

JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

II. CLASSES AT THE UNIVERSITY OF WISCONSIN--MADISON

J. Business 761: Real Estate Feasibility Research

3. Case Study Example: "Feasibility of Commercial Development as Part of Parking Ramp Proposed for Mifflin-Butler Site"

761

FEASIBILITY OF COMMERCIAL DEVELOPMENT AS PART OF PARKING RAMP
PROPOSAL FOR MIFFLIN-BUTLER SITE

Strategic Objectives of City of Madison

Provision for salable development rights in the design of an 800-car parking ramp for the 70,000 sq. ft. city-owned site bounded by E. Mifflin, N. Webster, and N. Butler Street should achieve the following objectives for the City:

- A. Reduce the immediate net capital costs of the parking facility to the city parking utility.
- B. Create tax assessment base in a relatively high land value area presently producing no real estate tax revenue for the City.
- C. Generate retail sales for retailing facilities along Mifflin St. and the Square to support the present tax base.
- D. Stimulate further private development of the Square area not presently developed and not a candidate for state office development.
- E. Encourage use of the parking ramp by State Capitol building personnel to discourage further considerations of parking around or under the base of the Capitol Building as 800 stalls not all required for shopping.

Physical Attributes of Subject Site

Dominant characteristic of the subject site is a steep pitch in grade and in market value down from Mifflin St. to its diagonal border on N. Hamilton St.

- A. Mifflin St. frontage is only slightly below the grade of Pinckney St. frontage on the Square, and has visual and physical access to retail district on the Square, E. Washington Ave. one block south and uphill on Webster St., and to the proposed addition to the First National Bank.
- B. Traffic south on Webster is fed by E. Dayton St. and N. Hamilton St. as a bypass of the Square. Similarly, Butler St. carries traffic from E. Washington to Johnson St. to the north. Mifflin St. traffic is primarily generated by people seeking access or exit from the Square.
- C. Therefore Butler and Webster Streets and heavy traffic on

N. Hamilton St. suggest these are most important entrances to a parking lot.

- D. Heaviest pedestrian traffic is kitty-corner across N. Pinckney between Emporium and YWCA corners. Second most significant pedestrian crossings are from Emporium east on Mifflin St. and the YWCA across Mifflin St. moving towards subject site. Mifflin St. frontage is best for pedestrian access.
- E. Steep pitch means difference of 31 ft. at low point of present site on Butler St. Compared to high point at E. Mifflin and Webster, but the square city parcel does not include properties in the triangular tip formed by the sheer concrete wall to the old houses and low rise apartment buildings on the remainder of the block.
- F. The site is transitional in use from commercial-retail toward the Square and high density residential down Hamilton St. or beyond Butler St. and could emphasize either the residential or commercial linkages with contiguous property.
- G. Pedestrian access from the Square to the ramp is threatened by heavy traffic on Webster St., either at Hamilton where traffic may be entering Webster from three different directions or at Mifflin where traffic is accelerating for the hill, particularly in winter driving conditions.

Legal Constraints on Subject Site

Development of air rights over the subject site is clouded by a variety of legal issues, all introducing contingencies which at best delay any immediate city advantage from the additional cost of structural supports for air right development and which may make it impossible in the foreseeable term.

- A. Parking utility bonds, specifically the 1957 issue, prevent the leasing or sale of utility property unless it is clearly surplus.
- B. State statutes do not permit a municipality to sell or lease air rights, a minor flaw in municipal powers which can be corrected by legislative action.
- C. Insurance company loan departments, the most probable source of funds for commercial development of the air rights, expect to participate in gross rents or as actual partners in net worth to enjoy a hedge against inflation and participation in a speculative project with good potential or with eventual ownership of the land.

1. Second-rate office space or motel space would not bring prime rents in which to participate with bonus interest, and a lease of air rights would never provide eventual ownership of the land.
2. An average office building on air rights may not require the developer to have any significant front money so it is difficult for the developer to find advantage in a joint venture or "land" equity for a joint venture.

Tax Base Attributes of Subject Site

The City of Madison owns all of the block 110 except Lots 1, 2, 3, 4, 13, and 14. 35,750 sq. ft. of the triangle formed by Hamilton St., Butler St., and the north lot line of the City represents a present assessed value of land of \$81,850, improvements of \$106,450, and a total value of \$188,300.

