

JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM

B. Assessors and Other Public Officials

15. "Contemporary Real Estate Concepts and Appraisal Methods", one day seminar for the Minnesota Department of Transportation annual real estate appraisal conference held in St. Paul, MN. May 5, 1977

Mike Sullivan

CONTEMPORARY REAL ESTATE CONCEPTS & APPRAISAL METHODS

Prepared For
Minnesota Department of Transportation
Annual Real Estate Appraisal Conference
Thursday, May 5, 1977
Paul's Place Inn, St. Paul, Minnesota

Instructor: Prof. James A. Graaskamp
University of Wisconsin School of Business

- 8:00-10:15 I. Current Redefinition Fundamental Real Estate and Appraisal Concepts
- A. Keystone concepts to the real estate process
 - B. Keystone financial and risk concepts related to appraisal valuation
 - C. Keystone legal concepts related to appraisal
 - D. Recent redefinition of highest and best use by appraisal professional groups
 - E. Relationship between feasibility and appraisal analysis
 - F. Summary of the Ratcliff position on appraisal methods
 - G. Fair market value and concept of most probable sales price
- 10:15-10:30 COFFEE BREAK
- 10:30-12:00 II. General Contemporary Appraisal Report Format (See attached report outline)
- A. General outline of report structure
 - B. Adaptability of report format to courtroom appraisal
 - C. Adaptability to federal highway forms
- 12:00-1:00 LUNCH
- 1:00-2:30 III. Property Analysis to Determine Most Probable Use
- A. Property analysis to predict future use
 - 1. Physical attribute definition
 - 2. Legal constraint identification and definition
 - 3. Linkage attributes and evaluation
 - 4. Dynamic attributes identification and evaluation
 - B. Selection of alternative use strategies (scenarios)
 - C. Ranking of feasible uses for economic viability
 - D. Project feasibility
 - 1. Testing and ranking of use strategies for effective demand
 - 2. Testing alternative use strategies for political compatibility
 - 3. Testing alternative use strategies for basic technical feasibility
 - E. Selection of most probable or fitting use
 - F. Most probable use suggests most probable buyer type (market segment)
 - 1. Comparison of most probable buyer with fair market value concept assumptions
 - 2. Profiling buyer selection criteria
- 2:30-2:45 COKE BREAK
- 2:45-4:00 IV. Prediction of Most Probable Sale Price
- A. Primary reliance on inference from actual sales
 - B. Secondary reliance on simulation of buyer logic
 - C. Definition of transaction zone around most probable price
 - D. Fair market value - central tendency of transaction zone

