JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

II. CLASSES AT THE UNIVERSITY OF WISCONSIN--MADISON

Q. Examples of Multidisciplinary Coursework

4. Statement and Project Report from Innovative Urban Core Rehabilitation Project, 1972-73 (Graaskamp co-taught this course with Prof. Dick Stith)

Index

UNIVERSITY OF WISCONSIN-MADISON

GRADUATE SCHOOL OF BUSINESS 1155 Observatory Drive
Madison, Wisconsin 53706

I. OBJECTIVE OF THE INNOVATIVE URBAN CORE REHABILITATION WORKSHOP

The Urban Core Rehabilitation Workshop was a three semester course for undergraduate seniors initiated in January 1972 and completed in June 1973. The course originated in response to a request for proposals to improve undergraduate teaching throughout the University of Wisconsin system and was one of five proposals selected by the University from more than 100 submitted. The School of Business offers both a BBA degree with a major in real estate and a BS degree with a major in Construction Administration and the latter program is run in conjunction with Civil Engineering and the School of Agricultural Engineering whose students are under the direction of Professor Dick Stith. Professor Stith became a co-partner in faculty responsibility for the project.

The objectives of the course program were:

1. To create a senior level work-study real estate and construction project for practical application of course work.
2. To expose students to the procedures and frustrations of interfacing a business enterprise with all levels of government from local administration to federal financing.
3. To interface management skills of the business school student with the design abilities of construction students and possibly the industrial arts of junior college vocational school apprentices.

4. To inject middle-class students in building construction and real estate courses into a core neighborhood environment.
5. To use minority students to interface the middle-class student with the core neighborhood while giving the minority student participation in a practical problem in housing improvement requiring infinite attention to detail and administration.
6. To develop a course format for undergraduates which might provide closer faculty-student interaction than is generally available in a work-study format.

II. SUMMARY DESCRIPTION OF THE INNOVATION

The basic vehicle for the educational objectives was very simple. The class would acquire an old house in a deteriorating neighborhood and renovate it for sale to a low or moderate income family. The renovation process would provide the opportunity for both technical application of skills and a realistic occasion for social interaction. Hopefully the finished product would improve relationships between town and gown, particularly in blue collar neighborhoods.

The intricacies of the executions of that simple idea were documented in the illustrated report prepared by participating students and faculty members toward the conclusion of the project, and that report is attached to and made a part of this nomination outline form. Some of the key devices developed in this process of moving from concept to execution were:

1. A spring semester course of three credits, given a business school special readings and research in real estate course number, was created to initiate the search, acquisition, planning, and financing of an old residential structure.

2. A summer school course of two credits was created to provide official status for summer enrollment which involved actual construction by the students, supplemented by additional students on a part-time basis hired for their trade skills and by subcontractors for certain mechanical specialties.
3. Creation of a non-profit corporation, Badger Redevelopment Corporation (BRC), with three faculty members as permanent directors and with the balance of the directorship consisting of all the students enrolled in the course. Faculty directors abstained from voting so that the students were in control and scheduled class time was made the regular meeting of the Board of Directors until the students adjourned so that notice of Directors meetings was not continually required. The students hammered out standards, operating procedures, and their choice of student field manager. The students drafted their own charter of operation and by-laws and maintained all of the necessary corporated records and governmental reports.
   a. The corporation made it possible to avoid state purchasing procedures and labor contracts which would have made the project impossible as well as limiting the liability to the University for workman's compensation risk, trade credit, and mortgage notes.
   b. The non-profit status of the corporation freed the enterprise from a variety of tax costs including the sales tax on purchases, income tax, and even social security for the part-time student.
   c. The corporated shell prevented the University from paying certain costs for insurance, legal fees, and administration which it had promised to pay but administrative alternatives have been discovered as a result of these constraints.

d. The corporate shell remains in the custodial care of the three faculty directors pending repetition of the course so that it will not be necessary to reapply for tax numbers, tax rul ings, and other administrative elements such as a bank account, checks, and the like.

4. Since the University did not fund the working capital of the corporation of the proposed budget, a banking connection was sought and found which provided mortgage money for acquisition and 100% financing of materials and student labor on a forgivable note.
5. After considerable search students found two old houses of identical construction side by side and it was decided to do both as a coordinated townhouse conversion.
6. Conversion of the units was qualified to meet standards of the then existent subsidized home purchase loan program, the FHA 236 rehab loan, which permitted purchase at market price of $18,500 with monthly housing payments of less than $100 to qualify low income families.
7. Selection of qualified families was left in the hands of the Dane County Housing Corporation, an agency of the Office of Economic Opportunity which specialized in the housing problems of low income families.
8. Delays caused by confusion related to the Nixon moratorium on 236 loans postponed final closing of the second home sale until June of 1973 although students had completed it in December of 1972.
9. During the course of the project the students evolved a management program which moved from cooperative decision

making to a point where they hired one of their own as project manager with power to hire and fire. If the student were fired, he was permitted to drop the course but the student manager participated in the grading of the remainder.

III. REPORT OF EXPERIMENTATION WITH THE INNOVATIVE PROGRAM

1. The non-profit corporation provided a vehicle to support classroom activities while avoiding the unacceptable risks and problems of university or public institution procedures.
2. The students were permitted with helpful input from the faculty when requested to develop their own organizational line of authority and the experiment was successful in teaching them why a kind of military pyramid of control characterizes construction.
3. The initial objectives in terms of sociology proved too complex to "arrange" but the students by being themselves and consciously considerate of the neighborhood accomplished the desired result without being programmed.
4. The Madison neighborhood was really too good to give the students any real insight into ghetto conditions but the minority students who were involved in the course felt a real ghetto would have been too tough a climate for the students to operate in effectively and to concentrate on the business of building a house rather than just building communication bridges.
5. All of the students who participated reported that in their employment interview, prospective employers regarded their experience with Badger Redevelopment Corporation the most important thing in their academic program.

6. Working capital estimates anticipated the need of $5,000 working capital for one house. The project lost approximately $3,500 in building two houses and the bank swallowed the loss with some chagrin as it had thought the net loss would be a lesser amount. The University's position relative to overhead increased the loss by more than $1,000 and FHA delaying processing probably represented 50% of the balance of the budget overall. In future projects student efficiency could be improved by instituting the hire and fire (and drop from the course rule at the outset) with profit sharing in lieu of cash wages for those enrolled in the course for credit.

IV. RELATIONSHIP OF INNOVATIVE PROGRAM TO ACADEMIC PRODUCTIVITY

The two professors in charge of the course received no salary or released work time for conducting the course. Two graduate project assistants with building and real estate experience, were used to provide onsite and drafting room supervision with generous assistance of the senior faculty. There is no way a classroom course could be devised to provide the extensive experience in actual construction or to demand so many hours of student time for so few academic credits as was accomplished for the initial seventeen students in the spring semester.

V. RELATIONSHIP OF INNOVATIVE PROGRAM TO EDUCATIONAL QUALITY

Actual remodeling of an old home to be sold subject to federal specifications removed all of the convenient assumptions of the classroom and provided experience with every aspect of urban renovation and low income family housing realities. Nevertheless, it would be difficult to maintain the quality of experience from one project to the next as the faculty are essentially "hope