- A. Market value of this triangle may currently be \$7.50-9.00 per sq. ft., with improvements.
- B. Land beneath the 30-on-the-Square Building is assessed at \$198,200 and there is an assessment on improvements of \$800,00 for a total of \$998,200.
- C. Land beneath the new National Motel at 350 W. Washington Ave. is assessed at \$115,850 with another \$389,000 assessed to improvements for a total of \$505,000
- D. New highrise apartment buildings produce about \$6,000 of assessed value per apartment unit so that 200 apartments on a 70,000 sq. ft. site would create \$1.2 million in assessed value.
- E. Any type of major apartment building, office building, retailing building, or motel would increase the total assessed value for the subject block by at least three to six times its present value and increase city tax revenue by a minimum of \$15,000 per year and possibly by as much as \$70,000.
- F. On the other hand, if the present taxable parcels are left unchanged, the tax base will decline, as these areas are blighted by the mass of the parking ramp and the difficulty of selling a triangular shaped parcel.

Attributes of Parking Ramps and Air Right Support Requirements

The term "air rights" is a euphemism for the right to build a platform to support one structure above another requiring use of the

surface of the land. In general, these have been sold over railway track, highways, or alleys which required only the use of the surface to a certain height. Such a technique is only feasible when the costs of building a platform structure and access for people, freight, and utilities are less than the cost of land that does not have other uses on its surface which could not be re-located.

- A. The base structure required by the Madison Parking Utility for a parking ramp is unsuitable for the base structure required of an office building, an apartment building, or a motel, so that the smaller column spacing of these uses would necessitate a heavy base long-span beam which would increase the cost of such a platform enormously.
- B. Utility chases, elevator shafts, lobbies, all conflict with the basic structural pattern of a parking ramp. These factors increase costs of a basic parking ramp structure initially and at best could be shifted (including accrued interest cost) to a developer at a future time. The developer would also have to pay the additional costs of providing utilities and elevators at the story height at which he could begin building his investment proposal. These additional costs are similar to off-site improvements when compared to alternative land prices. As a result, building potentials on air rights will sell for significantly less money than comparable vacant land which does not have such "off-site" costs for development.
- C. Air rights in other communities have typically involved railroad tracks, highways, or sites with abrupt changes in grade so that buildings constructed on these air rights have been at street grade at one or more facades of the structure. The pedestrian arriving at the building may be unaware of the fact that the street itself is a bridge over rail tracks below (Park Avenue office buildings, for example, or the Prudential Building in Chicago).
 - 1. On the other hand, in Cincinnati, a motel atop a parking ramp and department store has failed because passersby at street level do not have adequate notice of its existence. (Out of sight-line, out of mind may be the rule for pedestrians and car traffic.)
 - 2. In Milwaukee, office space placed on top of a parking ramp at Plankinton and Michigan Avenue rents at a discount, and conversely a shopping center placed below L'Enfant Square is languishing in the center of a major office complex because the shoppers do not know it is there.
 - 3. Experience shows that air right developments have marginal value where the structure does not have significant visual

frontage at grade above the surface rights and the proposal by the City does not provide a satisfactory solution to this problem on the Mifflin St. frontage.

- D. Air rights have been developed in other communities only after other premium sites are no longer available (for example, Chicago) or when the linkages provided by the sub-air rights make the location uniquely convenient (for example, the Pan American Building above New York Central Station). The subject site in the City of Madison is neither unique in its convenience of access nor in terms of supply of alternative sites. (For example, the Fess Hotel-Badger Furniture site or the Wilson St. site of Investment Services Inc. have better commercial linkages and there are better motel sites in town as well.)

Potential Uses of Air Rights Site

Initial development proposals called for one or more structures for an office building, a motel, or possibly an apartment building.

- A. Motels either serve traffic for an overnight while passing through (such a a motel at an interstate interchange) or terminal traffic generated by one or more nearby attractions.
1. The park Motor Inn serves the business and legislative complex and is strategically placed at the highest pedestrian count corner in the commercial-legal area of the Square. However, this business peaks on Tuesday, Wednesday, and Thursday and it does not do very well on the weekends, so that its average occupancy rate, while good, is not spectacular.
 2. The Madison Inn on Langdon and Frances Streets serves the University Center during the week and student parents and other visitors on weekends so that its average occupancy is the highest in the city.
 3. Therefore, it is necessary that a motel lie between a number of generators of terminal traffic which have different peak demand periods during the week. The subject site does not have such characteristics, while several other sites do, so that it does not currently represent a significant alternative for those who would build a motel.
- B. Office use on the Square by private tenants is directly keyed to the City-County Building, the Madison Club, or banking and

investment. The subject site is more remote from any of these elements than any other site available within two blocks of the Square. As noted above, there are several more preferable office building sites remaining on or near the Square and there are at least three rental office building projects in the advanced stages of planning. The linkages of the site and the timing are inappropriate for an office building for private tenants.