CONTEMPORARY REAL ESTATE CONCEPTS & APPRAISAL METHODS

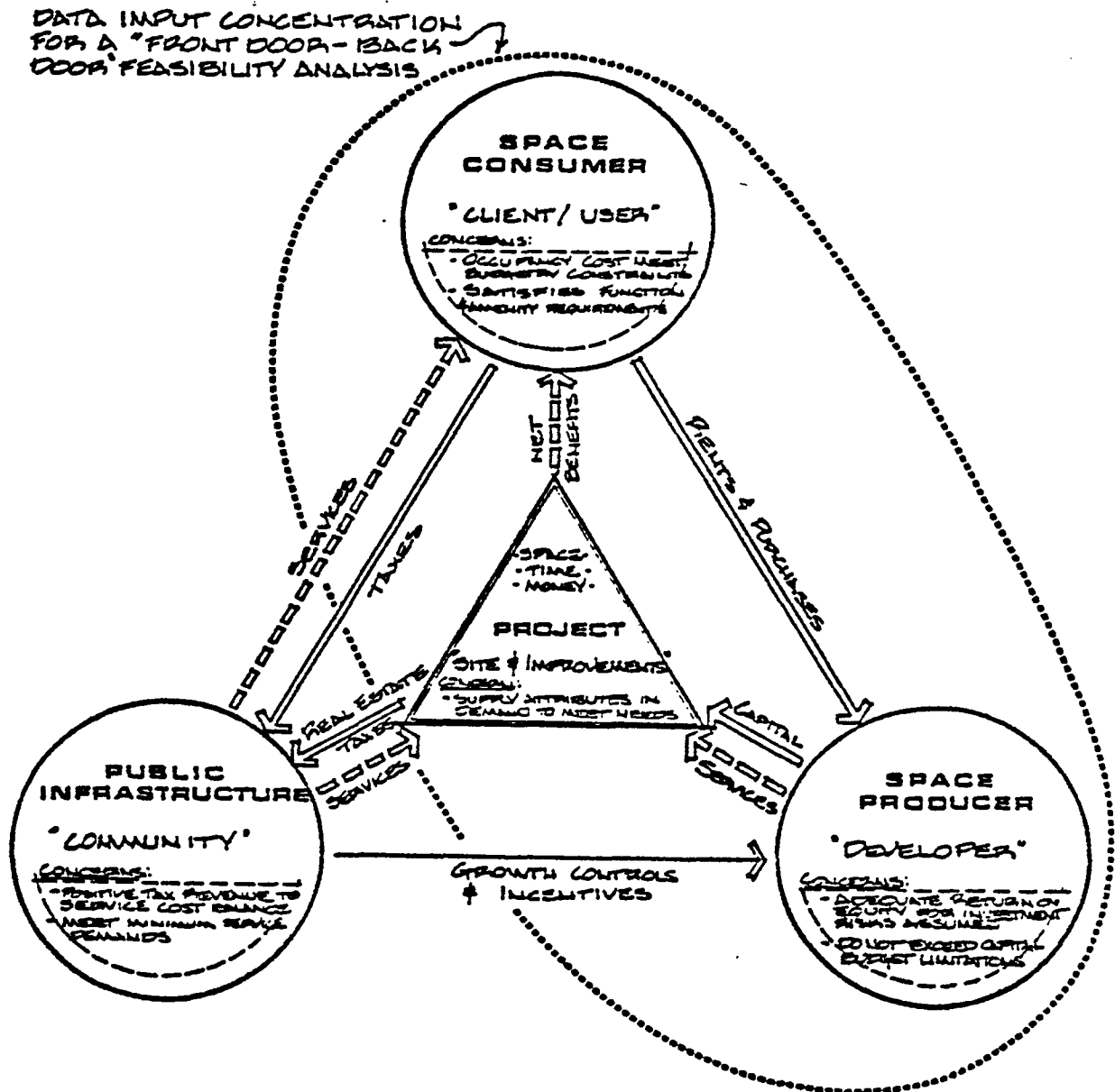
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I. Basic Concepts and Definitions

