for 102 State Street is $314,000 with a standard error of the estimate of $15,000. The total price estimate of the two properties is approximately $440,000. A confidence interval suggested for this price estimate is $20,000 based on the total of the standard errors for each building's price prediction. The suggested price range then is $420,000 to $460,000. This initial transaction zone must be adjusted in light of certain external factors. It must then be tested to determine if the probable selling price estimate would provide acceptable yield from income and appreciation when related to the most probable use, total cost to the most probable buyer, and typical financing.

D. External Influence on Most Probable Price

The prediction of most probable price is dependent on several key estimates. The rental rates realized for both office and retail space are subject to variation. Since the income potential for the property hinges on the high revenues generated by both the office and retail spaces, the buyer is subjected to considerable risk. Normally, he would wish to purchase the property under the assumption of minimum rents. These rents are substantially below those assumed in the estimation of justified project budget. A cautious buyer could well assume rents as low as $6.50/sq. ft. for office space and $8/sq. ft. for first-floor retail space. These conservative assumptions would have an impact on the price the buyer would be willing to pay.

Similarly, renovation costs are subject to a broad range of fluctuation. If higher costs than those estimated in the justified project budget calculations are actually incurred, the increase will directly affect purchase price. While the amount of renovation outlay is extensive, a conservative buyer may wish to include a contingency allowance in his determination of purchase price. Engineering studies have not been provided for this appraisal. Therefore, hidden structural defects could balloon any renovation package into more major cost outlays. Under this circumstance, the buyer might consider the costs presented as low estimates and either directly or indirectly compensate for the variability with a downward influence on price.

The most probable buyer profile constructed earlier points out buyer characteristics that will influence price. The most probable buyer is anticipating purchase of a property for value appreciation. Thus, the reversion at the end of the holding period will be given substantial weight in determining the property's present value. Those aspects that tend to add to value of a project (cash flow, energy conservation aspects, layout) will also be taken into consideration by the buyer. Another buyer characteristic affecting price is financing expectations. The buyer prefers some form of seller financing, preferably a land contract or purchase money mortgage. While the bank will not offer a land contract, it is agreeable to a purchase money mortgage or other form of seller financing that allows transfer of title.

Note that until this point we have delineated some negative influences under a normal buy-sell assumption. These factors would have a downward effect on price if it were not for the probable influence of the seller on the sale price. As stated in the appraisal issue section of this report, we must now assess the effect of a sale-leaseback arrangement. The bank wishes to maintain visibility on the Square and is willing to pay market rents for a long-term lease of approximately 10 years on the first floor of the four-story building. In addition, the owner would like to continue renting other office space at least two more years to allow for the bank's move to the North Fairchild property. A final point is that they are willing to provide financing under a sale-leaseback arrangement. Such a situation or condition of sale tends to eliminate a substantial portion of

the aforementioned market risks. A steady first-floor tenant and an added cushion of two years to search for new tenants while starting renovation on the three-story building is a definite advantage to the buyer. Such benefits are not normally available in the market and the effect is an upward influence on most probable price. With mortgage money in short supply, the buyer will recognize these benefits. As suggested earlier, the investor might wish to negotiate a deal with the seller to generate more funds than necessary for purchase in order to escrow funds for renovation.

The tradeoff and its alternative outcomes is perceived in light of the relationship of leaseback to mortgage terms to price. The seller desires a 10-year leaseback of first-floor space and the highest price attainable to reduce its capital-to-asset ratio; the owner is willing to provide a nonmarket mortgage in return. A long-term mortgage is unlikely. More likely would be a 10-year mortgage and balloon payment with amortization at 25 years. Interest rates could be negotiated between 10-12% with a downpayment between 20-30%. These terms would be a good deal for the investor by today's standards. For this reason the appraiser believes the most probable selling price will fall in the upper range of predicted price--$450,000--with the seller providing the financing as stated. The buyer's negotiation will be based on what he believes will happen if the bank moves out; the question is at what vacancy assumption will he buy the property. Given the suggested length of the leaseback, the investor might pay a premium on price if he can secure market rent of $10 per sq. ft., favorable rent escalators, and/or pass-through of utility and real estate taxes on the leaseback arrangement. The offering of an escrow for additional funds for renovation could boost the purchase price to $465,000 with a lesser downpayment (15-20%) and lower interest rate (10%). This arrangement would assure the investor of start-up funds on improvements to be made on the buildings. Should the buyer not wish to concede this premium in price and fear the leaseback arrangement is too high a price to pay for the vacancy of the bank's space (some 14,000 square feet), a cash transaction most favorable to the seller could result in lowering of the sale price to as low as $435,000. The transaction zone computed on these terms if $435,000 to $465,000.

E. Tests of Preliminary Most Probable Price Determination

Because actual market sales were used in the above valuation approach, it is useful to test the predicted price with investment valuation in terms of basic yields and risk ratios. For this purpose, two investment tests will be applied:

- The front-door approach to convert total investment to rents required.

- The BFCF after-tax yield forecast using a basic cash flow model provided by the Educare Network, Inc.

1. Minimum Rent Required

If the most probable buyer paid $450,000 for the subject property as is and spent $494,000 remodeling as in the minimum budget estimated in scenario #3 (Appendix C), he would have a total investment of $944,000. Under the most favorable financing assumptions, without financing from the seller, he might receive a 70% loan of $660,000 at 14% interest for 25 years. Exhibit 35 shows the conversion of these capital requirements to required net income. These calculations reveal that the minimum gross rents required would be $199,000 or $24,070 more than expected in scenario #3. This deficit would come out of desired cash dividend and leave the investor with a cash-on-cash return of 1.7%. This marginal return indicates that the investor would look to the return offered from property appreciation to increase the overall rate of return. The low cash-on-cash return is not surprising in light of investor interviews cited previously. They revealed current investor tradeoff between cash return and property appreciation return. The substantial remodeling budget called for in scenario #3 is consistent with an investor looking for appreciation potential; such an expectation would be unrealistic without an extensive renovation of the upper floors.

2. After-Tax Yield

The effect of income taxes on the proposed investment are shown in the BFCF analysis provided in Exhibit 36. This simple after-tax cash flow model is found in the library of programs provided by EDUCARE Network, Inc. on GE Time Sharing Service. The program assumes that there is only one depreciable asset; in this case determined to be 65% of the total $944,000 investment. The income is assumed to increase by 5% per year and the asset is assumed to have a 25-year useful life. The investor tax bracket is assumed to be 30%, stepping up to the 35% bracket in the year of sale. Exhibit 36 shows the computer input and output components. The after-tax yield under these assumptions is 13%. If the property were to appreciate 8% over the 5-year holding period, the after-tax yield would be 17%. The property is located in an established neighborhood, and such appreciation estimates are considered conservative. The after-tax yield of 17% is judged to be an adequate return for the risk taken in this investment based on risk-free investments like Certificates of Deposit which yield approximately 11%. Considering the current mood of the most probable buyer group, such returns are acceptable. The average debt cover ratio of 1.27 is considered palatable for institutional lender requirements. With the added incentive of seller financing, it seems likely that investors would pay $450,000 with cash dividends of approximately 10%. The most probable price of $450,000 passes the minimum tests of a risk investment for an investor-purchaser in a five-year holding period.