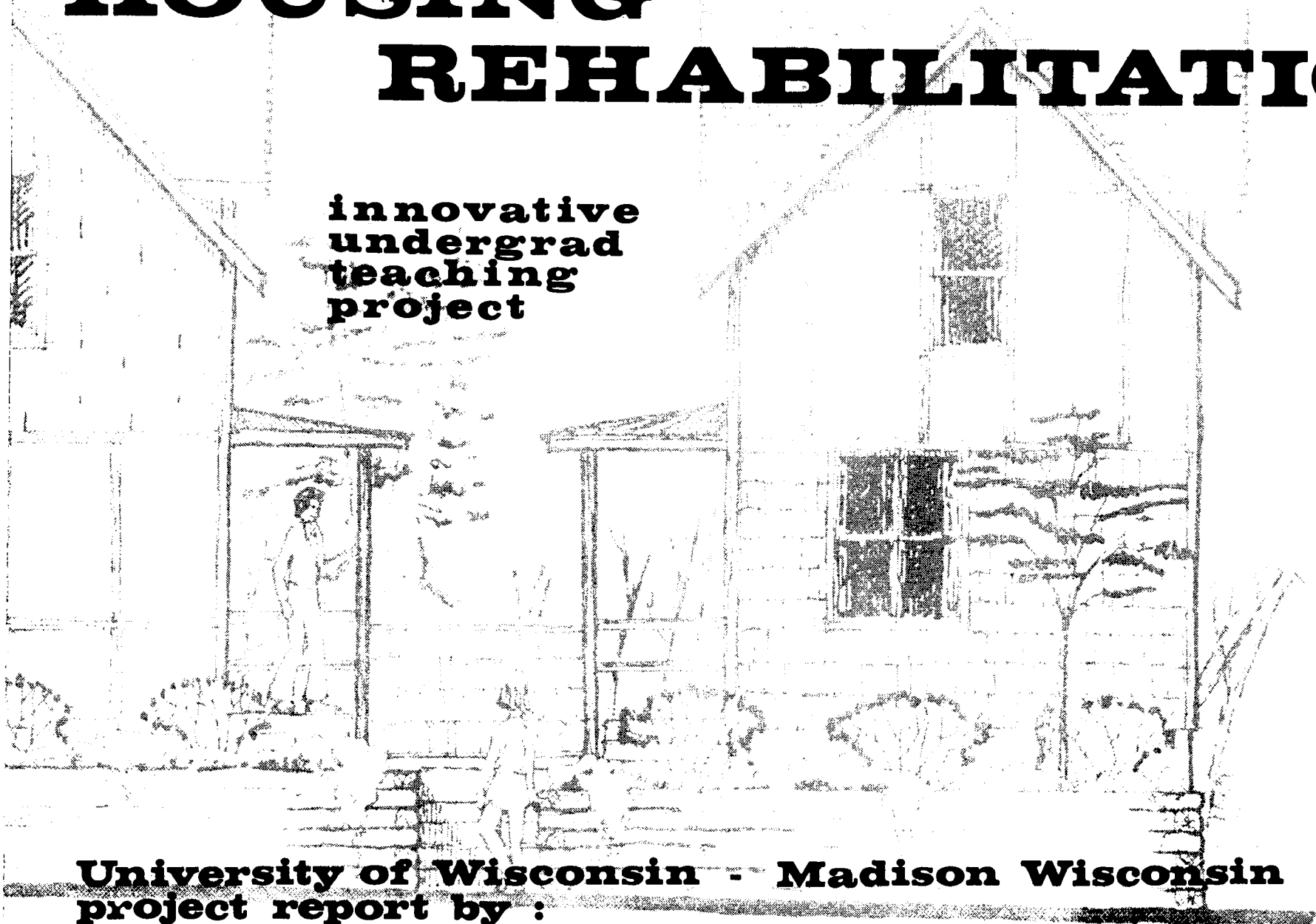
oriented" - hoping that involving students in a process of doing will in the process of random interaction, generate positive management experience. There is always a high risk that personalities or outside events could result in very negative experience which the senior faculty would have to unravel to protect the capital involved. That risk tempts the faculty to pre-select carefully students for such a course in a way which might be unfairly discriminatory.

VII. PLANS AND OTHER EVIDENCE RELATIVE TO CONTINUATION OF THE INNOVATION PROGRAM

The project won editorial support in the local newspaper and unqualified endorsement by Dane County Housing Corporation. Badger Redevelopment Corporation has been offered a contract to purchase in bulk at minimal prices any FHA 236 housing units which are foreclosed in Dane County. BRC would rehabilitate the dwelling units which would then be sold to a newly qualified family to whom the original subsidy would be transferred. Thus the special financing critical to such a project would survive the federal moratorium and BRC should be in operation again in the Fall of 1974.

HOUSING REHABILITATION

innovative undergrad teaching project



University of Wisconsin - Madison Wisconsin - 1972

project report by :
students & staff - ag. engr. dept. & school of business

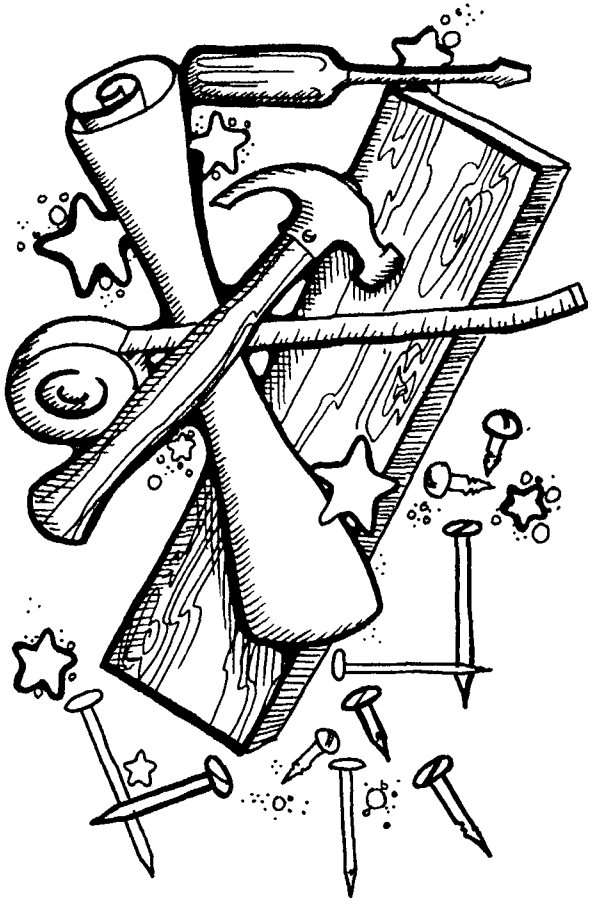
HOUSING REHABILITATION

I N N O V A T I V E
U N D E R G R A D U A T E
T E A C H I N G
P R O J E C T

DEPARTMENT OF AGRICULTURAL ENGINEERING - COLLEGE OF AGRICULTURAL AND LIFE SCIENCES
SCHOOL OF BUSINESS
THE UNIVERSITY OF WISCONSIN - MADISON

CONTENTS

PREFACE



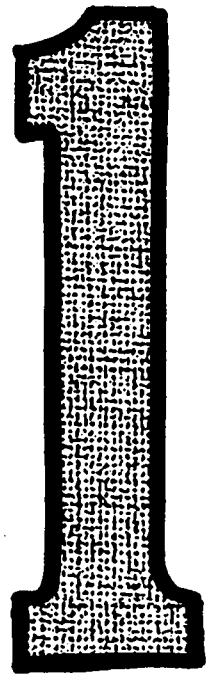
On December 1, 1971, President John Weaver established an Undergraduate Teaching Improvement Fund and solicited proposals for innovative and experimental teaching programs as one-time grants for the second semester of the academic year 1971-72. Proposals for an Urban Core Rehabilitation Workshop were in the hopper by December 15 and it was announced that the Workshop was one of five proposals selected on January 11, 1972, a Big Ten record for paper shuffling over a Christmas recess. The course convened on opening day of the second semester on January 31, 1972 as a two semester field study problem in rehabilitation of an old residence.

This report is both a diary of this adventure in education and a manual for those who might wish to attempt something similar. Wherever possible the format of each section is structured to indicate the intent, the actual experience, and then recommendations to others who might learn from the mistakes. However, the explicit goal to remodel a house in "businesslike" fashion was only a vehicle for motivating students to be involved in the process of managing a joint enterprise. Despite the firm statements and buzz words of the proposal to the University, the faculty were "hope oriented"--a hope to involve students in "doing," a process which would eventually generate its own management experience. The random interaction of conflicting personalities and outside events and conditions made the success of the project highly improbable and a delightful surprise. As will be shown the adventure could have foundered at almost every decision point from beginning to end, and the fact that it did not was entirely due to the patience and perseverance of the student leadership.

The University funded $6,100 for instructional and indirect costs but left the question of working capital to the imagination of the staff. Within 5 days of a request for help the First Wisconsin National Bank of Madison agreed to provide 100% financing for acquisition of a house via a mortgage and to provide the necessary working capital with a note that could

be forgiven to the extent resale proceeds of the remodeled property were not adequate to cover interest and principal. Since Madison has no low cost residential shells, the spread between resale and acquisition costs are generally too narrow to permit private rehabilitation. The project would not have been solvent had it not been for a number of key Madison businessmen who provided equipment, materials, and expertise at a mere fraction of the real cost. These businessmen have chosen to remain anonymous. What is significant is that the Madison financial and business community gambled $40,000 on the ability of University students to carry off the project. The student response was to completely remodel 2 houses instead of 1, which were resold as the first FHA 235 rehabs in Madison. The resale proceeds did not fully cover the cost of the remodeling so that the educational experience required some additional outside contributions. Each reader must judge for himself whether these contributions were necessary or worthwhile.

OBJECTIVES & ORGANIZATION



A. Objectives

The original proposal to the University suggested using the purchase and remodeling of an urban core home as a vehicle to serve the following objectives:

1. To inject middle-class students in building construction and real estate courses into a core neighborhood environment.
2. To use minority students to interface the middle-class student with the core neighborhood while giving the minority student participation in a practical problem in housing improvement requiring infinite attention to detail and administration.
3. To interface management skills of the business student with the design abilities of construction students and industrial art of vocational school apprentices.

