

JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS
II. CLASSES AT THE UNIVERSITY OF WISCONSIN--MADISON
P. Assorted Bits from Additional Classes Taught by
Graaskamp
10. Business 938 (Seminar--Urban Land Economics)

Business 938

Seminar - Real Estate Feasibility Analysis

Spring semester - 1968

J. A. Graaskamp

1. Purpose and Description of Course

The 938 seminar is intended to introduce the student to current practices in the art of real estate feasibility analysis and methods for improving this undefined area of real estate investment analysis. The approach is an experiment in combining case studies with selected readings and a field problem. Case studies will consist of selected readings of reports typical of current practice and careful dissection of the twin shopping center proposals for Madison, currently under development by the J. C. Penney Company. The field problem will involve feasibility analysis of the office building proposed for each of these two shopping centers.

2. Study Materials

There are no required textbooks for the course. However there are three optional and useful texts available:

A systematic Guide to Supermarket Location Analysis by Kane
and published by Fairchild Press.
The Community Builders Handbook, published by the Urban Land
Institute on February 1, 1968
Notes on the Synthesis of Form, by Alexander

3. Grades

There will be two papers: A short individual critique of a professional feasibility study will count 40% and a group report on the shopping center office building field problem will be weighted 60%.

4. Course Time Table

Classes will ordinarily be held on Friday afternoon except on those weeks during which there is a guest speaker. Guest speakers will generally hold forth on Wednesday afternoons 3:30-5:30.

Feb. 9	Course introduction - Professor Graaskamp
Feb. 14	Background history and retail analysis of Eastowne and Westowne - Norman Menz, J. C. Penney Co., Chicago
Feb. 21	Site selection and negotiations of options - Jack Lee, Bockl & Lee, Milwaukee
Feb. 28	City of Madison viewpoint - Ken Clark, director, Madison City Planning
Mar. 6	Qualification of site during option period - Wm Kurtz, J. C. Penney Co., New York

Business 938 (continued)

Mar. 13 Traffic patterns - road capacity, access rights - John Finguerra
J. C. Penney Co., New York

Mar. 15 Discussion and development of field problems

Mar. 22 Discussion

Mar. 27 Annexation problems - Robert Corcoran, Mayor's Office

Week of Planning leasing and contracting for improvements, Wm Kurtz
Apr. 1 or developer to be named

Week of Leasing, financing and management - Wm Harris, J. C. Penney,
Apr. 8 New York

Week of Role of the broker, office building feasibility - Jack Lee
Apr. 21

(Several speakers scheduled tentatively on construction and financing)

Balance of semester will stress development of field problem

5. Reading assignments

Feb. 14 Kane, Part 1, Chapters 1-7
Dynamics of a Shopping Center (mimeo)
Alexander, Chapters 1-3

Feb. 23 Kane, Part 2, Chapters 8-11
Alexander, Chapters 4-9

Feb. 28 Kane, Part 3, Chapters 12-15
Complete Alexander, including Appendix on design of a village
for India

Mar. 6 Kane, Part 4, Chapters 16, 17 and Appendixes
Community Builders Handbook, Section 2, Planning and Operating
of Shopping Centers - Through Site Evaluation

BUSINESS 938

- I. Check on employment contacts made by group.
- II.--Distribute highway project materials.
- III.--Definition of term project.
- IV.--Switch from office space study to bank study.
 - A. Set up 4 teams for savings and loan and bank on either side of town.
 - B. Office building feasibility not feasible without pointless mail questionnaire.
- II. Feasibility study critique.
 - A. Were there any studies which did speak in terms of strategy, political and legal feasibility, etc.?
 - B. What is danger of implicit assumption?
 - C. Was there any example of a rigorous reduction of space demand as a derived demand (Petersen example)?
 - D. What examples were there of ratio analysis in order to relate real estate as a derived demand to some other larger aggregate forecast by a government agency?
 - E. Was there any example of an effort to reduce the area of significance from a metropolitan area to a smaller market segment?
 - F. What illustrations were there of well-focused demand and supply counts to determine surplus unsatisfied needs--a market slot?
- III. Interest in jaunt to Chicago in May if any or participation in Chicago office building seminar.

V. Appraising versus investment counseling.

- A. An appraisal is always designed to help someone answer a question--to loan, to buy, to sell, to tax, etc.
- B. A statement of the purpose of an appraisal can say much about the information which should appear in the appraisal. The function of the appraiser is to both collect and analyze facts and then to place a price on the investment value indicated by the facts.
- C. The appraiser assumes his client will know how to use the facts and the price to make his own decision.
- D. The investment counselor has a client who is not sure as to what his purpose should be, the facts that he should be concerned with, or the criteria by which he should make a decision.
- E. Immediately following a statement of purpose, is a statement of highest and best use. If you know the best use, you also know a good deal about the most probable buyer. If the appraisal is concerned with the most probable market price, the appraisal analysis should reflect how the most probable buyer would view the property. In many cases there may be only one or two likely buyers for a particular kind of property.
 - 1. If the buyer never uses the income approach then the income approach may not suggest the probable selling price.
 - 2. If the buyer depends on heavy mortgage financing then you are almost obliged to use the Ellwood method.
 - 3. If the most probable buyer is interested in cash flow and appreciation you must use the cash flow (mortgage equity approach).
- F. Highest and best use must be both probable and feasible. Therefore the appraiser cannot simply look at the zoning or an oversimplification such as all corner sites or filling station sites or all two-acre sites as supermarket sites.
- G. Feasibility analysis requires that one identify:
 - 1. Definition of investor objectives and strategy
 - 2. Definition of market alternatives toward which merchandising of development alternatives could be directed.
 - 3. Identification of technical requirements and constraints for development.
 - 4. Legal--political issues and constraints.

5. Aesthetic--ethical--self image issues and assumptions.
 6. Capital budget, schedule, and cash flow projections for estimating rate of return.
- H. When viewing income property it is important to analyze the source of tenants:
1. Broad statements about community employment, population, and income are interesting but seldom relevant.
 2. It is more important to begin with a list of tenants to see where they work, shop, or go for recreation. A typical apartment building has a very small circle of influence and much can be learned about the stability of income by simply looking at the tenant roster and the nature of their employment. By the same token, a half-empty building can be quickly filled by analyzing the most likely source of tenants and advertising directly with posters, etc.
 3. One way to focus your thoughts on the market is to think how you would assemble a mailing list of potential tenants. In most markets, even the size of Madison, you can generally name your most likely customers.
 4. It is just as important to exclude irrelevant information as it is to include facts. For example, in Madison construction of apartments on the east side does not really affect the supply or demand for apartments on the west side. Therefore, shave down your statistics to that which bears on the problem.
 5. For example, population growth is baloney unless you separate out annexation gains, students included in the census, and children under the age of 19--for none of these are important in the single family house market.
 6. Every piece of real estate is unique and has the possibilities of being a monopoly. Try to identify the special market it may serve or the degree of its exposure to competition.