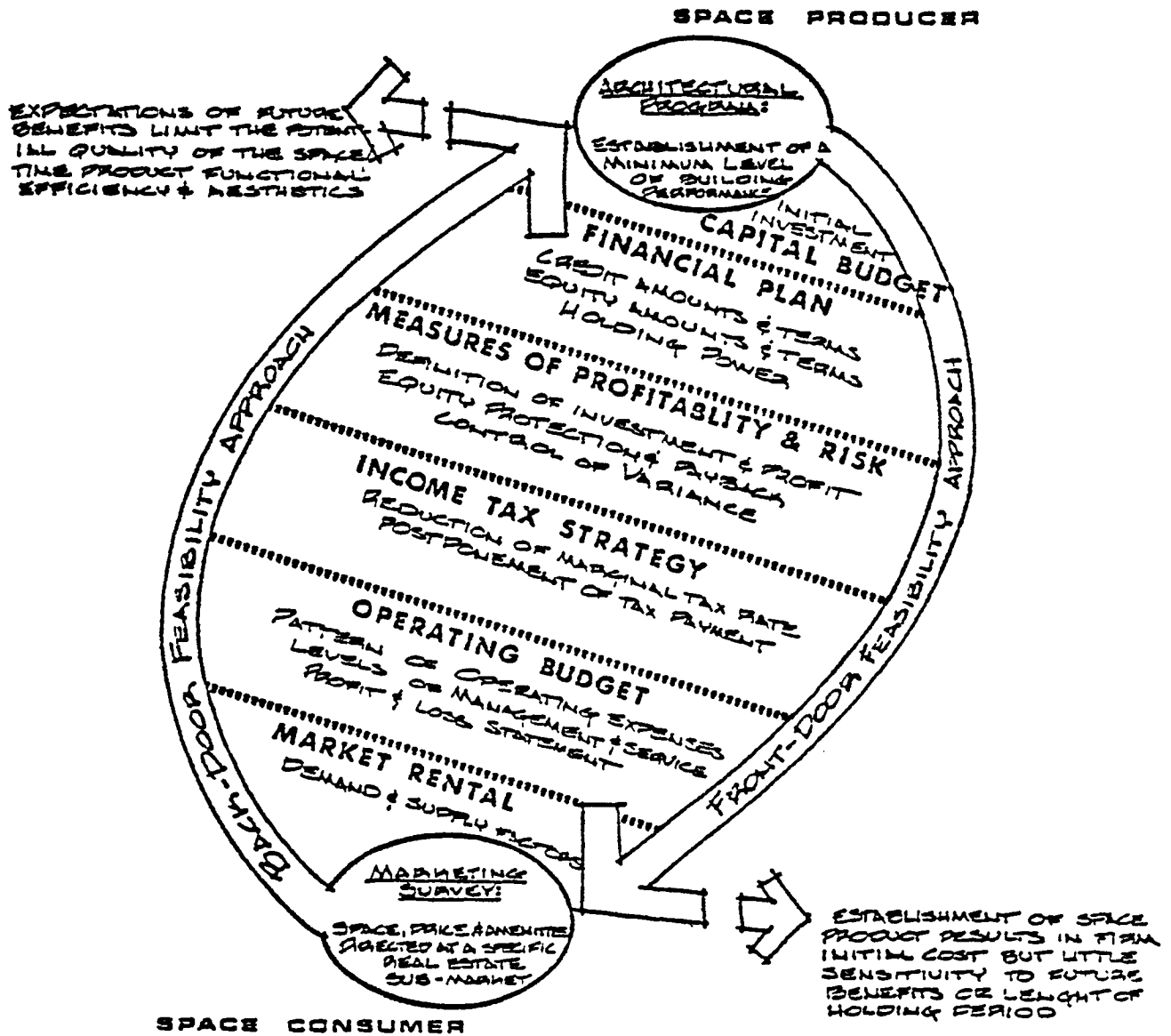
- A. Real estate is a tangible product - defined as artificially delineated space with a fourth dimension of time referenced to a fixed point on the face of the earth.
 - 1. Real estate is a space-time unit, room per night, apartment per month, square foot per year, tennis court hours, or a condominium for two weeks in January at a ski slope.
 - 2. To the space-time abstraction can be added special attributes to house some form of activity.
 - 3. Improvements from survey market to city layouts to structures define space.
 - 4. Legal contracts and precedents define time.
 - 5. Rights of use are defined by public values, court opinions.
 - 6. Private rights to use are those which remain after the public has exercised its rights to control, to tax, or to condemn.
- B. A real estate project is a business enterprise which combines a space-time product with certain types of management services to meet the needs of a specific user. It is the process of converting space-time needs to money-time dimensions in a cash economy.
 - 1. A real estate business is any business which provides expertise necessary to relate space-time need to money-time requirements and includes architects, brokers, city planners, mortgage bankers, and all the other special skills.
 - 2. The true profit centers in real estate are in the delivery of services and cash capital.
 - 3. Since private property rights are only the residual rights after subtracting the public interest, the only real private property is money.
 - 4. Equity ownership is the degree to which one enterprise controls or diverts cash from another real estate enterprise.
- C. The real estate process is the dynamic interaction of three groups, space users (consumers), space producers, and the various public agencies (infrastructures) which provide services and capital to support the consumer needs. (See Exhibit 1)
 - 1. Each of these three decision groups represent an enterprise, an organized undertaking. All are cash cycle enterprises constrained by a need for cash solvency, both short and long term.
 - 2. A desirable real estate solution occurs when the process permits maximum satisfaction to the consumer at a price that he can afford within the environmental limits of land while permitting the consumer, producer, and the government cash cycle to achieve solvency - cash breakeven at a minimum, after full payment for services rendered.