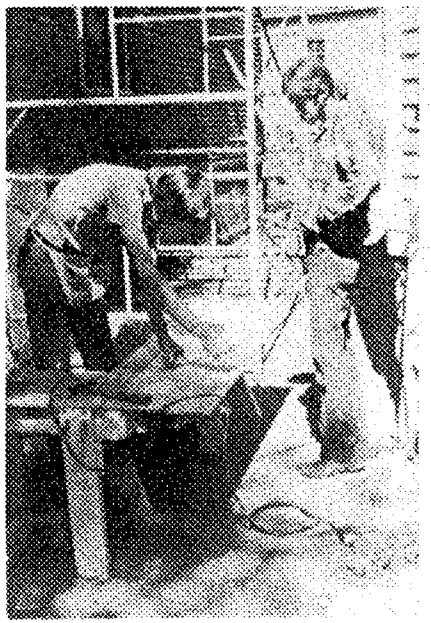
In reality distance made it impossible to choose a property in a community such as Milwaukee or elsewhere in a so-called urban minority ghetto. Older neighborhoods in Madison are in need of rehabilitation but are basically mixed sociologically. Minority student participation and neighborhood problems proved to be superficial. Participation with vocational school construction trade apprentices proved unworkable as these students are typically on a field work and classroom schedule with approved contractors and had no need of further manual arts training.

Thus, the original objectives in terms of sociology proved to be goals too complex to "arrange". It is enough of a problem to give students an opportunity to acquire and rehabilitate an old house. One can only hope that the neighborhood in which the students choose to operate will provide a valuable opportunity for educational interaction with the residents as a random by-product.

B. Course Format

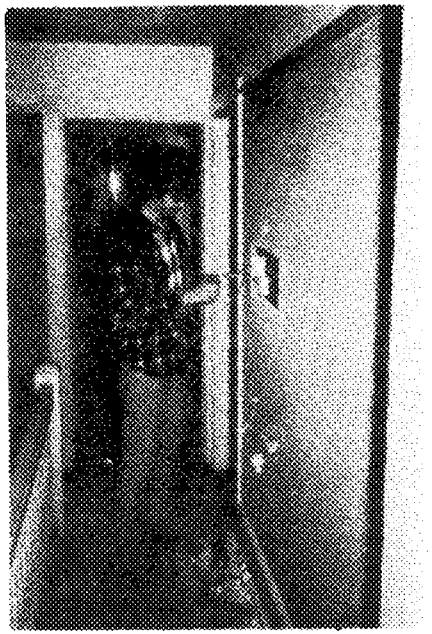
The structure of the course as proposed was to cover two semesters, a seminar for two credits in the spring semester and a workshop for three credits during the summer school semester with enrollment limited to 8-10 students having construction, real estate, or business management backgrounds. During the spring semester the students would search out and acquire a residence and plan the remodeling work which they would actually perform during the summer school workshop.

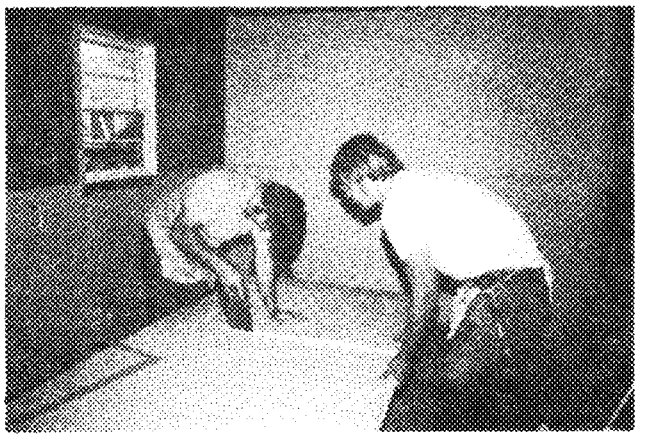
During the summer phase students registered in the course were expected to do as much of the actual construction work themselves as the law and the ability of students would permit. Many of the students had some construction skill, in woodworking, concrete, painting, etc. However, the summer work requirement provided some with an opportunity to experience house wiring, plumbing, dry-walling, finishing carpentry, or heating for the first time. The objective was not to make them skillful but rather appreciative of the detail and skill required of each. Throughout both semesters the students were responsible for the detail work of organizing, planning, and executing a micro-enterprise to achieve cash solvency so they could experience the discipline required of even small hard solutions rather than endless discussion of soft issues. Student grades were to be based on a judgment call by the professors reflecting their observation of student reliability, participation, and performance.



With 20/20 hindsight, experience suggests some improvement in both the allocation of credits and the grading of performance.

1. The spring semester should be at least 3 credits as the search and planning process is a time consuming and frustrating sequence of false leads, discarded plans, and purchase negotiations which may require convening the group frequently and with varying intensity of preparation. (See Design chapter for recommendations)





2. The summer semester credits should tie credits to daily hours of work on the job, such as 1 credit for 8 hours per week up to 5 credits for 40 hours per week.

3. During the summer semester students received a modest $2 an hour for their time but for enrolling in the course they paid summer tuition on a per credit basis, leaving most with the need for an additional summer job to fund their education in the fall. At the very least the corporation could refund tuition per credit as additional compensation at the end of the semester. A flat lab fee could be charged in lieu of tuition per credit. Perhaps it would be better to make the summer construction work phase equivalent to a work-study alternative.

4. The heavy work-load on students with design ability during the first semester led to some hourly subsidy as project assistants as the University could not fund the corporation to employ its members as draftsmen, etc. A method for better balance of student work-loads will be discussed further in this report.

5. To reinforce the leadership position of the student foremen and manager, these managers should be directly involved in the grading process. The faculty should grade each appraisal, design, accounting, or other task assigned to each student during the semester. An appraisal which is "C" quality work should be labeled such at the time it is presented as it affects the ability of the enterprise to make its next decision. Grading must replace, in part, the incentive offered by "hire and fire power" of management in real life situations. The faculty failed to make grading a vital part of the process of personnel management.

C. Academic Budgeting

Initial budgeting estimates were hurried and mistaken in assumptions about University accounting attitudes. The budget distinguished between teaching staff costs as a responsibility of the University, indirect costs of the legal organization formed to carry out the project, and direct working capital required to handle the flow of operations. Preferably the latter was to come in the form of a grant and be available to cushion against insolvency.

There was no time to solicit a grant and thus the unsecured forgivable note from First Wisconsin was a key to undertaking the project. The proposed budget and actual costs are outlined in Illustration 1.1.

The staff budget contemplated released time for one of the faculty members, but the short term notice of project funding made it impossible to reassign teaching assignments. The University ruled that since the staff was 100% employed with their regular course load, no additional compensation was payable. The monies were therefore used to fund two graduate student teaching assistants, one of which superintended the design and estimating phase in the drafting rooms while the other advised on the construction site during the summer. Fortunately both had extensive home construction experience. The balance of staff salary allowance was paid to students on an hourly or research assistants' basis to compensate for their taking extra responsibility as corporate officers or extra design duties, so that these costs were subsidized from the original teaching budget. The student hourly rate for students involved in the course gave the faculty some method for rewarding the "take-charge" type people and balancing work loads between those with expertise and those who were willing but relatively helpless at the drawing board or on the site. For the indirect costs much difficulty with the University was of the opinion it could not transfer funds to a "private" corporation. Thus, the allowance for Workman's

Compensation and Liability Insurance was not available and a portion of actual legal expenses were paid after a long hassle which fianlly recognized part of the legal fee as an honorarium for teaching services. Travel expenses first anticipated the possibility of rehab in another town and would have been totally inadequate for that purpose. Supplies and contingencies became a finagle factor with which to avoid nitpicking with University accountants.

Recommendations for budgeting for a future course with 20 undergraduate students might follow the same distinctions between staff cost, indirect costs, and operational working capital. At the very least the spring semester should require 1/3 of the teaching load of someone of professorial rank and the recommended budget assumes 1/3 of a $9,000 semester salary cost. During the semester of actual construction $3,000 might be used for additional payment to the working student foreman in charge of the project, about which more will be said later. A modest summer honorarium should also be paid to the staff member responsible for grades and administration, say $1,000. The University should properly carry a portion of the indirect charges which protect the University and whose payment by the rehab project might lead to insolvency and loss to direct trade creditors at the end of the project.