1. Space for rental to the State, or indeed for use by City government itself, must rent at some discount from market prices on new structures. The private developer for this market would need to economize on land and structure, as it would be almost impossible to build a new multi-story building to rent at \$4.50 per sq. ft. as might be expected from the public agencies above, unless the site were provided at no cost and it was not necessary to pay real estate taxes on "land" i.e. air rights. Nevertheless, the building improvements at \$20 per sq. ft. might produce \$12.50 per sq. ft. of assessed value so that 16,000 sq. ft. of space would exceed the present assessed value of all improvements on the Hamilton St. side of the site.
 2. As an alternative, the City and State might combine to build their own office space on this site rather than destroy the tax base at some other site near the Square. Destroying the tax base on one block is preferable to demolishing it on two when several public agency needs are present and all might be accommodated on the same site.
- C. An apartment building may have the best potential for immediate development of idle air rights or a site on the Mifflin St. side of a parking ramp. An apartment building could utilize space on top of the ramp for a private pool and garden area with attractive views toward the lake and with a minimum of structural conflict with the parking ramp. Mifflin St. frontage could provide a much-needed site for a food and drug store in the neighborhood. The developer could be given credit for the open space above the parking ramp without necessarily having to build above it.
1. The apartment developer needs credit for open space and gross square footage of his site, and yet he is paying from \$2500 to \$3500 for land per apartment in adjacent residential areas with less potential for views, convenience, or plottage potential.
 2. With approximately 100,000 usable sq. ft. in the total block, the apartment developer would need to purchase only 30,000 sq. ft. on Mifflin St. to be recognized as

having 30 per cent ground area coverage and could be allowed eight to ten floors to be provided a building to land ratio of 2.5. With a potential for at least 200 apartments plus a ground floor supermarket under the planned unit development provisions in the code, the developer should be willing to pay at least \$350,000 for such a building opportunity.

3. Without individual appraisals, it is difficult to forecast acquisition cost of remaining privately held properties but these could cost a total of \$375,000. Actual appraisals and a specific plan for Mifflin St. frontage would be necessary to determine a capital gain, if any, for the City for shifting the ramp downhill. A gain is probable, however, reducing net capital cost of the ramp.
4. 200 apartments might create assessed value in excess of \$1.2 million while the supermarket might represent an additional \$150,000 of assessed value for structure and personal property. Such figures are conservative in view of probable real estate construction costs in 1971 or 1972, which would be the soonest any such project could be realized.

Ethical and Esthetic Constraints

The City has a responsibility to the retail merchants who have invested heavily on the Mifflin St. side of the Square to provide parking convenience, to the residents on contiguous blocks to preserve neighborhood amenities, and to the general taxpayer to reduce construction costs of the land and increase city tax revenues.

- A. The parking ramp project has been delayed for several years by indecision on the part of the City. Acquisition of additional land at this time could delay construction six months to a year.
- B. Parking ramps and their immediate environs are often shunned by many people in the evening hours due to the fear that the ramp provides shelter for those who engage in purse snatchings and other assaults and because ramps are often vacant and gapingly unattractive for long stretches of the evening and weekends.
- C. Having converted automobile drivers to pedestrians by creating a parking point, it is necessary to provide safety and convenience for the pedestrian. It is a well-observed fact that shoppers and other users of parking seldom prefer to travel more than 600 ft. from auto to destination with a minimum of friction with other automobile traffic or of exposure to

weather.

- D. Promises made in 1956 or 1962 must be honored in a manner which is consistent with city debt constraints in 1970 and city revenue requirements in the foreseeable future, and the urgency of parking ramp construction must not be allowed to create an opportunity cost for the City of \$1 million of tax revenue and construction savings.

A Proposed Solution

Feasibility study is determination of a real estate problem solution which has the most reasonable likelihood of satisfying the objectives of the developer (in this case, the City) within certain limiting constraints and with best use of resources. In view of the objectives and the variety of constraints identified in this report, it is the opinion of the real estate graduate students in Business 760 and of their professor that the following proposal best fits a solution to the context of physical, technical, legal, ethical, and economic constraints which characterize the subject site proposed for a parking ramp by the City of Madison.

- A. It is first proposed to acquire the remaining parcels in the block on which the present 70,000 sq. ft. parking lot is located. Acquisition price has not been pinpointed but might be as high as \$400,000.
- B. A total site of 105,000 sq. ft. should provide a 70,000 sq. ft. parcel for a parking ramp with access to three heavy traffic streets at a variety of ground levels plus 5,000 sq. ft. open space at the point of the triangle plus a 30,000 sq. ft. site for sale with Mifflin St. frontage and air rights above part of the ramp if necessary for recreational open space.
- C. Under the planned unit development ordinances a current market could be found on the subject site for development of at least 200 apartments and a food store serving both the Square and contiguous residential communities. Sale of such a site with required zoning permits should bring \$350,000 or more.
- D. The assessed value of private improvements should be in excess \$1.4 million, seven times the assessed value of the old buildings now standing and any difference in acquisition cost and sales price should be covered by the first year increment in tax revenue.
- E. By sliding the parking ramp to the low point of Webster St. and Hamilton, it would then be possible to provide a covered

pedestrian bridge over Webster moving well up toward the Square on Hamilton St. to feed shoppers toward the retail district, safe from the Webster St. crossing, without the trudge uphill, and with shelter from the weather for at least that distance from ramp to shopping, which exceeds the typical comfort index of 400-500 ft.