EXHIBIT I



THE REAL ESTATE DEVELOPMENT SYSTEM

EXHIBIT 2

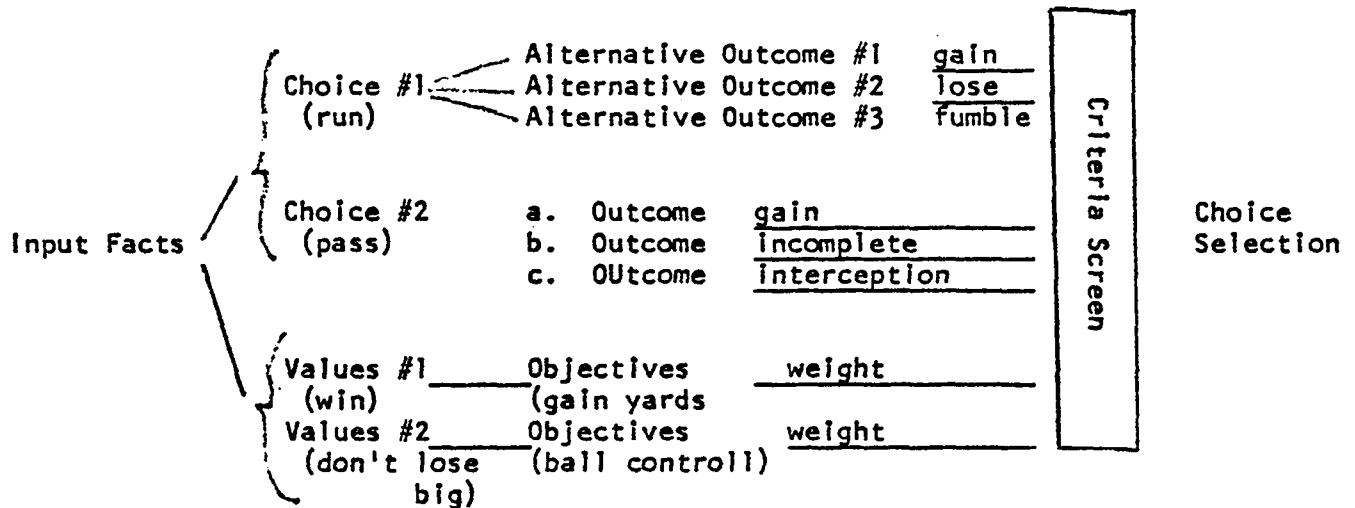


TWO SIDES OF THE COIN

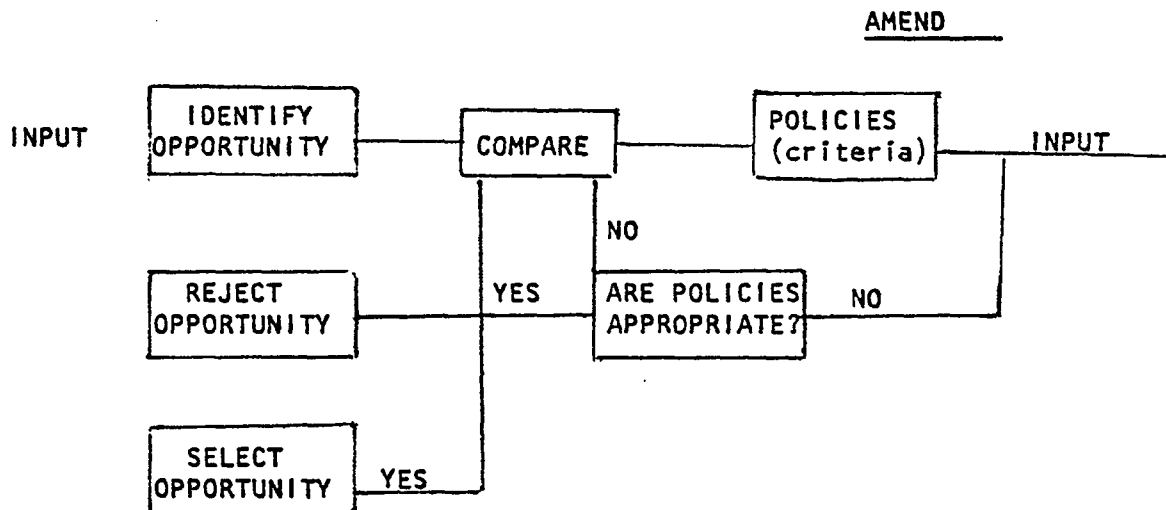
3. Solvency of the total process, not value, is the critical issue.
 4. Land is an environmental constraint and not a profit center.
Land provides access to a real estate business opportunity and is not the opportunity itself. Real estate business wants to control land to create a captive market for services.
- D. The old concept of highest and best use - namely maximizing the wealth of an individual from the ownership of land in a stated period of time is being replaced with more socially responsive definitions. Here at Wisconsin we use two concepts, one representing the ideal solution and one representing the most practical current solution.
1. The most fitting use is that use which is the optimal reconciliation of effective consumer demand, the cost of production, and the fiscal and environmental impact on third parties.
 2. Reconciliation involves financial impact analysis on 'who pays' and 'who benefits' - thus the rash of debate on how to do impact studies.
 3. The most probable use will be something less than the most fitting use depending on topical constraints imposed by current political factors, the state of real estate technology, and short term solvency pressures on consumer, producer, or public agency.
- E. A real estate decision has only two basic forms. Either someone with a site with land and possibly improvements is seeking a use, a need, a consumer with the ability to pay (or) a consumer, need, or use with a defined ability to pay is seeking some combination of space-time attributes he can afford.
1. Feasibility is a non-financial concept of fitting a real estate solution and service package to a context of public priorities and customer needs. The project must fit the general customer needs. The project must fit the general market, a specific consumer group, the environmental limits of the land, the nature of existing usable improvements, legal and political controls imposed by the public, the need for compatibility with the total and natural man-made environment, and the limits of physical design construction. (See Exhibit 2)
 2. Real estate investment is "buying" a set of financial assumptions accepted and realizations achieved, between proforma estimates and profit and loss realized.
- II. Financial management is control of variance in the various assumptions which combine to define net outlays and receipts. The uncontrollable risk remains so there must be a tolerance for surprise in any financial plan. Yield on investment is simply the ratio of receipts to outlays over time and that is the simple part, the essential question is how reliable are the estimates of outlays and receipts, how sensitive are they to surprise.