Legal counsel for careful organization as well as prudent property negotiations and contracts is indispensible on a day to day basis at a local level. Much of what the attorney does is instruction for the students and the input of the attorney cannot be overemphasized. Similarly the risk management program must begin with workman's compensation insurance for every student at the outset of the project, requiring a deposit premium of $5.00 per student. In addition, a general contractors liability policy with non-owned automobile endorsement should be in force at the outset requiring another deposit premium somewhere in the neighborhood of $150. Students should be required to pay the $3-$4

cost of a safety helmet and goggles themselves so that they have a vested interest in using them and not losing them. The travel expense item covers the unavoidable use of student cars during the search and construction phases of the project, a student contribution which would otherwise need to be covered from the University car pool as is done in most field work courses. Legal, insurance, and travel expense items should be transferred to the corporate entity to provide a bank depsosit and a clear dichotomy between instructional responsibility and operational liability. Supplies include a variety of films, record books, drafting supplies, etc. including mimeogrpahing of corporate minutes, etc, which are a normal part of communication among students and between field observation and classroom demonstration. Time lapse photography might even be a useful tool for evaluation of workers and future classroom instruction. Other indirect costs should be charged directly to operations but the University should carry those which are instructional or essential to its own protection against liability. Failure to do so in this case meant the Deans' involved in the program had to tap contributions from outside the University and several creditors collected only a portion of legitimate charges. Finally, working capital should be provided in part by a grant to protect private trade creditors from the insolvency of the rehabilitation efforts due to error in estimating cost or resale value. The working capital loan was an all too realistic discipline since every error and every decision related to the issue of solvency in a cash cycle enterprise. However, there should be some cushion for student mistakes because it's a learning experience, and some protection for the faculty members who feel constrained to see every trade creditor satisfied. The supervising faculty member must have some freedom to permit students to dare and to err, but should not be completely free of the fear of insolvency as it reflects on his competence. *A small grant of $2,500 would represent a contingency of 10-15% on a single home rehabilitation, and this item completes the recommended budget on Illustration 1.1

Illustration 1.1

Summary of Instructional Cost Budget
as Proposed, Realized and Recommended
For a Rehabilitation Workshop

Description	Proposed Budget	Actual Outlays	Recommended Budget
A. Staff Cost			
Realeased Academic Time	$3,400.00	$1,024.78	$4,000.00
Summer Time Assistant Instructor	1,300.00	1,000.00	2,000.00
Project Assistants and Student Hourly	0	2,280.96	0
	4,700.00	4,305.74	6,000.00
B. Supplies and Expenses			
Legal Counsel	400.00	400.00	750.00
Liability Insurance	100.00	0	250.00
Travel and Miscellaneous Expense	400.00	168.18	200.00
Supplies and Contingencies	500.00	712.78	300.00
	$1,400.00	$1,280.96	$1,500.00
Total Budget	$6,100.00	$5,586.70	
Total Surplus to University		513.30	
		$6,100.00	
Working Capital Grant	5,000.00	4,800.00(1)	2,500.00(2)
	$11,100.00	$10,900.00	$10,000.00

(1) Loss sustained by bank, donors, and some creditors.
(2) 15% contingency for loss incurred. See last sentence page 8.

D. Student Recruitment

The faculty anticipated some difficulty in locating eight or ten students from the specific fields involved because of the summer commitment required. The course concept had been discussed in its formative stages with student leaders and additional students were informed of confirmation of the course during the week of registration. As a result seventeen students were initially enrolled. Their backgrounds were diverse; some were business students with no familiarity with design concepts or industrial art skills; some were designers with little patience with business techniques and a couple were seniors looking for some easy credits for their last school semester. As a result of this rather unstructured recruiting, the students did not enter the course with any consensus of objectives or of methodology for decision-making.

An alternative method of student selection depends on whether the thrust of the workshop should be an educational experience with certain built-in inefficiencies or an economic enterprise with an educational byproduct. If the latter were true, the faculty could select a group of ten or twelve from applicants solicited throughout the University for their semi-professional expertise in construction or business methods. If a unique educational experience is the primary objective, the faculty must take the skills as they find them among department students only and teach the students what they need to know about carpentry, electrical wiring, or accounting. The latter would require continuous on-the-job supervision by a foreman who teamed a student with a required skill with one having no experience so that the students could teach each other. In addition, the foreman would need to rotate students between assignments and serve as instructor after each rotation. This latter approach is much more desirable but requires selection of a very knowledgeable and sensitive job foreman. Any group of students has a fascinating array of talents and the seventeen original volunteers in Urban Redevelopment Workshop included a former apprentice plumber, carpenter, several designers, a railway brakeman and self-taught electrician.

E. Legal Organization

At first thought it appeared that a bank serving as corporate trustee might acquire and hold title to the property to be rehabilitated. However, the potentials of insolvency and public liability for the students, faculty, and University dictated a shift to a corporate structure, a Wisconsin Statute Chapter 181 non-profit corporation. A young attorney, a former graduate of the UW School of Business, was retained to instruct students in the drafting and recording of a charter and by-laws of the corporation named Badger Redevelopment Corporation (BRC). (A copy of these can be found in Appendix A) In addition, the attorney assisted the students in drafting documents to purchase, to sell, and to close as well as certain other contracts of the enterprise.

To be eligible for a position as a director, a student had to be enrolled in the course for credit. In addition, the directorship included three faculty members to provide an ongoing stewardship between semesters and a vice chancellor was added to establish that the corporation was an instrument of the University. As a matter of practice the faculty attended meetings but abstained from voting so that the class, all of which were directors, could proceed to elect their own officers and to manage their own affairs. As a non-profit corporation there was a provision in its charter that in the event of corporate dissolution, any surplus would revert to the University of Wisconsin through its Board of Regents. The office of the corporation was given as the Department of Agricultural Engineering Building at 460 Henry Mall of the Madison campus.

F. Recommendations for University Sponsorship

Nonetheless these arrangements suffered from several serious flaws:

1. University officials doubted that the corporate entity was a

University agency rather than a private corporation and thus they decided BRC was not entitled to receive any transfer of funds or support, such as guidance from University maintenance shop specialists or access to motor vehicle pools.

2. Since directors were required to be enrolled in class for credit, the end of the semester brought a legal end to their authority as directors between semesters and following the end of the summer session. Rather than give everyone an "Incomplete" in order to keep them "enrolled," the faculty directors improvised a board of advisors consisting of the students. The faculty then enacted the policy decisions made by the board of advisors, a rather clumsy solution.

3. If BRC had been recognized as a University instrument, it would have been represented by the Office of State Attorney General and could not have hired its own attorney. In fact, it might have required Regent approval of its real estate purchases and might have been bound by state purchasing rules--all of which would have been impossible.

Any future repetition of the rehab course experiment under University auspices may depend on the assistance of the Attorney General in defining a unique non-profit entity to which University funds for the indirect costs discussed in the budget could be transferred. At the same time the corporation would need to be kept free of state purchasing rules, etc. as too cumbersome for efficient construction. The legal format might provide:

1. For the Regents to authorize the Chancellor to appoint three faculty members as directors.

2. For the appointed directors to designate the student directors who would serve until they failed the course, dropped the course, or the project was deemed complete by the faculty members.

3. For the University to contribute funds for insurance, legal, and travel costs of the course not to exceed some stated

maximum.

4. For authority of the corporation to employ its own attorney.

5. For authority for the corporation to buy and sell real estate, transact mortgage loans, or engage in the construction business as related to a course of instruction or work-study program without reference to University purchase procedures.

6. For the Board of Directors to create standing authority for one officer or faculty director to sign real estate documentation as required to avoid delays and confusion from time to time when vacations, class schedules, and efficiency prevent calling the board into session for approval.

Should University risk or state procedural matters prevent involvement of the Board of Directors, the opinion of the Attorney General should be sought on the transfer of funds for the indirect costs of the corporation.

Set Back _____ | Side Yard _____ | IS TO BE OBTAINED TO BE POSTED UNDER BEFORE THIS CERTIFICATE

Rear Yard _____ | Side Yard _____ | IS PLACED IN A CONSPICUOUS PLACE ON THE PREMISES

Bldg. Permit Expires _____, 19__

Remarks:

This Certificate shall

CITY OF

FINANCING, INSURANCE, & ACCOUNTING CONTROL

A. The Financing Package

The critical elements for BRC financing were purchase money mortgages for 100% of the cost to acquire two old houses plus a series of short-term notes for rehabilitation costs provided by the First Wisconsin National Bank of Madison. During construction interest payments at 7% per annum were met as part of the balance of new notes drawn to cover monthly outlays but by the end of the year it appeared that BRC might take advantage of the bank note provision which would forgive any balance outstanding which could not be covered from sale proceeds or other donors. In a final accounting the bank might lose as much as $4,000 including interest.

