

JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS
V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM
A. Appraisal Organizations
18. Dates and/or Groups Unknown
g. "Graaskamp Island Case"

GRAASKAMP ISLAND CASE

A fertile Tropical Paradise has just been discovered off the coast of Milwaukee. The product of tumultuous upheavals and faulting along the earth plates, the new island has a year-round climate comparable to Tahiti.

First on the scene and to lay claim to this island paradise was the renowned international explorer, Chief Graaskamp and crew. After a quick reconaissance Graaskamp has decided to drop anchor and examine the opportunities for development and operation of sales and rental apartments.

The Chief is thoroughly experienced in land development in the frosty North, but tropical development is virgin territory. Preliminary cash flow analysis for building and operations indicate that an equity investment of \$5.8 million will be required, but no investors are interested.

Milwaukee radio reported that new rumblings were heard in the vicinity of the new island.

Is Graaskamp Island sinking, or can it be saved?

ILLUSTRATIVE LAND VALUE ANALYSIS FOR SALE HOUSING UNITS

DETACHED HOMES @ 3.0 D.U.'s/ACRE

GRAASKAMP ISLAND

(1973 Prices in 1972 Dollars)

Average Unit^{1/}
1,600 s.f.

<u>I. Estimated Development Costs</u>	
A. Construction and Site Costs @\$14.00/s.f. ^{2/}	\$22,400
B. Non-Construction and Site Costs @ 5% of Construction	1,120
Subtotal	<u>\$23,520</u>
C. Promotion-Sales (@ 6% of Sale Price)	2,460
D. Developer's Profit Allowance (@15% of Sale Price)	<u>6,150</u>
E. Total Cost, Excluding Land	\$32,130
 <u>II. Sale Price, Supportable Ground Value</u>	
A. Sale Price	\$41,000
B. Less Total Cost	<u>32,130</u>
C. Supportable Ground Value per unit	\$ 8,870
D. Supportable Ground Value as a percent of Sales Price	22%
E. Average Density (D.U.'s/acre)	3.0
F. Supportable Ground Value per acre	\$26,610

1/ Average unit excluding basement and garage.

2/ Marshalls Valuation Service, average construction cost adjusted for Graaskamp Island prices in September, 1972. Square foot costs include "bricks and mortar", sewer hook-up, architect fee, building permits, appliances, and builder's profit applied to gross living area.

3/ Real Estate taxes during construction and construction financing.

ILLUSTRATIVE LAND VALUE ANALYSIS FOR RENTAL HOUSING UNITS

GARDEN APARTMENTS @ 15 D.U.'s/ACRE

GRAASKAMP ISLAND

(1973 Prices in 1972 Dollars)

1. <u>Estimated Improvement Cost</u>		
A. Construction @ \$13 per square foot ^{1/} @ 1,000 s.f.		\$14,300
B. Non-construction @ 5% of construction cost ^{2/}		700
C. Landscaping and Site Work		500
D. Total Improvement Cost		<u>\$15,500</u>
2. <u>Net Income from Operations</u>		
A. Gross Income (@ \$240/month or 24¢/s.f.)		\$ 2,880
B. Less 5% Vacancy and Collection Allowance		144
C. Plus Other Income @ \$3/month		36
D. Gross Effective Income		<u>\$ 2,772</u>
E. Less Operating Expenses and Real Estate Tax (@ 37% of gross)		\$ 1,025
F. Net Operating Income		<u>\$ 1,747</u>
3. <u>Financing</u>		
A. Economic Value at 9.5% Capitalization Rate		\$18,390
B. Mortgage at 75% of Economic Value		13,792
C. Debt Service at 9.5% Constant (i.e., 25 years at 8.25% Interest)		<u>\$ 1,310</u>
4. <u>Net Cash Flow</u>		
A. Net Operating Income		\$ 1,747
B. Less Debt Service		1,310
C. Net Cash Flow		<u>\$ 437</u>
5. <u>Residual Values</u>		
A. Equity @ 15% ROE		\$ 2,914
B. Mortgage		13,792
C. Total Supportable Costs		<u>\$16,706</u>
D. Improvement Cost		15,500
E. Residual Value of Land		<u>\$ 1,206</u>
F. Average Density (D.U.'s/acre)		15.0
G. Residual Value per acre		<u>\$18,090</u>

^{1/} Gross living area; excludes unfinished bas
^{2/} Marshalls Valuation Service, average construction cost adjusted for Graaskamp Island prices in September, 1972. Square foot costs include "bricks and mortar", sewer hook-up, architect fee, building permits, appliances, and builder's profit applied to gross living area.

^{2/} Real Estate taxes during construction and construction financing.

GRAASKAMP ISLANDTHOUSANDS OF 1972 \$

L/C		1973	1974	1975	1976	1977	TOTAL
<u>A. DEVELOPMENT ACTIVITIES</u>							
<u>SOURCES OF FUNDS</u>							
1	SINGLE FAMILY SALES	....	2533	5002	5152	5168	17856
2	MULTI-FAMILY RENTAL	....	256	323	424	421	1425
3	TOTAL	....	2790	5325	5576	5589	19282
<u>APPLICATIONS OF FUNDS</u>							
<u>LAND</u>							
4	SINGLE FAMILY	548	1082	1114	1118	....	3863
5	MULTI-FAMILY	231	291	382	379	....	1285
6	SUBTOTAL	779	1373	1497	1497	....	5148
<u>CONSTRUCTION</u>							
7	SINGLE FAMILY	1411	2704	2704	2634	....	9455
8	MULTI-FAMILY	1395	1705	2170	2032	....	7362
9	SUBTOTAL	2806	4409	4874	4726	....	16817
<u>OPERATIONS & SALES</u>							
10	S-F SALES COMMISSION	....	152	300	309	310	1071
11	M-F OPERATING EXPENSES	....	95	119	156	155	527
12	SUBTOTAL	....	247	419	466	465	1598
13	TOTAL APPLICATIONS	3586	6030	6791	6690	465	23565
<u>NET CASH FLOW FROM DEV. ACT.</u>							
14	ANNUAL	-3586	-3240	-1466	-1114	5123	-4283
15	CUMULATIVE	-3586	-6826	-8292	-9406	-4283	....
<u>B. CAPITAL ACTIVITIES</u>							
<u>SOURCES OF FUNDS</u>							
16	MORTGAGE PROCEEDS	....	1278	1608	2109	2094	7090
17	LIQUIDATION	....	....	....	....	11629	11629
18	SUBTOTAL	....	1278	1608	2109	13723	18719
<u>APPLICATIONS OF FUNDS</u>							
19	MORTGAGE INTEREST	....	108	243	417	585	1354
20	PRINCIPAL REPAYMENTS	....	26	61	110	6891	7090
21	DEBT SERVICE	....	135	305	527	7477	8445
22	NCF FROM CAPITAL ACTIVITIES	....	1143	1303	1581	6246	10274
<u>C. PROJECT NET CASH FLOW</u>							
23	ANNUAL	-3586	-2097	-162	466	11369	5991
24	CUMULATIVE	-3586	-5683	-5845	-5378	5991	....

LINE 23 (COL 1 - 5) INTERNAL RATE-OF-RETURN IS 21.845%

LINE 23 (COL 1 - 5) NET PRESENT VALUE IS 1275.29 AT 15.00%