- A. An investment in a bond can be defined as to when it begins in time, when it is sold, when coupons are collectable and total costs and total receipts under alternative outcomes. Thus, yield is easily computed and risk depends on whether you can rely on the promisor.

1. Real estate financial analysis seldom enjoys such a rigid set of financial specifications and therefore seldom enjoys reasonable conditions of certainty.
 2. In place of rigid time tables and amounts, the real estate investor supplies many assumptions about the business future and its many alternative outcomes.
 3. To talk about risk and compare it between investments implies some explicit measures rather than simply subjective doubt--expressed by a shrug of the shoulders.
- B. Modern management defines risk as the potential variance between expectations and realizations, i.e., between proforma prospects and historical balance sheet and P & L statements.
1. Variance sometimes is a binary--yes-no question. You will or you won't receive zoning approval.
 2. Variance sometimes is the possible range around an average or a median--a distribution of alternative costs or revenue possibilities.
- C. For ease of analysis there are two kinds of risks:
1. Static risks (uncontrollable, or external events) are those which can only cause a loss due to surprise upset of a plan.
 2. Dynamic risks (partially controllable internal events) can produce profit or loss and are best controlled by the finesse of management execution of a plan.
- D. Risk evaluation or comparison grows out of the function of risk management for an enterprise.
1. Risk management has two objectives:
 - a. First priority - conservation of existing enterprise assets despite surprise events.
 - b. Second priority - realization of budgeted expectations despite surprise events.
 2. The process of risk management involves systematic and continuous:
 - a. Identification of significant exposures to loss
 - b. Estimation of potential loss frequency and severity
 - c. Identification of alternative methods to avoid loss
 - d. Selection of a risk management method
 - e. Monitoring execution of risk management plan
 3. The risk management process is both a philosophy of inquiry or analysis and a checklist of management concern, which is attempting to answer systematically "WHAT IF...?" questions, to anticipate surprise and to provide for a response or adjustment in advance of the contingency.