While the First Wisconsin National Bank Mortgage Loan Department was most accommodating, the checking account department did require a $50 minimum deposit and BRC was all credit and no cash. In addition, $89 was required for a deposit on workman's compensation insurance and $200 as a premium deposit for a liability insurance program. Since the University accountants would not permit a University disbursement for these costs as budgeted, two deans stepped in with $339 to provide working capital for the first week of operation.

A number of local businesses contributed cash after remodeling was completed and the final product could be matched against operating losses to suggest good use of the money had been made. These donations received in 1973 totaled $750.

B. The Accounting System

The accounting system used by BRC was rather elementary although well detailed. The books of accounts consisted of a journal, a check register, a general ledger and a payroll ledger. In addition there was an open file of account payables which listed all current liabilities as received from creditors. All discounts were taken and cash requirements were planned monthly to support draws on the credit line. Bills were paid by the BRC treasurer, a graduate student in accounting and real estate, as

the bank did not make disbursements as a construction loan procedure in this case.

The treasurer spent considerable time establishing federal and state tax status. Application was made for exemptions from the social security tax because of the educational and non-profit character of BRC. In the absence of a prompt ruling, BRC did not submit social security tax payment with the quarterly report filed with the IRS on payroll. Reports were filed with form 911-E and when total social security withholding exceeded the $200 limit set by the IRS, necessary deposits were made with the tax depository account at the bank. On November 15, the IRS favorably classified BRC from all federal income tax and social security taxes, the latter saving more than $500 and requiring refunds to all of the participating students on payroll. The Compliance Section of the Wisconsin Revenue Service did exempt BRC from Wisconsin sales tax and this exemption reduced cost of material purchase by 4%.

Financial statements for operations and sales are provided in Chapter 7. Together with the analysis in Chapter 7 these statements will suggest the heavy indirect costs of FHA financing on property sale and the soft costs of managing a rehabilitation enterprise. As of December 31, 1972, one house had been resold and one remained as an asset subject to a conditional offer to purchase which was awaiting FHA processing under the 235 FHA subsidized home purchase plan.

The treasurer periodically prepared a report on the assets and liabilities of BRC to the directors and the bank. The treasurer, the directors, and the construction foreman met regularly on the current cash position and expected billings on subcontracts completed or materials ordered. The costs of proposed improvements were reviewed and weighed against estimated credit available to complete but it was difficult to make periodic comparisons of progress against forecasted budget due to significant errors in early budget estimates.

In future projects it is recommended to review initial budgets with an experienced remodeling contractor in the community as some of these firms have excellent time unit and material unit estimating standards which would provide a bench mark for student estimating costs. While cost control by reference to budget standards was ineffective, the treasurer spent much time checking each bill for materials with the construction crew to be sure that discounts which had been promised were noted on the bill and that prices were consistent with those quoted by the materials supplier at the time of purchase. The terms of purchase arranged with the owner of one supply firm were so unusual that the accounting and billing department of the firm was unable to adapt and many errors were made. One firm had a computerized accounting system and as a result billed the standard amount each month which was paid on time and at the close of the project the owner of the firm made a special refund as a percent of total purchases. This would seem a preferable method although it leads to some additional cash borrowing and interest costs because it avoids irritating friendly suppliers with penny ante accounting.

The treasurer set up a complete file system in the University office of BRC which included all documentation and corporate minutes, correspondence, bank statements, insurance policies, employee withholding statements, tax publications, FHA duplicate documents, and so on. Bills which had been paid were inscribed with the check number for both internal control and for ease of review to determine current cost-in-place. An accounting manual and brief file manual was available so that absence of the treasurer or any other outside contingency could be met by centralized source of information. Student rooms and apartments as "offices" should be avoided as this leads to misplacement of business records, generally a casualty of some unidentified "cleaning lady" or careless coffee drinker.

C. Insurance Program

There were three areas of basic insurance coverage which were, in order of priority, third party public liability coverage, workmen's compensation protection for the directors and employees of the corporation, and fire and property insurance on the buildings acquired for remodeling.

Coincident with the organization of Badger Redevelopment Corporation, liability insurance was sought from a major Wisconsin carrier and good friend of the University. An organization of amateurs to be working in building wrecking and rehabilitation is not an attractive underwriting risk as "do-it-yourselfers" suffer an inordinate number of accidents to themselves and to bystanders. Nevertheless, after six weeks delay, the insurance company decided to grant a comprehensive general liability policy covering bodily injury and property damage arising out of occurances attributable to negligence of the corporation. Policy provides minimal bodily injury limits of $50,000 per person, property damage limit of $25,000, and a limit for total loss on any one occurance of $100,000. The policy was specially endorsed to cover non-owned automobiles which might be used on behalf of the corporation, motorized equipment on the corporation premises, construction operations, and complete products liability. The policy was written with a deposit premium (in this case $180) to be applied against an annual audit of the number of properties owned and the dollar volume of various segments of corporate operations. Such an audit under the comprehension policy means it is not necessary to report each aspect of corporate activity in advance as premium would be adjusted to the degree of exposure after the fact. Contrary to the BRC experience, it would be desirable that the policy be in force from the very outset of activity as student use of their own automobiles is quite common and their insurance may be irregular at best. It may be desirable for student enterprises to endorse the policy for personal injury as well as students may not be as circumspect with credit information or their public statements about officials and others with whom they

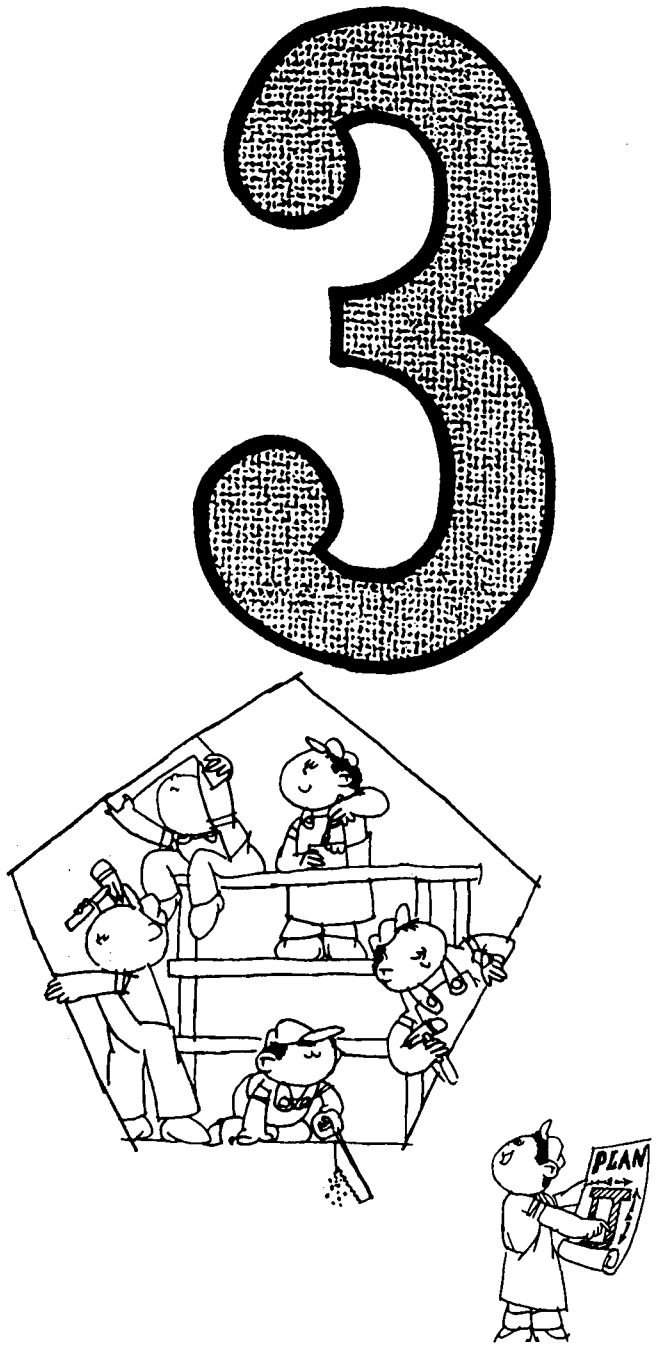
disagree. University Risk Management Department should be involved in a future program of this type.

The application to this same major carrier for workmen's compensation insurance was turned down and diverted to a state risk pool for high risk small premium enterprises. This pool assigned each application on a proportionate formula to various companies doing business in Wisconsin. The application to the assigned risk pool was made to the Wisconsin Compensation Rating Bureau together with a deposit premium of $89 and BRC was assigned to The Travelers Insurance Company of Hartford, Connecticut with coverage dating from March 17, 1972. Total premium would be determined by an audit of payroll. The policy made note of the fact that all of the students were to be considered both directors and employees of the corporation entitled to coverage even if they were not on the payroll so that their medical bills would be paid in any event. State law required that all the employees as well as faculty members be provided with safety helmets to be worn at all times on the site, with provision for heavy fines and loss of insurance. Two minor injury claims were settled for student employees, a paperwork problem complicated by the cooperative form of management which failed to report the first accident promptly. In future courses the faculty will need to provide a one-hour lecture on liability and workmen's compensation procedures for the class to sensitize students to necessity of sound risk management.