EXHIBIT 35

MARKET RENTS REQUIRED BY MOST PROBABLE PURCHASE PRICE OF $450,000

Capital Budget		
Probable purchase price		$450,000
Minimum renovation budget		494,000
Total capital investment		$944,000
Minus mortgage at a 70% loan-to-value ratio		660,000
Total cash equity		$283,200
Operating Budget		
Annual debt service (70% L-T-V, 14% i, 25 yr. term, mortgage constant of .145498)		$ 96,145
Debt cover ratio NOI required		1.3
Net operating income required		$ 24,988
Plus:		
Real estate taxes (22 mills on 601,000)	$20,000	
Special assessments (annual 10-yr. payment)	5,507	
Operating expenses (Scenario 3)	26,227	
Vacancy allowance (Scenario 3)	22,348	74,082
Total minimum gross rents required		$199,070
Minus gross rents expected in Scenario 3		175,000
Equals deficit out of equity dividend		-24,070
Equity cushion .3 of debt service (107,133-82,410)		28,843
Cash for equity = 1.7%		$ 4,773

EXHIBIT 36

AFTER-TAX CASH FLOW PROJECTIONS

```
BUS $BFCF
VER 11/2/78

LATEST CHANGES & ADDITIONS:
1) 1976 LAW RE RECAPTURE OF EXCESS DEPRECIATION.
2) DEBT SERVICE RATIO & MTG BAL EACH YR-MODE M
3) SHORT FORM OUTPUT (EXCLUDES DATA SUMMARY) MODE PP

DO YOU WANT INSTRUCTIONS? N
1. ENTER PROJECT NAME? COMMERCIAL MARINE BANK
2. PROJECTION PERIOD:? 5
   TO REPEAT PREV YRS NOI FOR BAL OF PROJ ENTER 0
3. ENTER N,0,1,:
? 89300,93000,98500,103400,108500
4. VALUE:? 944000
5. MTG. RATIO, INT.,, TERM & NO. PAY/YR:
? .57,.14,25,12
6. IMP./TOTAL VALUE RATIO & IMP. LIFE:? .55,25
7. DEPRECIATION METHOD? 1
   IS OWNER A TAXABLE CORPORATION, Y OR N? N
8. ORDINARY INCOME TAX BRACKET & BRACKET IN YR OF SALE:? .3,.35
9. RESALE PRICE:? 1205000


I.R.R. BEFORE TAXES IS  15.0042 %.

AFTER TAX I.R.R. IS 13.0069 %.

AVERAGE DEBT SERVICE RATIO IS 1.26905
MODE:? P
```

EXHIBIT 36--continued

AFTER TAX CASH FLOW PROJECTION
COMMERCIAL MARINE BANK
06-Jan-81

DATA SUMMARY
****

VALUE:	$ 944000	MTG. AMT.:	$ 539080
NOI 1ST YR:	$ 89300	MTG. INT.:	14 %
ORG. EQUITY:	$ 405920	MTG. TERM:	25 YRS
IMP.VALUE:	$ 613600	MTG. CONST.:	.144451
INC. TX RATE:	30 %	IMP. LIFE:	25 YRS
SALE YR RATE:	35 %	OWNER:	INDIVIDUAL

YEAR	CASH FLOW	MTG. AMORTZ	BOOK DEP.	TAXABLE INCOME	INCOME TAX	AFTER TAX CASH FLOW
1	11574	2555	24544	-10416	-3126	14700
2	16074	2937	24544	-5534	-1661	17735
3	20774	3376	24544	-395	-120	20894
4	25674	3880	24544	5010	1503	24171
5	30774	4459	24544	10689	3207	27567
	$ 104870	$ 17207	$ 122720	$ -646	$ -197	$ 105067

DEP. METHOD: STRAIGHT LINE 1ST YR EQ. DIV: 2.8513 %

SALE PRICE	$	1205000
BASIS		821,280
CAPITAL GAINS		383,720
CAP GAINS TAX		67,151
EXCESS DEP TAX		0
MORTGAGE BALANCE		520,873
AFTER TAX EQ REV	$	616976

AVG DEBT SERV RATIO: 1.27

IF PURCHASED AS ABOVE, HELD 5 YEARS & SOLD FOR $ .1205E 7 THEN
I.R.R. IS 15.0042 % BEFORE TAXES; 13.0069 % AFTER TAXES.

NO REPRESENTATION IS MADE THAT THE ASSUMPTIONS RELATIVE TO
CURRENT TAX PROVISIONS USED IN THIS PROJECTION WILL BE
ACCEPTABLE TO TAXING AUTHORITIES.

EXHIBIT 36--continued

MODE:? M

MORTGAGE ANALYSIS
COMMERCIAL MARINE BANK
****

YEAR	N.O.I.	DEBT SERV	DEBT SERV RATIO	MTG BAL
1	$89,300	$77,726	1.15	$535,525
2	93,800		1.21	532,588
3	98,500		1.27	529,212
4	103,400		1.33	525,332
5	108,500		1.40	520,873
AVG.	$98700		1.27	

MODE:? D

DEPRECIATION SCHEDULE
****

YEAR	BOOK DEP.	S.L. DEP.	EXCESS DEP	BALANCE
1	24544	24544	0	589056
2	24544	24544	0	564512
3	24544	24544	0	539968
4	24544	24544	0	515424
5	24544	24544	0	490880
	122720		0	

EXHIBIT 36--continued

PP

YEAR	CASH FLOW	MTG. AMORTZ	BOOK DEP.	TAXABLE INCOME	INCOME TAX	AFTER TAX CASH FLOW
1	11574	2555	24544	-10416	-3126	14700
2	16074	2937	24544	-5534	-1661	17735
3	20774	3376	24544	-395	-120	20894
4	25674	3880	24544	5010	1503	24171
5	30774	4459	24544	10689	3207	27567
	$ 104870	$ 17207	$ 122720	$ -646	$ -197	$ 105067

DEP. METHOD: STRAIGHT LINE 1ST YR EQ. DIV: 2.8513 %

SALE PRICE	$	1205000
BASIS		821,280
CAPITAL GAINS		383,720
CAP GAINS TAX		67,151
EXCESS DEP TAX		0
MORTGAGE BALANCE		520,873
AFTER TAX EQ REV	$	616976

AVG DEBT SERV RATIO: 1.27

```
MODE:? C
ENTER INPUT LINE NO. TO BE CHANGED:? 9
NEW RESALE PRICE:? 1387000
ENTER INPUT LINE NO. TO BE CHANGED:?

I.R.R. BEFORE TAXES IS  19.9835 %.

AFTER TAX I.R.R. IS 17.4888 %.

AVERAGE DEBT SERVICE RATIO IS 1.26985
MODE:? Q
Stop at line 4420

Ready
```

V. APPRAISAL CONCLUSIONS AND LIMITING CONDITIONS

A. Value Conclusion

An appropriate benchmark for the cash sales price of the subject property can be derived from Ratcliff's "most probable selling price" definition of value:

> The most probable selling price is that selling price which is most likely to emerge from a transaction involving the subject property if it were exposed for sale in the current market for a reasonable period of time at terms of sale which are currently predominant for properties of the subject type.