- F. The City therefore has three choices: Choice #1--a standard parking ramp on the presently owned site without air rights; Choice #2--a parking ramp on the presently owned site modified to anticipate possible future development; or Choice #3--shifting the ramp downhill to permit commercial development of 30,000 sq. ft. of land fronting Mifflin St. Only Choice #3 meets all of the constraints bearing on the problem and falls within the limits of city capital resources and the need for city revenue. Thus Choice #3 is the only alternative which falls within the definition of what is feasible.

EVALUATION OF ALTERNATIVE PARKING
RAMP PROPOSALS FOR WEBSTER STREET SITE

CHOICE I	CHOICE II	CHOICE III
Standard parking ramps on currently owned City land without air rights.	Parking ramp modified to anticipate future development of air rights on present City-owned land	Standard parking ramp moved downhill toward Hamilton St. to release 30,000 sq. ft. of land fronting Mifflin St.

Strategic Objectives for City of Madison
and Parking Utility

A. Reduce the immediate net capital costs of the parking facility to the City parking utility?	No change	Increase Costs	Reduce Costs
B. Create tax assessment base in a relatively high land value area presently producing no real estate tax revenue for the City?	Reduce assessed values on block	Reduce assessed values	Increase assessed values by multiple of 4
C. Generate retail sales for retailing facilities along Mifflin St. and the Square to support the present tax base?	Stabilize	Stabilize	Increase

	I	II	III
	Possible	Discourage	Yes
D. Stimulate further private development of the Square area not presently developed and not a candidate for state office development?	No provision	No provision	Yes
E. Encourage use of the parking ramp by State Capitol building personnel to discourage further considerations of parking around or under the base of the Capitol Building?			
<u>Physical Attributes of Subject Site</u>			
A. Provides best auto entry to parking?	No	No	Yes
B. Provides best pedestrian access for those parking?	No	No	Yes
C. Provides safest and most useful facilities for pedestrians on Mifflin St.?	No	No	Yes
D. Recognizes building problems of triangular remainder?	No	No	Yes
<u>Legal Constraints of Subject Site</u>			
A. Limitation on leasing by present parking utility bond?	Not applicable	To wait for bonds to mature	Acquire additional lands and sell balance as surplus, which is permissible
B. Need for amendment of state statutes before development can occur?	N.A.	Yes	No
C. Fee title to attract or secure private development financing?	N.A.	No	Yes

<u>Tax Base Characteristics</u>	I	II	III
A. Direct planned increase in tax base?	No	No	Yes
B. Amenities compatible with existing contiguous tax base?	No	No	Yes
<u>Constraints of Air Right Development</u>			
A. Provides adequate ground level access and visibility?	N.A.	No	Yes
B. Eliminates conflict of overhead structure and utilities with parking ramp structure and flow?	N.A.	No	Yes
C. Is the nature of private development consistent with land use patterns investors find appropriate for use of air rights or for downtown Madison?	N.A.	No	Yes
<u>Potential Private Development Land Use</u>			
A. Can parking ramp be planned to be compatible with private development land use as required for efficient design?	N.A.	Future uses unknown	Future use known and without special demands on ramp structure
B. Does concept depend on speculative or marginal potentials for an office building or motel?	N.A.	Yes	No
C. Does proposed land use contribute needed retailing (food store) or bring new customers to downtown markets?	Don't know	Not for 10 years	Yes

	I	II	III
D. Does land use proposed take advantage of open areas above parking ramp without actually building above parking ramp?	No	No	Yes

Ethical and Esthetic Constraints

A. Does it provide for 800 parking spaces for Mifflin St. merchants without additional construction costs for the parking utility?	Yes	No	Yes
B. Does the plan further delay completion of the ramp for one year?	N.A.	No	Yes
C. Does it provide for the safety and preferences of those who use the parking ramp?	No	No	Yes
D. Does it provide for the safety and residential amenities of those who live beyond the parking ramp on Mifflin or Hamilton and related neighborhoods?	No	No	Yes
E. Does it have the potential to hold or reduce costs of construction per car stall provided?	N.A.	No	Yes
F. Does it provide immediate expectations (1971-72) of increased city tax revenues for modest relief of the city tax payer?	No	No	Yes

N. PINCKNEY

N. HAMILTON

777

E. DAYTON

2540

2874

676

599

365

42

715

134

H20

1767

10

1822

865

2792

7325

540

555

896

636

9634

1724

486

188

1140

448

461

N. WEBSTER

E. MIFFLIN