Fire and extended coverage insurance with a vandalism endorsement subject to a $250 deductible was provided for both BRC properties. The policies on 1406 and 1408 Jenifer were transferred by assignment from the previous owner with the consent of the insurance company and in due course it was necessary to increase the coverage of the policy to $18,500 as state law requires that insurance be equal to or greater than credit obligation against the property. The 100% financing established the amount even though it included the value of the land and other non-burnable items. Since Wisconsin has a valued policy law, however, the insurance would have to pay the face amount

of the policy should the property be a total loss as a result of fire, wind storm, hail, aircraft and vehicles striking the property, riot, strike, civil commotion, or vandalism or malicious mischief. Action to increase limits of the policy from their level when properties were acquired lagged the actual investment of time and materials and this poor procedure could have been avoided by using a builder's risk policy which would automatically cover values in place. However, insurance companies were somewhat reluctant to insure these rundown properties initially and since the state's fair share risk pooling plan was slow and expensive, BRC decided to take assignment of the policies when it was made possible by the property insurance carrier. Both policies were eventually assigned by BRC to the buyers of the remodeled homes.

STUDENT MANAGERIAL PROCESS



A. Original Concept

The structure of Badger Redevelopment Corporation intended that all members of the corporation--students, professors and advisors--be equals on the Board of Directors. The officers were nominated from the Board on the arbitrary premise that the President should be a construction-oriented student, the Vice-President and Secretary should be business management students, and the Treasurer should be an accounting student. Within the Corporation, committees were appointed to determine goals and direction as well as to take care of the actual business at hand from site selection to sale of completed properties.

The Corporation decided on an approach to project management other than a foreman directed site control. A cooperative work force was tacitly organized to carry on the actual rehabilitation of the residences involved.

B. Evolution of the BRC Managerial System

As previously noted, the entire project materialized very rapidly and the initial impetus was provided by the faculty. While the faculty created the opportunity, the faculty expected the students to take command of the project. It was in this sudden transfer of responsibility that the initial organization took place. Since the students came from a variety of academic backgrounds, there was no common knowledge of each others' abilities and personalities. The rather haphazard means of selecting officers fulfilled the basic need of getting the corporation functioning, but it also provided the means of conflict when ideas and personalities clashed.

The goals of the Corporation were not specific in nature and allowed for much latitude in the students' desires. Everyone involved in the project created his own picture of what the goals should be and how to reach them. Discussion on these points was very productive in identifying a variety of goals

and means and also provided exposure of individuals' philosophies. Unfortunately, inexperienced student leadership allowed the airing of project ideas to turn into the groundwork for philosophical divisions of the Board. A difficult, if not impossible situation to control among students. Many hours were lost because of what amount to stubborn, uncompromising, individualistic attitudes. Generally, the prevailing argument was not the one with the most support, but the one which wore out all others. Thus, a consensus of the Corporation!s explicit goals was never stated. Time had dictated that other work continue while the goals issue was never being settled, but the Corporation was able to work effectively without detailed goals and it soon became apparent that it could continue to do so. One beneficial aspect was that it allowed the Corporation to be adaptable to the fast-changing situations that developed while investigating prospective properties.

The committee structure set up within the Board of Directors failed to work. The principal reason seemed to be that the teams of two or three qualified individuals assigned to tackle a problem generally failed to put together a co-ordinated effort. Student schedules made it difficult to get the committees together. What little success there was met a second roadblock when committee reports were made to the Board. In general, the Board seemed to distrust the reports on the same basis that the philosophical and political divisions first appeared in the issue of goals. What was happening was that without appointment by the officers, special interest groups were formed. Members of the Board banded together to prepare written statements to inform the Corporation of their opinions and suggestions, usually contrary to previous action taken. Although these presentations led to hours of argument, they did provide an internal check on many of the decisions made.

When the committee's structure failed, the effort was usually taken over by individual students. Individual effort produced the best results. Probably because the blame for not doing a thorough job could only fall on one student's shoulders. Individuals became the resources of instead of the advocates

of policy positions for the Board of Directors.

Design, supplies, change orders, financing, bookkeeping, etc., were handled by members who considered such areas their specialties. A building specialist from the University of Wisconsin made periodic visits to the site to answer any questions in procedure that could not be handled by a member. He did not, however, manage or coordinate any facet of the construction. Any voids in project coordination were filled by the use of sub-contractors, additional qualified student help, and professional advice from community businesses. This additional aid was necessary in such areas as electrical service, plumbing, heating, landscaping, FHA regulations, and legal counsel. All the additional aid was sought at the minimum cost to the Corporation. In some cases it simply involved seeking the lowest bid on a phase of construction that could not or was not legally allowed to be handled by non-professionals. Other times it involved personal meetings with prospective suppliers and explaining the project and the need for help.

The cooperative work force used for the actual construction phase of the project operated for about three months, at which time the Board unanimously dissolved it. The cooperative had failed to carry out the needs essential to project completion for the following reasons:

1. Much more responsibility fell on a few individuals in practice rather than more equally among cooperative members as in theory.

2. Incentives were non-existent for producing quality work or making correct decisions.

3. Lack of leadership resulted in wasted time and labor.

4. Time and frustration erroded dedication to the project.

5. Individual satisfaction was lost in the daily changing worker's function.

6. No priorities or criteria were established and, therefore, a sense of direction of the project was lost.

7. Individuals lost all sense of the magnitude of the project as a result of the lack of specific assignment.

C. Formalizing Site Management with a Foreman

After the initial three months of cooperative organization, the project was changed to conventional foreman management. This drastic change became essential because of limited time schedules. A student foreman took over the project with complete control over workers, schedules, sub-contractors, project design changes and construction means. In return the Corporation demanded of the foreman specific finishing dates, as well as labor and material cost ceilings (See Chapter 6). Such authorization control caused some dissatisfaction among BRC members, but it did control project costs and labor problems. The project finished in an organized effort rather than a "last gasp."

D. Recommendations for a Management System

Because of the leadership problems that arose a few basic principles should be followed when selecting the students for important roles of corporation leadership:

1. Rap sessions are needed in order for members to become acquainted with each others' philosophies, experience, personalities and dedication to the purpose of the corporation.

2. The role of officers must be clearly stated and understood.

3. Nominations must be discussed thoroughly with an eye towards future conflicts and complications.

However, given a situation where students are unfamiliar with one another, the arbitrary selection process of officers may have produced the best working compromise of divergent philosophies available under the circumstances.

Although the Corporation was not severely hampered by the lack of explicitly-stated goals, there always seemed to be a question of why things were being done the way they were. Failing to state explicit goals, the Corporation should have at least established general criteria for decision-making.

For the purposes of a functioning student corporation, it seemed necessary to use individuals in their specialties rather than the time-consuming ineffective use of committees.

The idea of everyone sharing in all facets of a corporation is a romantic and inefficient approach to making decisions with the speed necessary for real estate and construction projects. Without implying cooperatives never work, the cooperative idea in this situation was unable to bring the project to a successful conclusion. With limited time schedules, a project manager seemed to be necessary.

E. Management of Public Relations

By the time BRC had closed its acquisition of 1406 Jenifer, a rumor had spread through the neighborhood that some "crazy hippies" from the University had bought the house and intended nothing good for the neighborhood. At the same time BRC was adjusting to the possibility that the tenant in 1406 might have had some "understanding" with the seller to purchase the property. Thus, BRC began with an image in the neighborhood of irresponsible hippy and ruthless landlord having racist tendencies--an interesting case problem for the students to begin their role as development entrepreneurs.