To proceed with this approach to value, it was determined that market transactions in the area of the Square and State Street Mall have been predominantly land contracts or some similar form of seller financing.

> On this basis, the conclusion is that the most probable selling price is $450,000, with seller financing (purchase money mortgage) at 12% interest rate and 20-30% paid down at a 10-year term, 25-year amortization.

The sales price might possibly dip below this amount if the negotiating posture of seller or purchaser changes as noted in the body of the report. These changes could stem from changes in the ability of buyers to negotiate favorable financing or the risks perceived in potential rents and in renovation costs.

I therefore conclude that the most probable price of a seller-financed sale is $450,000 with an upper range of $465,000 with the seller providing more liberal financing, and a lower range of $435,000.

B. Certification of Independent Appraisal Judgment

I hereby certify that I have no interest, present or contemplated, in the property and that neither the employment to make the appraisal nor the compensation is contingent on the value of the property. I certify that I have personally inspected the property and that according to my knowledge and belief, all statements and information in this report are true and correct, subject to the underlying assumptions and limiting conditions.

Based on the information contained in this report and on my experience as an appraiser, my opinion is that the most probable selling price, as defined herein, of the subject property is

FOUR HUNDRED FIFTY THOUSAND DOLLARS ($450,000)

assuming that current market conditions continue and the seller will accept financing at 12% interest on a purchase money mortgage of 10-year term. A cash transaction would range as low as $435,000; more liberal terms could lead to a price as high as $465,000.

Wayne E. Reisenauer

Wayne E. Reisenauer

January 14, 1981

Date

C. Statement of Limiting Conditions

This appraisal has been made subject to certain conditions, caveats, and stipulations, either expressed or implied. These include the following:

1. Contributions of Other Professionals

   - Because engineering studies were not provided, the appraiser applied limited structural analysis to the problem, and cost estimates must be considered nonprofessional.

   - The appraiser assumes no responsibility for legal matters. The appraiser has assumed that existing nonconformity with fire codes will prevent occupancy of the second and third floors of the three-story structure. Use of the property as is will provide occupancy for the remaining portion of the property.

   - No accounting records of monthly operating costs were available. Minimal remodeling and energy costs supplied by the building manager were used in a limited capacity for estimating repair and operating expenses. Expenses were estimated to be appropriate for skillful management of the property but are not historically based.

2. Facts and Forecasting Under Conditions of Uncertainty

   - Information furnished by others in this report is believed to be reliable but is in no sense guaranteed by the appraiser. The computer program of Marshall and Swift which was used for all remodeling cost estimates is considered acceptable for the

purposes of this report. This computer model along with MINITAB and BFCF provide much of the math work. The arithmetic was hand-checked for accuracy but the appraiser cannot guarantee program infallibility.

- All information furnished regarding the property for sale, rentals, financing, effective market analysis, or projections of income and expenses are from sources deemed reliable. No warranty is made as to the accuracy thereof, and it is submitted subject to errors, omissions, and change that might have occurred subsequent to its collection.

