JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

IV. UW REAL ESTATE ALUMNI ASSOCIATION

G. Miscellaneous Speeches to Alumni

2. Minnesota Alumni Talk", April 16, 1987

MINNESOTA ALUMNI TALK

Thursday, April 16, 1987

I. A report on real estate matters in a descending order of importance --the real estate program, the Wisconsin scene, the national scene.

A. The Real Estate Program is now the fourth largest School of Business program in Madison in terms of total student credit hours and fifth largest in terms of number of graduates from the School of Business. The bad news is that there has been no change in teaching resources; the good news is that if Governor Thompson's budget is approved, Dean Hickman has indicated we would have a high priority for an additional assistant professor and an additional teaching assistant.

1. We have four Ph.D. students in residence; we turned down two good prospects last week because we do not have adequate financial assistance. Dan Knox and Evan Harrison are full-time teaching assistance at $10,800 a year; Mark Epley will teach 652 this summer and perhaps this fall double teaming with Elaine Worzala. Elaine will also administer the Alumni Reunion and record keeping to the end of 1987 and then do some additional teaching.

B. The tenure crisis for Mike Robbins has been relieved; the Chancellor's office ruled that payroll records were in error and that he had until 1989 to achieve tenure. One major article has been published, two are in the works, and he is rededicated to staying in Madison at the University. He bought a bigger house and scaled down his business operations.

C. Rod Matthews has expanded his regular teaching assignments to include the residential finance course in the spring and our leasing negotiations course during intersession as well as participating in our Ph.D. Seminar. Dean Blakely has graciously funded those increases from surplus funds.

D. In the fall, the Alumni Endowment funded the teaching assistant for Business 551; federal work study funded project assistants for Robbins and Myers.

E. The Alumni Endowment Fund is slightly over $500,000 in the bank and will produce slightly more than $45,000 in income for the next 12 months. Corporate giving has only worked where I make personal contact, schedule an interview, and then follow up with those in charge of corporate giving. I have lacked time to do that this spring but will start immediately in June with a goal of $600,000 in the bank for October and another $150,000 in pledges so we will be half way to our goal.

F. Our one credit 795 for guest speakers is working out well. Students go to three-out-of-four or four-out-of-five sessions for six hours on selected Fridays. This semester we have had Doug Stoker, Bill

Mundy, Kim Peterson, a half day each of Bob Zerbst and Eastdil, and our piece de'resistance--Warren Lindquist of the Rockefeller Foundation, and Herbert Lembcke of Portman & Associates speaking on the political and physical development of Embarcadero Center.

G. Approximately $8,500 will be used for summer research by Robbins.

H. Approximately $8,000 will be used for the guest speakers in the lease negotiations course, including the famous New York Atty. Emmanuel Halper, Dave Schooler, and Clinton Miller from United Properties, and Herb Cohen.

I. Two extravaganzas: The Real Estate Club is flying 45 people to Washington D.C. for a three-day field trip after cutting a deal with Northwest Airlines and Dave Carley. Prior to their arrival, the Washington Chapter, led by T.J. and Jim Kane are running a seminar in Baltimore next Thursday the 23rd. Bill Kinard and Tony Downs are contributing their time and Congressman Barnard will receive a small honorarium. Yours truly will get expenses and fund a part of his 1/9 summer honorarium.

II. Within the state of Wisconsin, we are scoring points for the program as well.

A. State of Wisconsin Investment Board is using me as senior advisor to bridge between previous director Charles Miller and the new director of real estate Paul Fanfera. We have changed investment policies and are moving with the trend towards less 100 percent ownership to 50/50 joint venture with a few selected partners and more use of participating debt and existing co-mingled funds.

B. We are on the kitchen cabinet for Richard Longbaugh, the new director of the Wisconsin Housing and Economic Development Authority. Since there is no great advantage to tax exempt financing we are creating a new set of tools using our earned surplus for credit enhancement, zero-rent ground leases on sights we purchase to control development, and structuring to trade off investment credits for credit enhancement. In addition, we are going to experiment by choosing a couple of consultants on contract to generate one or two projects in each district by mid-summer for base fee plus a commission if the project proves viable.

C. My direct opposition to the convocation center not only caused the University to give it up, but accomplished a series of thank-you notes and personal visits from the regents for alerting them to that potential mistake.

D. Several student feasibility studies are producing public projects --including conversion of a Richland Center Hotel to elderly housing, an elderly project for the Group Health Co-op in Madison, and a retail project in Milwaukee. Another student project is the bases for an alternative convention center in downtown Madison.

III. On the National scene, as you may of heard we are now a member of Salomon Brothers Real Estate Advisory Board which is providing access to a great many new folks and opening doors for many more graduates in New York City and Boston.

A. R-41C will make a profound difference on the lending patterns of THRIFTS but will find itself in letters of engagement for all manner of fiduciaries. While the appraisal requirements are tough and expensive, what is unique is the appraisal management section which lays the burden on the directors and officers who control policy and review of appraisal procured. Only a limited number of appraisers are capable of meeting R-41C standards, and most appraisers have an exclusion in their mal-practice coverage relative to R-41C requirements.

B. The letter of engagement will become standard practice in ordering an appraisal and specifying both appraisal content and business procedures. Appraisals can be expected to double in price--maybe triple and will include a full market analysis.

C. The SEC has ruled that an appraisal reference in a prospectus must be done in a professional fashion or its primafacie misrepresentation, so that most syndications can probably be challenged by an unhappy partner on the basis of the appraisals!

D. Salomon Brothers believes that long-term real estate investment must be positioned in terms of some long-term trends starting with the nine nations of North America followed by much demographic, life style, and political style, adn fiscal investment analysis.

1. For example, I am commissioned to do an essay on long-term central city values where public education is failing, old intra-structure is not being replaced, illegitamate, minority births are rising, public employee pension balances are not funded, etc. The result will be red-lining of some traditional investment areas. For example, Louisiana and Mississippi will be hurt by their education system while New York will be hurt by social instability and failing intra-structure producing high assessments on commercial property.

E. With the federal deficit and the sterility of Congress there will be no great federal programs to prime the pump. Education, Intra-structure, social assymilation of minorities will occur at the local level only if there is corporate/business leadership, and must reflect annual costs in excess of current property insurance and real estate tax assessment costs if local real estate values are to be immunized against social fracture and unrest. Net income increases over the next 20 years will be even flatter than projected.

F. The alumni loaned me for a day to our biggest givers. Prudential cashed in their first chip. We spent the day discussing risk management in real estate as compared to stock diversification.

F. cont. Diversification is being defined experimentally by:

1. Lease, size, term, and pass-through features.
2. Credit quality of tenant.
3. SIC code and volotility of employment by SIC code.
4. Tenant investment in premises.
5. Landlord investment in premises on behalf of tenant.
6. Location characteristics.
7. Community characteristics.
8. Aggregate upto bank district economy.
9. Re-insurance of shock losses by subset to higher aggregate levels.

G. In a year or two, portfolio managers will become much more specific in their search specifications and dispositions to fit much more sophisticated concept of diversification and portfolio immunization against 10 or 15 year social and business cycles which can be identified.

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