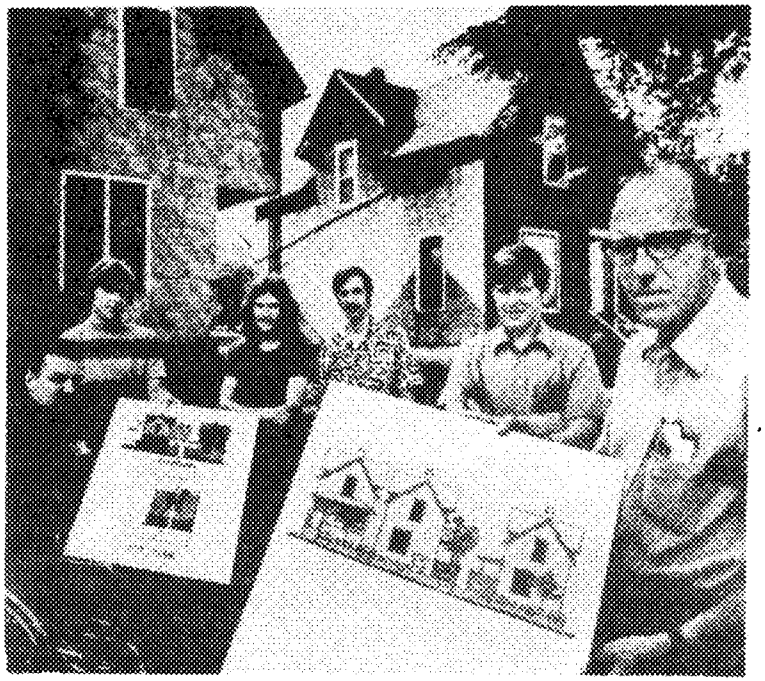
Fortunately, there was a Marquette Neighborhood Association newsletter which carried accurate information on the project

to the neighborhood. A strong asset in correcting original impressions was the thorough treatment of the project by the Madison morning paper, The Wisconsin State Journal, complete with photographs. Perhaps the best "public relations" for the project was the conduct of the students themselves as they circulated among the neighborhood and explained to other homeowners who they were and what BRC was attempting to do. As a result, there was no vandalism from the kids in the neighborhood during the summer as the students and kids maintained daily contact. Once during the fall when students were working erratic schedules, some windows were broken but by and large, equipment losses and material evaporation was negligible, an index of strong neighborhood rapport.

The housing division of the Madison Community Action Council, a division of the Office of Economic Opportunity, took an active interest in the project as a demonstration of single-family rehabilitation in an area where family housing for low income families was in short supply. Their interest and cooperation not only secured the eventual purchasers for the homes but also assisted in FHA processing. In other communities such an organization might provide a list of suitable properties appropriate for remodeling.

During the course of construction, a variety of University administrators, craft union observers, city hall types, and students inspected the premises and guiding them through became a significant nuisance factor for the student foreman. His job description was eventually defined to eliminate responsibility for slide shows and impromptu lectures on the project and these functions became the task of the communications committee.

Before construction started contact was made with the Building Trades Council of Madison, which was relatively dubious about encouraging construction work by non-union amateurs. With the help of the electricians' union representative, a presentation was made to the Council and the majority found no objection to the project. The plumbing union representative, however, was



SKETCHES OF PLANS — Teachers and students in a unique University of Wisconsin learn-by-doing class demonstrate what it's all about. Showing sketches of what they propose to do with the two houses they are buying are, in the background, from left, Prof. James Graaskamp, Jan Klund, Tom Hoskens, Jerry Draeger, Instructor Ron Meyer, and Prof. Dick Stith.

—State Journal Photo

UW Students Learn and Earn

They'll Remodel and Sell Two Houses as Classwork

By ROGER A. GRIBBLE
Of The State Journal Staff

Who said a college education is all theory and no practical experience?

Someone who hasn't heard of a new interdisciplinary course being taught by two University of Wisconsin-Madison professors, no doubt.

careful to inform us and the State Board of Health as to the legal constraints on amateur plumbing. The trade unions in general reflected some dissatisfaction with the increasing frequency of vocational school, industrial arts, or youth training and rehabilitation programs which undertook to build or remodel. Such projects were suspected of displacing union labor or undermining apprenticeship programs in the long run and it was necessary to provide assurances to the Madison Trades Council that our grant or experiment was not a "regular" feature of the University program.

At the beginning of the fall semester upon the completion of 1406 Jenifer, an open house was held on a Friday noon hour to facilitate attendance by civil service types as well as University administrators, the noon hour being preferred so as not to infringe on driving home time or weekends. The students gave lecture tours and a carousel projector was operating to show the various stages of construction. One of the local television stations provided extensive coverage of the event in the evening news while a journalism student made his own film clip as part of his senior project, which was aired on the other local TV stations. Toward the end of the project several of the students were hassled by a passerby on the street who was convinced the faculty members had made "a bundle" running this general contracting operation with slave labor and charitable donations. A public relations program always misses somebody.

Prof. Dick Smith, left of sign, greets area visitors to UW student project in Marquette —State Journal Photo by L. Roger Turner SEPT. 5, 1972

UW Students Open Doors at House Remodeling Project

By ROGER A. GRIBBLE
Of The State Journal Staff

A University of Wisconsin-Madison student project involving the remodeling and sale of two houses reached another milestone on Friday.

Students and faculty members involved in the interdisciplinary course proudly put the project on display at an open house.

ONE OF THE TWO houses at 1406 Jenifer St. is virtually ready for sale. The other house next door should be ready next month.

"We hope to come out in the black, and I think we should," said Prof. Dick Stith, who with Prof. James Graaskamp has taught the innovative interdisciplinary course.

The project was one of five funded for the Madison campus to improve undergraduate education from savings claimed by UW Pres. John Weaver in cutting the pre-merger UW staff.

During the first semester of the project, the 14 students involved formed a non-profit corporation to handle the purchase, remodeling, and sale of the homes.

AFTER FINDING and purchasing the two homes, they redesigned them, using a townhouse concept in keeping with Marquette Neighborhood Assn. aims.

Students did the remodeling work durng the summer (except for plumbing, which required a master plumber) and paid themselves $2 an hour for their labor.

"It's a wonderful experience — probably the best kind of senior experience you can get," said Jerry Draeger, a senior and president of the student corporation.

"You could put a lot of ideas to work," he added. "It probably will be excellent credentials for the future."

GRAASKAMP said the students involved "have managed to improvise and have been very resourceful."

Stith said the corporation hopes to sell the three bedroom houses for $18,000 each. One was purchased for $9,500, he said, and the other for $8,700.

Both have all new plumbing, wiring, and air ducts to second floor bedrooms, and have been redecorated inside and out.

Stith said offers already have been made on the nearly-completed house and it may be "practically sold." The houses will be owner-occupied, he said.

OTHER WORK has included landscaping which will involve the erection of a screen to provide back yard privacy.

Stith said many students have expressed interest in working on another similar project. A representative of Weaver's office inspected the project Friday during the open house.

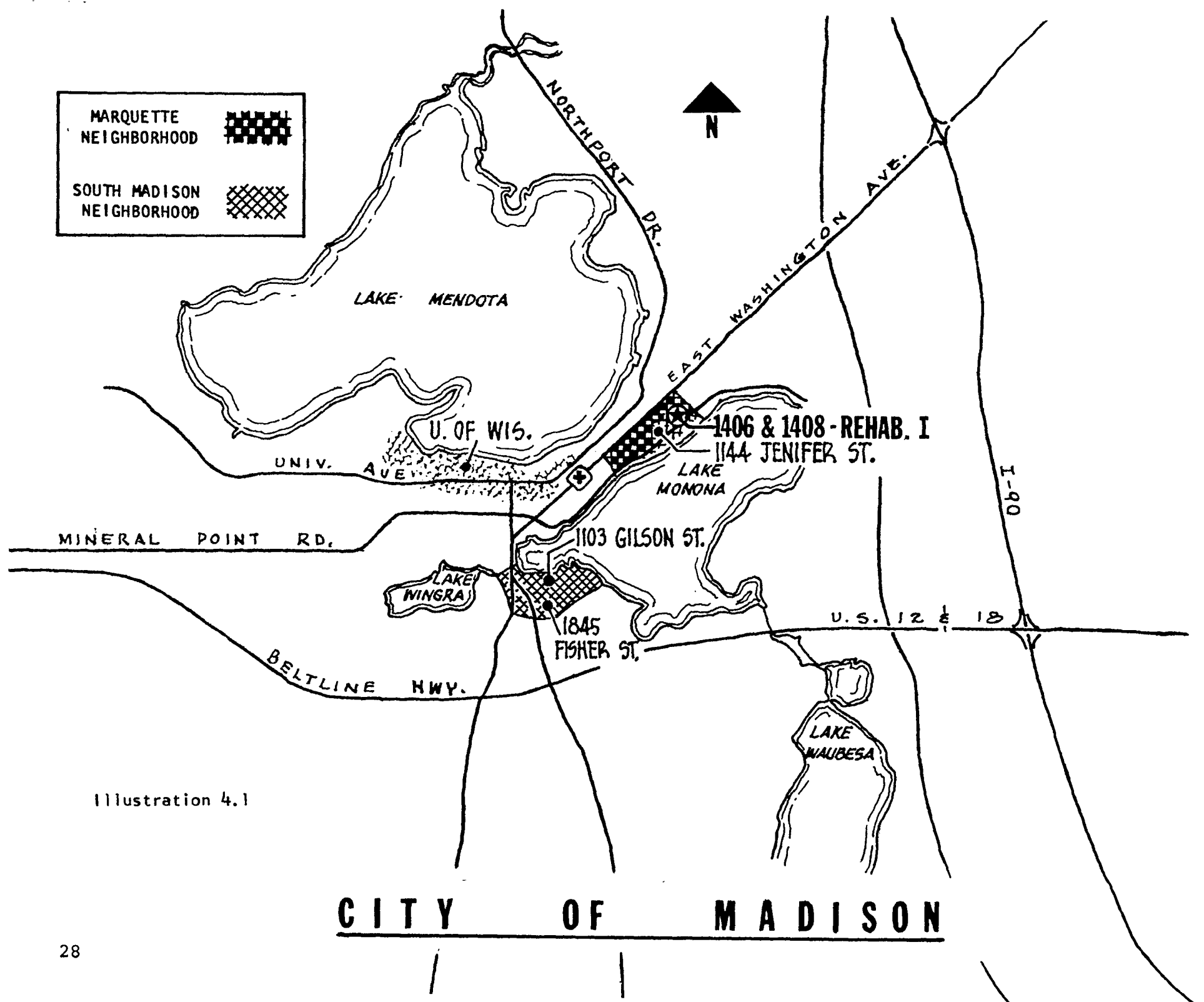
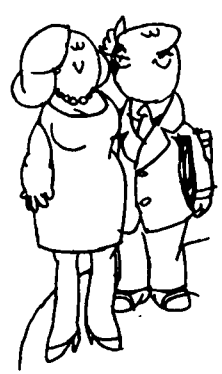