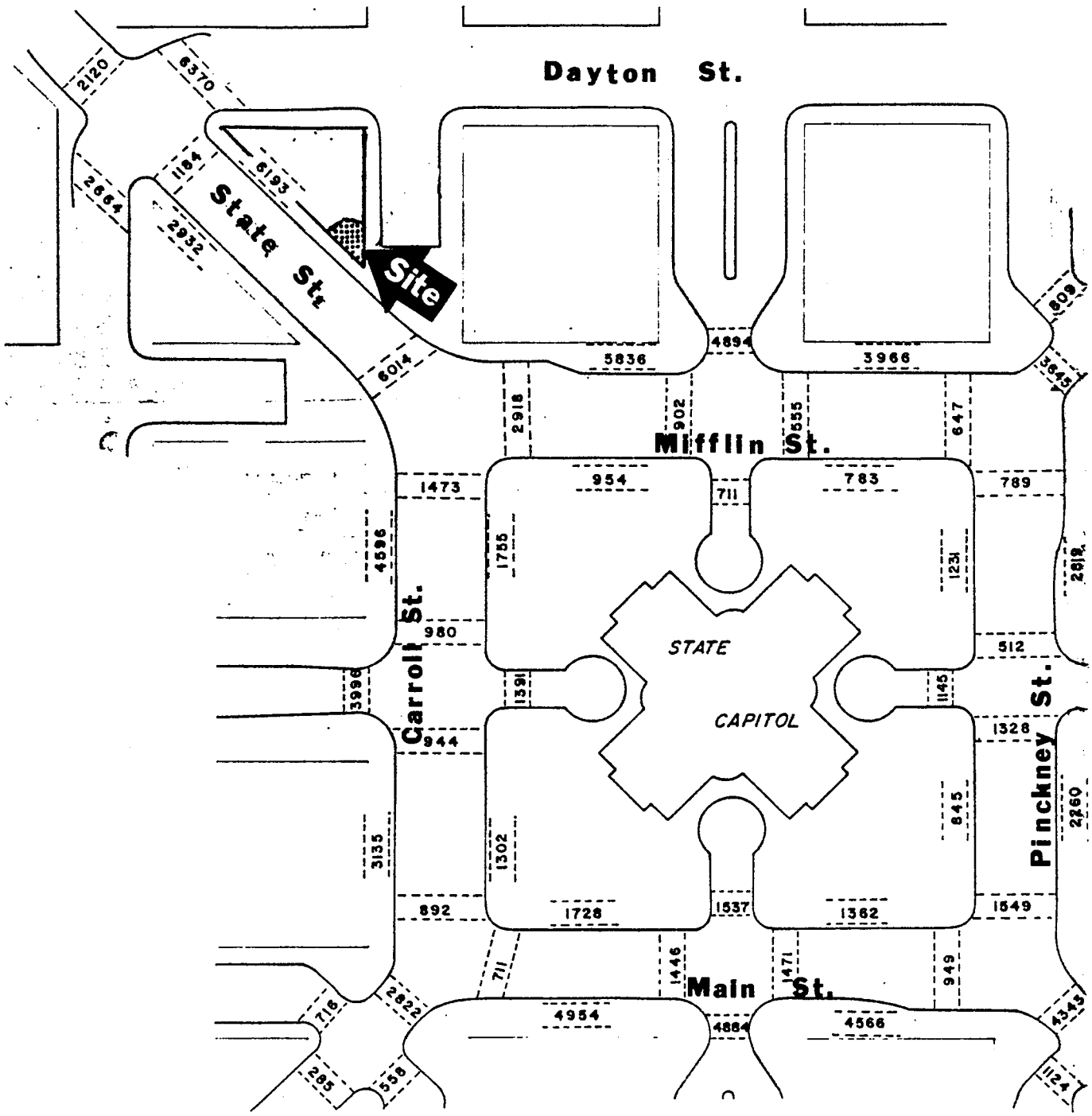
3. Assumptions Applied by Client

- The client has provided no direct information as to constraints or purpose. The appraisal was permitted as a graduate class problem by the Commercial Marine Bank. No fees were paid and all information was collected by graduate students from publicly available information. It was not possible to inspect the basement or the second and third floors of the three-story structure; nor was it possible to inspect interiors of comparable sales.

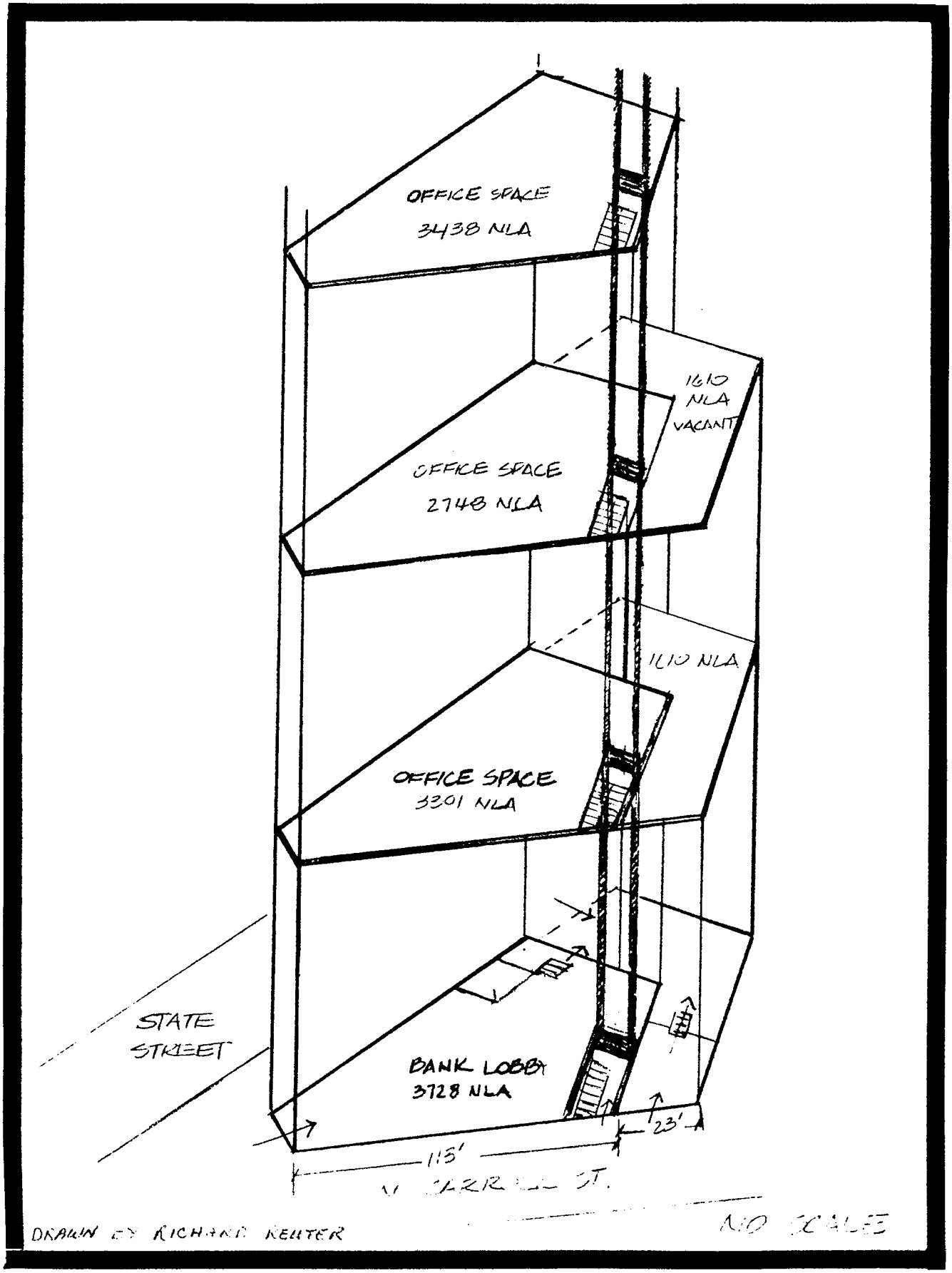
APPENDICES

APPENDIX A

PEDESTRIAN COUNTS



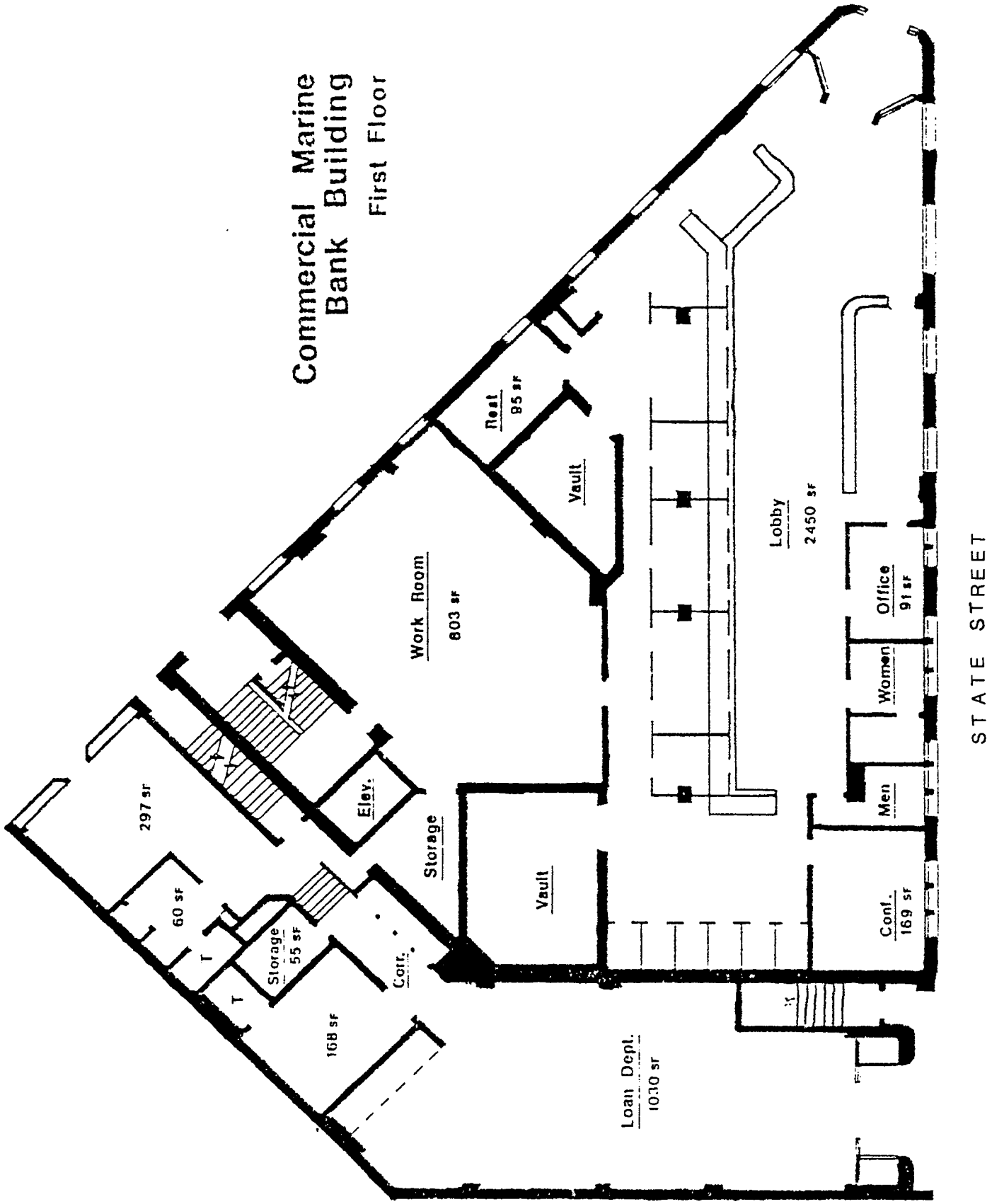
SOURCE: Department of Transportation
June and July 1979, Monday-Friday 7 A.M.-6 P.M.