Illustration 4.1

REAL ESTATE OPERATIONS



A. Basic Real Estate Functions

The real estate aspects of BRC could be classified as search, selection, negotiation, closing of the acquisition, and eventually sale and closing of the disposition. A committee of real estate appraisal students was appointed to handle valuation questions while all the students participated in the search and selection process. For matters relative to closing individual students were assigned responsibility for specific meetings or negotiations but not necessarily the entire transaction.

B. The Property Search Process

The search process was initially hampered in Madison because of a lack of lower priced homes requiring rehabilitation. Unlike Milwaukee where low cost homes in the urban core approach $4500 apiece, in Madison $8-9,000 represented the market minimum for homes with any structural value in an area likely to remain residential. While acquisition cost might be $8,000, market sales indicated the best sales prices in the neighborhood would approach $15,000 for a single family home that had been somewhat modernized. The search process therefore needed to find an older house at a low price which would resell because of favorable location at a higher price to provide the maximum spread to invest in remodeling.

The Board of Directors originally limited the search to two specific neighborhoods in the City of Madison, the Marquette neighborhood and the South Madison urban renewal and rehabilitation area. (Illustration 4.1) The Marquette Neighborhood Assoc. officers were able to provide considerable information and assistance in locating property and very much desired to increase family ownership among families with children to support the neighborhood school. The South Madison area had already undergone a major effort of renovation and conservation as an urban renewal project in Madison.

A number of buildings still remained in private hands but these owners wanted to sell rather than take advantage of government grants and special credit arrangements available through the Madison Urban Renewal office. The Urban Renewal office was able to identify a number of homes that were available but not listed, and initially the city authorities felt BRC would be entitled to use the grants available to resident home owners. The possibility of a grant for $1500 to $4500, depending on the structure, to bring it up to code strongly favored selection of a structure in South Madison until it was determined the corporation, as a non-resident owner, would not be eligible. In addition, it appeared that the time delays in dealing with the FHA were not compatible with a semester schedule. The search to identify a home was expanded by referring to the local multiple listing service. At least one student investigated each of 25 homes and obtained 35 mm photographs using departmental Instamatic cameras. The entire class acting as a Board of Directors reviewed the slides, neighborhoods, and narrowed the choice to a number of alternatives. The class went as a group to inspect these units after scheduling showings with the owners or listing brokers. The design committee then developed some preliminary rehabilitation plans for each house identified as having some potential by its price, location, and structural condition. The appraisal committee attempted to define from the asking price and comparable sales an appropriate cost-to-acquire and also attempted to project the actual sales price for the refurbished unit. While estimated on cost-to-acquire after discounting of asking prices were reasonably reliable, there were few comparable sales to suggest what a modernized structure would sell for and no sales of a 235 rehab single family home in Madison. The appraisal committee attempted to define the spread between cost-to-acquire and sales price net of sales commissions to give the design committee the maximum budget to be spent on reconstruction. The pessimism of the appraisers left too little budget to meet the design ambitions and costs of the designers and builders, creating some frustration and ill feeling. Illustration 4.2 suggests a class display provided by the

Illustration 4.2

A Typical Appraisal Summary to Estimate Cost-Sale Spread Available for Remodeling Budget

Property Location	1144 Jen. Single	1144 Jen. + Eff. i
Estimated Resale Price	18,000	18,000
Additional Sales Receipts		
Estimated Cost to Acquire	3,000	13,000
Gross Cost-Sales Spread	5,000	5,000
Sales Commission at 5%	- 900	- 900
Net Cost Sales Spread for Remodeling	4,100	4,100

appraisers on three properties which were prominent in the early selection process.

1144 Jen. Single + 1 Br.up	1103 Gilson Single	1845 Fisher Duplex	1845 Fisher Duplex + Eff.
21,000	16,000 +	23,000	29,500
		4,000*	4,000*
		27,000	33,500
13,000	8,000	18,500	18,500
8,000	8,000	8,500	15,000
-1,050	- 800	-1,350	-1,675
6,950	7,200	7,150	13,325

* Sale of adjoining lot included in purchase price

Analysis of sales in the neighborhood suggested $14,000 was a probable resale ceiling for a family with $125 per month to spend. Theoretically, beyond that point, no matter how much was invested in reconditioning a residence, the market value added would be close to zero. However, as the remodeling and design elements began to have a visual impact, the value became less sensitive to previous sales in the neighborhood and more related to alternative housing in the suburbs. It was discovered that FHA appraisals for existing structures were based on the condition of basic elements, quality of remodeling, and compliance with Federal Housing specifications. A basic limit that could not be exceeded by the FHA appraisal was that of a comparable size new structure located in the suburbs. The lower limit of new housing in Madison was $22,000. A remodeled structure in town with basically similar space and amenity features would compete with the suburbs if it were priced 15-20% less. Since a 235 rehab loan program subsidizes the monthly cost to acquire, the FHA appraisal could also favor the cost squeeze of the rehaber without significantly distorting the monthly shelter cost of the home buyer. Thus the proper measure of resale value should have been judged by how much capital value could be commanded by a housing budget of a probable buyer relative to that buyer's alternatives in the suburbs and recognizing that old properties suffer some discount relative to new properties in buyer preference pattern.

The ultimate buyers of 1406 and 1408 were expected to have a housing cost after subsidy not to exceed $125 per month. A curve was projected (Illustration 4.3) indicating the value added per dollar invested on a sales comparison approach as opposed to an FHA appraisal of market value sensitive to actual monthly housing cost under 235. Thus, the upper limit of value was tied to subsidized purchasing power while the desirability at that value was a direct function of dollars invested in surface treatment.

C. Negotiation to Purchase

The first property on which the students agreed to make an offer (despite indications the spread was not equal to the cost to remodel) was the property "1144 Jenifer." which could have been remodeled into a 3-bedroom single family home, a flat with a 2-bedroom unit downstairs and efficiency upstairs, or a duplex with two 1-bedroom apartments. Resale of a single family home was based on comparable sales while resale of the duplex alternative reflected gross rent multipliers and the capitalized income approach based on market rent. The owner was anxious for an offer but when the class finally delivered a formal offer to purchase, the husband and wife could not agree on whether to accept the offer. The class then decided that the duplex or triplex at 1845 Fisher offered considerable design potential and an adequate spread for remodeling costs. This property was complicated by several factors. It included an empty lot to the south while the structure encroached on the lot to the north owned by Madison Redevelopment Authority which could have sold enough footage to correct the encroachment. The structure had been designated for conservation and a schedule of mechanical and structural needs established by MRA with a proposed grant for rehabilitation by an owner. When BRC did not qualify for a grant in aid from F.H.A. as a non-resident owner in this conservation neighborhood, the asking price seemed unreasonable, and the second proposal fizzled.

To conserve time an option had also been negotiated on 1103 Gilson Street but at a price $2500 above the expected negotiated price. Reinspection of the property indicated some serious structural problems with the roof and foundation and when the owner feigned indignation at the BRC offer, negotiations were dropped. Student morale sagged as the designers chafed under the constraint of solvency and the appraisers were hard pressed to