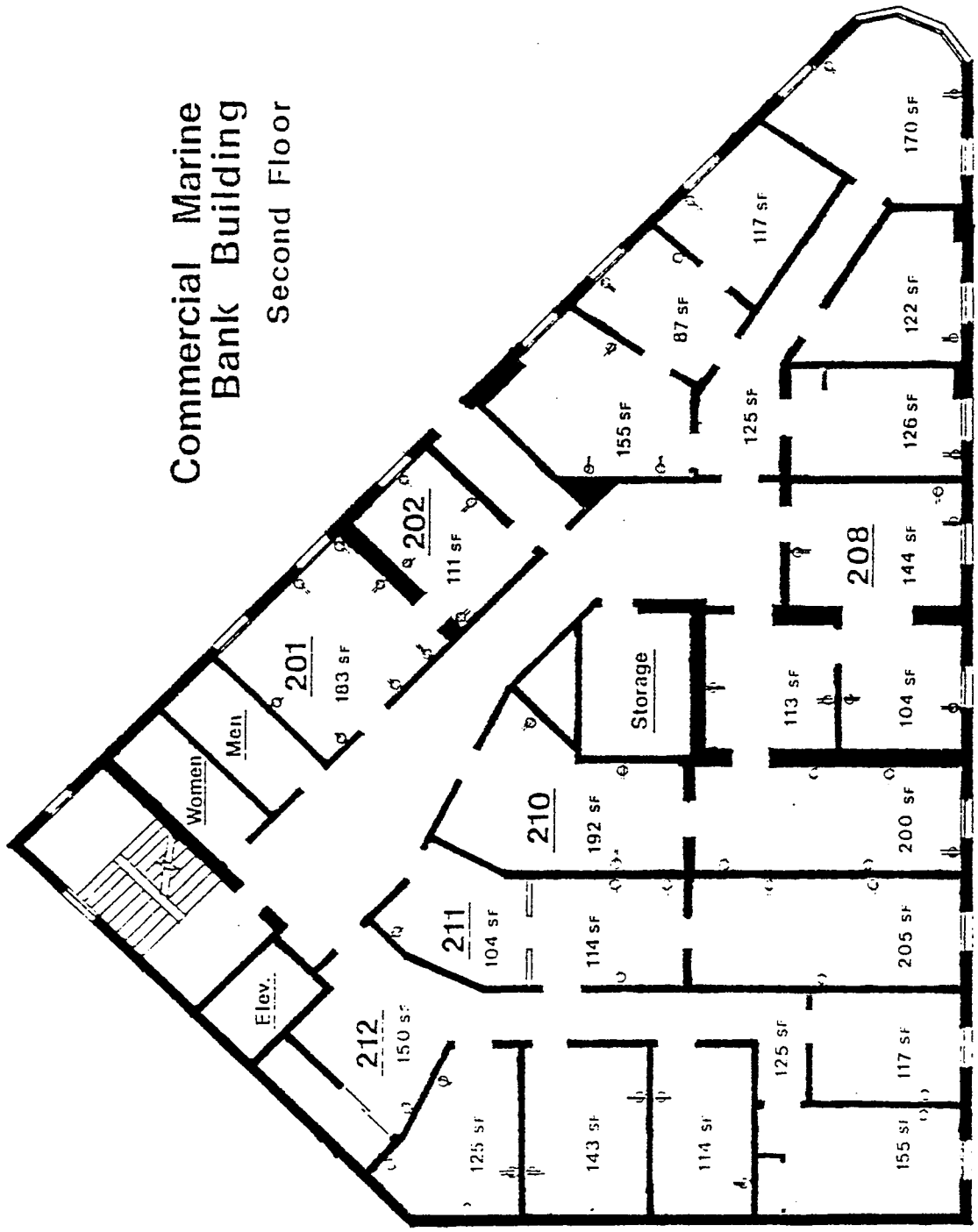
VERTICALLY EXAGGERATED ISOMETRIC DRAWING OF SUBJECT PROPERTY

APPENDIX B

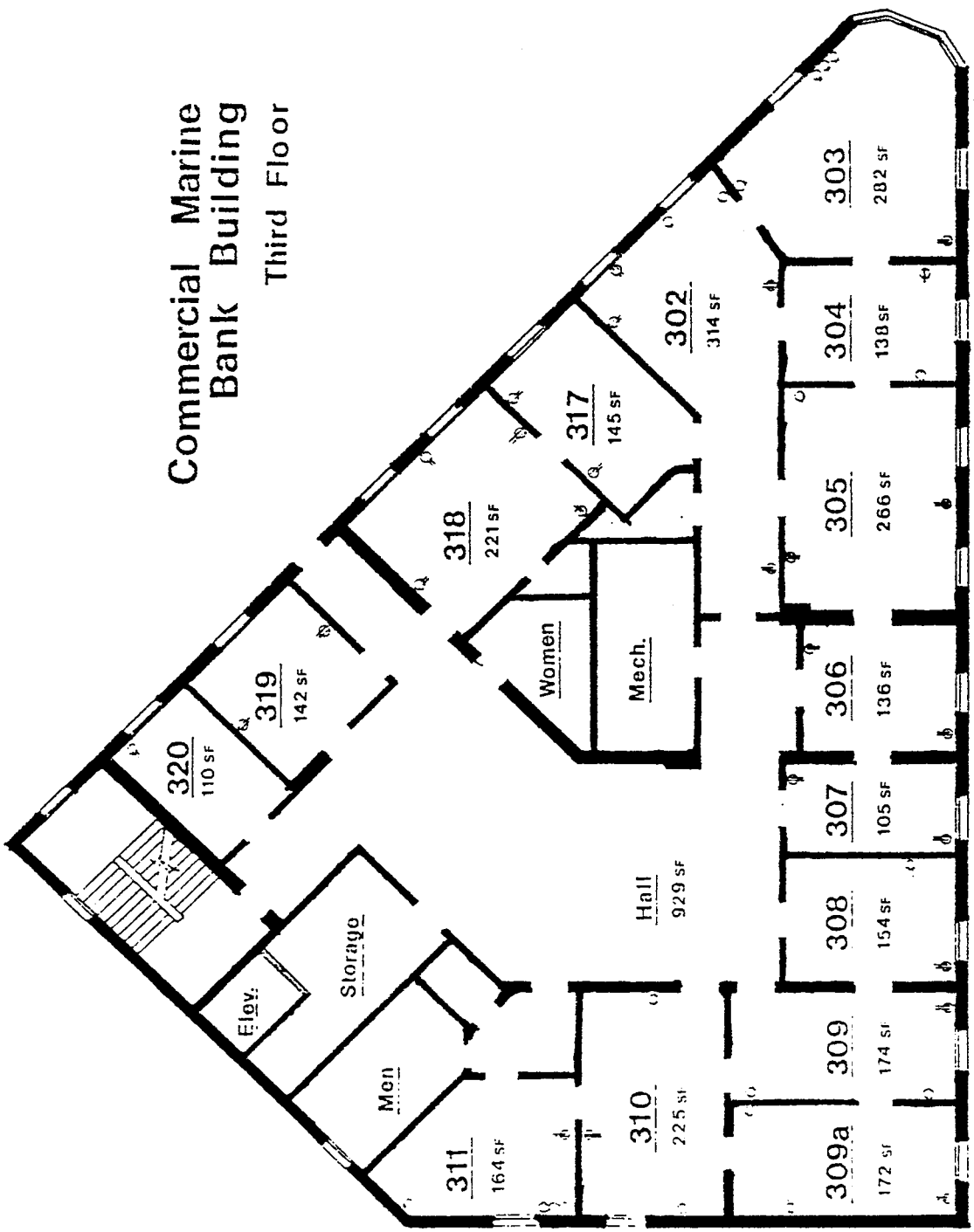
FLOOR PLANS



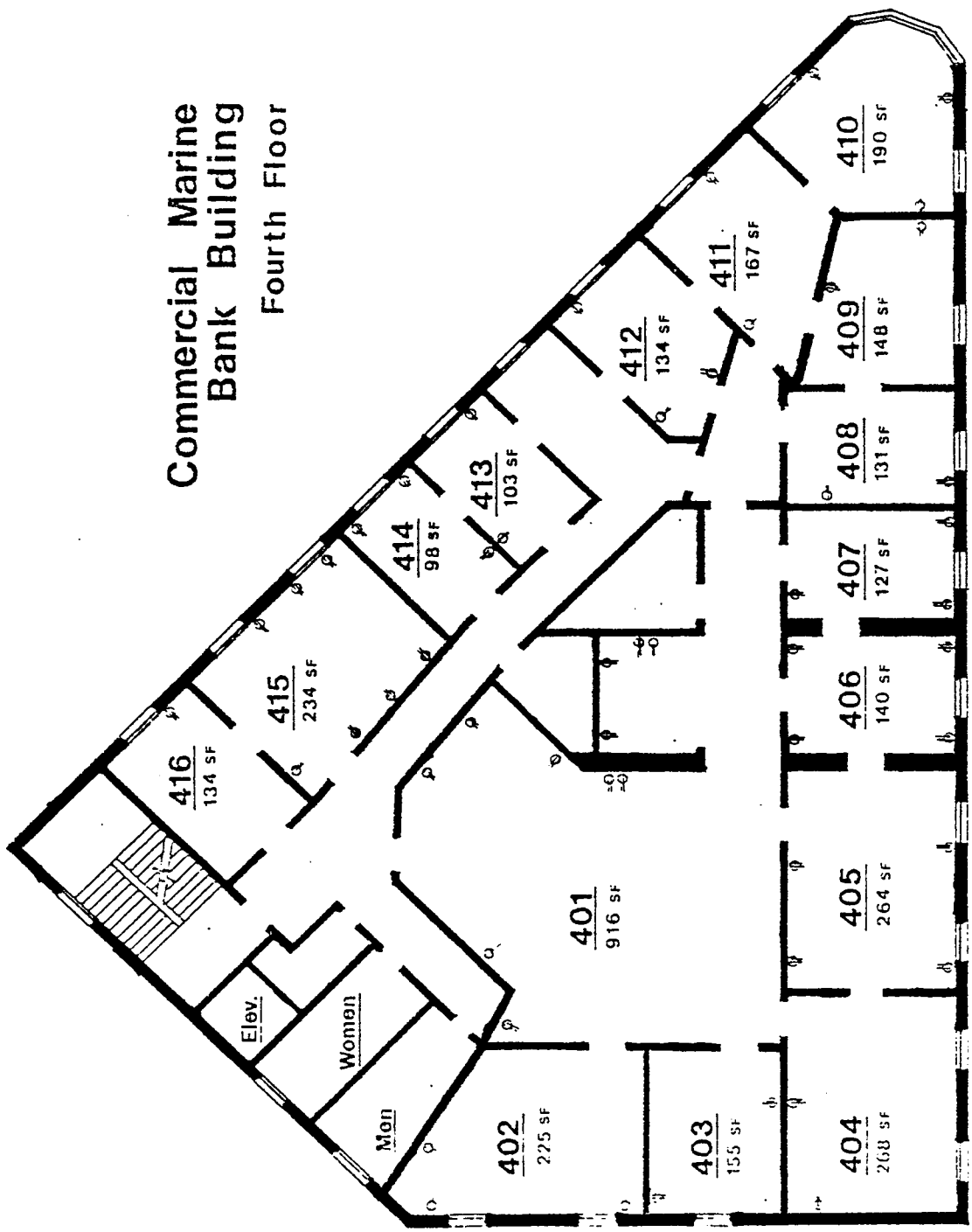
APPENDIX B--continued



APPENDIX B--continued

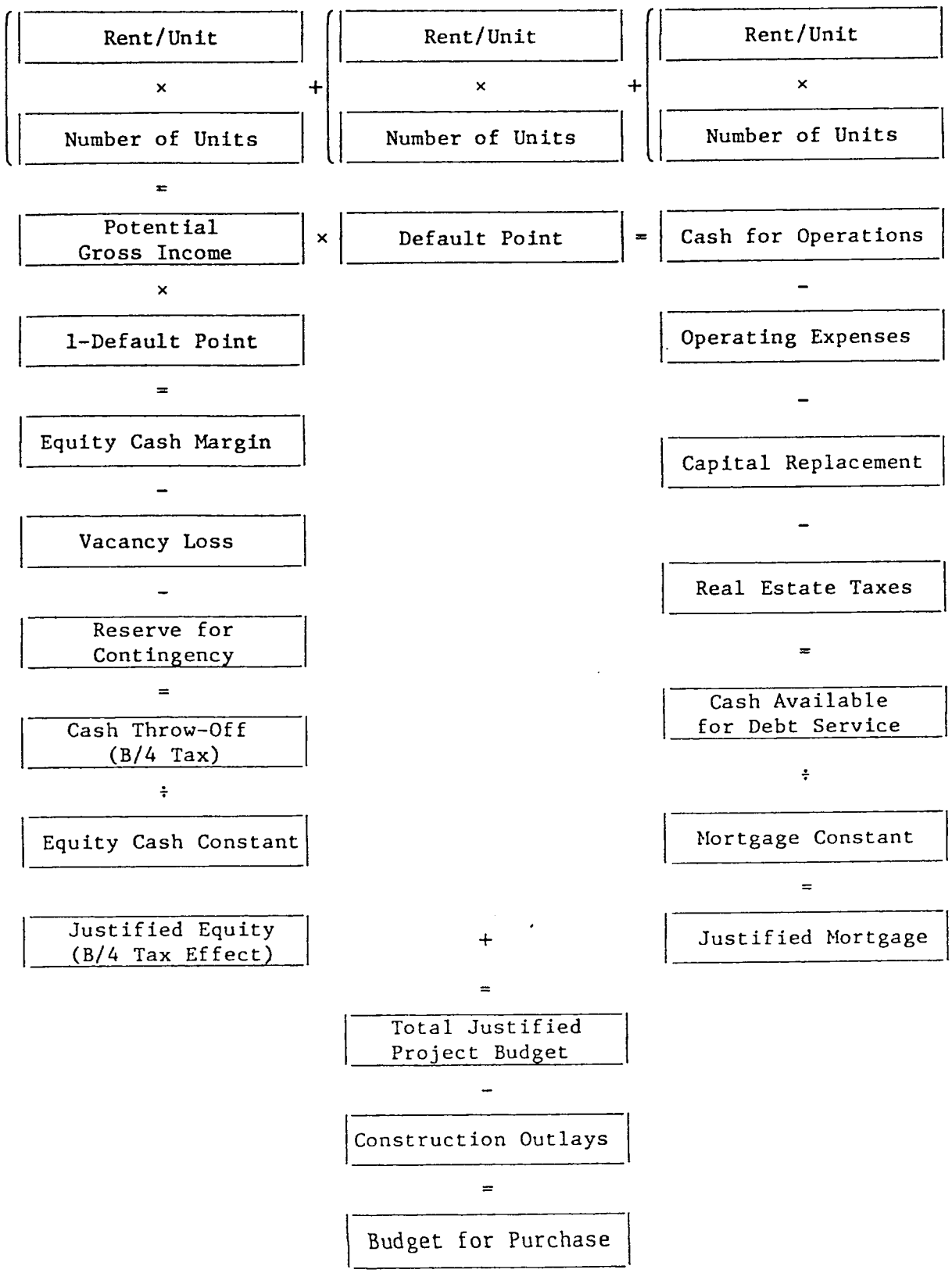


APPENDIX B--continued



APPENDIX C: SCENARIOS 1-4

BASIC LOGIC FOR RANKING ALTERNATIVE PROGRAM SCENARIOS BY JUSTIFIED PURCHASE BUDGET



SCENARIO 1

NO RENOVATION

1. PROGRAM:

   Both buildings remain as they presently exist, no renovation planned.

2. REVENUE UNITS:

   1st floor office: 5200 sq. ft.
   2-4th floor office: 9300 sq. ft.
   2-3rd floor 114 State St. left vacant

3. CAPITAL OUTLAYS:

   None required for use as is.

4. POTENTIAL REVENUE:

Office space, 9300 sq. ft. @ $6.50/sq. ft.	$60,450
1st floor office, 5200 sq. ft. @$ 9 /sq. ft.	46,800
Vacancy losses (1.5 mo. of total GLA @ $6.50/mo.)	11,781
	$95,469

5. PROJECTED ANNUAL EXPENSES:

Real estate taxes (18% of gross rent)		19,305
Special assessments		
Capital cost	$1,700	
Maintenance cost (1982 due date)	3,807	5,507
Operating expenses paid by landlord: 45% of gross rent		48,263
		$73,075

6. TERMS OF FINANCING:

   25 yr., 14%, mortgage constant = .145498

SCENARIO 1

NO RENOVATION

R/U 6.50/sq. ft.		R/U $9.00		R/U				
×	+	×	+	×				
N/U 9300 sq. ft.		N/U 5200 sq. ft.		N/U				
=								
GI 107,250	×	DP .85	=	Cash 91,162				
×				−				
1-DP .15				OE 48,263				
=				−				
ECM 16,087				CR 5,507				
−				−				
VAC 11,781				RET 19,305				
−				=				
RES 2,249				CDS 18,087				
=				+				
CT 2,057				MC .145498				
+				=				
EC .11				JM 124,311				
=								
JE 18,704		+						
		=						
		JPB 143,015						
		−						
		CO						
		=						
		BP 143,015						

SCENARIO 2

MINIMAL RENOVATION

1. PROGRAM:

Remodel 114 for retail and apartment use; 102 minimal office remodeling.

2. REVENUE UNITS:

114 1st floor retail GLA: 1600 sq. ft.
114 2-3rd floor apt. GLA: 3400 sq. ft.
102, 1-4th floor office GLA: 12,800 sq. ft.

3. CAPITAL OUTLAYS:[a]

Plumbing	$ 12,000
HVAC	25,000
Electrical	23,000
Roof (114 State St.)	4,000
Remodeling (114 & 102)	112,000
Total	$176,000

4. POTENTIAL REVENUES:

114 retail space (1600 sq. ft. @ $9/sq. ft.)	14,400
114 apt. space (3400 sq. ft. @ $ .50/sq. ft./mo.)	20,400
102 office space (12,800 sq. ft. @ $7.50/sq. ft.)	96,000
Total	$130,800

Vacancy losses:	
102 office space (1 mo. GLA @ $7.50)	8,000
114 apt. space (1.5 mo. GLA @ $ .50)	2,550
114 retail space (2 mo. GLA @ $9.00)	2,400
Total	$ 12,950

5. PROJECTED ANNUAL EXPENSES:

Real estate tax (18% of gross rent)	23,544
Special assessments	5,507
Operating expenses paid by landlord: (30% of gross rent)	39,240
Total	$ 68,291

6. TERMS OF FINANCING:

25 yr., 14%, mortgage constant = .145498

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[a]Marshall and Swift Computer Cost Valuation Service.

SCENARIO 2

MINIMAL RENOVATION

R/U $9/sq. ft.		R/U $ .50/sq. ft.		R/U $7.50/sq. ft.				
×	+	×	+	×				
N/U 1600 sq. ft.		N/U 3400 sq. ft.		N/U 12,800 sq. ft.				
=								
GI $130,800	×	DP .85	=	Cash $111,180				
×				−				
1-DP .15				OE 39,240				
=				−				
ECM 19,620				CR 5,507				
−				−				
VAC 12,950				RET 23,544				
−				=				
RES 3,042				CDS 42,889				
=				÷				
CT 3,628				MC .145498				
÷				=				
EC .11				JM 294,773				
=								
JE 32,981		+						
		=						
		JPB 327,755						
		−						
		CO 176,000						
		=						
		BP 151,755						

SCENARIO 3

MAJOR RENOVATION

1. PROGRAM:

Major renovation of both buildings: 114 second and third floor residential as in Scenario 2, 102 State Street revamp of offices 2nd through 4th floors; retail 1st floor 114; office 1st floor 102

2. REVENUE UNITS:

1st floor office & retail: 5270 sq. ft. GLA
102, 2nd-4th floors offices: 10,710 sq. ft. GLA
114, 2nd-3rd floor apts. 3,400 sq. ft. GLA

3. CAPITAL OUTLAYS:[a]

Apt. renovation from Scenario 2	$ 94,000
Plumbing	54,000
HVAC	76,000
Electrical	88,000
Remodeling	182,000
Total	$494,000

4. POTENTIAL REVENUES:

102 office space (10,710 sq. ft. @ $9.50/sq. ft.)	$101,745
114 apt. space (3400 sq. ft. @ $ .50/sq. ft./mo.)	20,400
1st fl.office & retail (5270 sq. ft. @ $10/sq. ft.)	52,700
Total	$174,845

Vacancy:

Retail (2 mo. GLA @ $10)	$ 8,780
102 office (1.5 mo. GLA @ $9.50)	12,718
114 apt. (1 mo. GLA @ $ .50/sq. ft.)	850
Total	$ 22,348

5. PROJECTED EXPENSES:

Real estate tax (18% of gross rent)	$ 31,472
Special assessments	5,507
Operating expenses paid by landlord (15% of gross rent)	26,227
Total	$ 63,206

6. TERMS OF FINANCING:

25 yr., 14%, mortgage constant = .145498

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[a]Marshall & Swift Computer Cost Valuation Service.

SCENARIO 3

MAJOR RENOVATION

1st fl.office & retail		102 Office		114 Residential
R/U $10/sq. ft.		R/U $9.50/sq. ft.		R/U $ .50/sq. ft./mo.
×		×		×
N/U 5270 sq. ft.	+	N/U 10,710 sq. ft.	+	N/U 3,400 sq. ft.
=				
GI $174,845	×	DP .80	=	Cash $139,876
×				−
1−DP .20				OE 26,227
=				−
ECM 34,969				CR 5,507
−				−
VAC 22,348				RET 31,472
−				=
RES 3,606				CDS 76,670
=				×
CT 9,015				MC .145498
×				=
EC .06				JM 526,949
=		+		
JE 150,250		=		
		JPB 677,199		
		−		
		CO 494,000		
		=		
		BP 183,199		

SCENARIO 4

MAJOR RENOVATION

1. PROGRAM:

Similar to Scenario 3 except top floor renovated as apartment units.

2. REVENUE UNITS:

102 2nd & 3rd floor office: 7140 sq. ft. GLA
Apartments: 12 units, 7600 sq. ft. GLA
1st floor retail: 1600 sq. ft. GLA

3. CAPITAL OUTLAYS:[a]

114 apartment renovation (Scenario 2)		$ 94,000
Office rehab. (Scenario 3 10,200 sq. ft. @ $32)		326,000
Apartment Renovation: (102 State)		
Plumbing	$ 17,000	
HVAC	20,000	
Electrical	13,000	
Roof and insulation	4,000	
Remodeling	71,000	125,000
Total		$545,000

4. POTENTIAL REVENUES:

Retail: 1600 sq. ft. @ $10		16,000
Office: 102 office (10,200 sq. ft. @ $9.50)		96,900
Apartments: 12 units @ $230/bdrm/month (8 2-bedroom, 4 1-bedroom)		55,200
Total		$168,100
Vacancy:		
Retail (2 mo. GLA @ $10)	$ 2,700	
102 office (1.5 mo. GLA @ $9.50)	12,113	
Apartments: 1 unit for 2 mo.	1,840	16,653

5. PROJECTED ANNUAL EXPENSES:

Real estate taxes (18% of gross)	$ 30,258
Special assessments	5,507
Operating expenses paid by landlord (15% of gross rent)	25,215
	$ 60,980

6. TERMS OF FINANCING:

25 yr., 14%, mortgage constant = .145498

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[a]Marshall & Swift Computer Cost Valuation Service.

SCENARIO 4

MAJOR RENOVATION

R/U		R/U $10/sq. ft.		R/U $9.50/sq. ft.
×	+	×	+	×
N/U $55,200		N/U 1600 sq. ft.		N/U 7140 sq. ft.
=				
GI 168,100	×	DP .80	=	Cash 134,480
×				−
1-DP .20				OE 25,215
=				−
ECM 33,620				CR 5,507
−				−
VAC 16,653				RET 30,258
−				=
RES 3,775				CDS 73,500
=				+
CT 12,878				MC .145498
+				=
EC .07				JM 505,161
=				
JE 183,971		+		
		=		
		JPB 689,132		
		−		
		CO 545,000		
		=		
		BP 144,132		