- E. Identification of significant exposures to loss can begin by using standard business documents as reminders, such as:
 - 1. Review of balance sheet accounts
 - 2. Review of profit and loss statement accounts
 - 3. Review of business organization or function chart
 - 4. Review of elements of financial feasibility analysis
 - F. Significant has to do with potential loss frequency, loss severity, and degree of uncertainty.
 - 1. Very frequent and minor become expense accounts
 - 2. Less frequent but predictable and major become reserves or budget allowances.
 - 3. Infrequent, uncertain but very severe become issues of risk management.
 - 4. A 50/50 probability is the most uncertain outcome.
 - G. The alternative methods of avoiding loss which everyone sub-consciously uses include:
 - 1. Eliminate risk exposure
 - 2. Reduce frequency or severity of loss (diversification or mortgage loan closing process)
 - 3. Combine risks to increase predictability (reserves for expenses)
 - 4. Shift risk by contract (subcontracts or escalator clauses)
 - 5. Shift risk by combination (diversification) by contract (insurance)
 - 6. Limit maximum loss (corporate shell or limited partnership)
 - 7. Hedging (sale and leaseback, options, contingent sales)
 - H. Selection of a risk management method depends on whether you are talking about a dynamic or static risk and the trade practices of a particular industry or business type.
 - 1. A mortgage is a risk management contract
 - 2. A lease is a risk management contract
 - 3. Any form of equity ownership is a trade-off between risk avoidance and degree of control desired of management or tax decisions.
 - 4. It should be noted that the principles are appropriate to any enterprise and not just real estate. Real estate education has been too quick to be inbred, to regard its problems as unique, rather than to relate to the evolution of management science in general.
 - 5. Risk management theory in the abstract simply represents a careful structuring of the common sense which you have successfully applied to your own business.
- III. Financial decisions have the same form as any decision process. Alternative courses of action are identified, ranked in terms of their possible results, and then one course of action is selected and acted upon.
- A. Even Woody Hayes talks about alternative outcomes and their desirability, he might diagram his thinking on the blackboard as in Exhibit 3.

EXHIBIT 3

- B. The systems engineer might describe a decision with a simple flow chart as below in Exhibit 4.

EXHIBIT 4

- C. Real estate decision like many others are so complex and require such systematic and comprehensive analysis of many relationships among variables that it is useful to talk in terms of models.
1. Models may be physical representations of an airplane fuselage or site topography.
 2. Models may also be used to communicate complex relationships in simple ways which may be more relevant to the decision maker. A report format is a model.
 3. Models can be used to state mathematical relationships, such as the capture rate of a given project relative to total demand for lots, apartments, or sq. ft. of office space. This seminar is concerned with financial models.

- D. Any model has three basic requirements:
1. A careful statement of the question or decision
 2. Determination of available or obtainable data
 3. A statement (hypothesis) about the relationship of the data to the question
- E. Constraints on the use of models to answer any particular problem requirement and models should be judged in terms of how they meet these constraints:
1. What are the limitations of the analyst who intends to use the model? Does he understand the implications and can he do the analysis?
 2. Communication of the results must have credibility with the decision maker. The client who has succeeded with decisions made using the net income multiplier may not accept an improved analysis as a result of cash flow projections or regression analysis.
 3. In all cases the cost of executing a particular model must be appropriate to the utility value of the result. The cost-benefit ratio must favor the decision model technique selected.
- F. Models are intended to describe alternative outcomes which can be ranked by some common denominators for their desirability, their vulnerability to surprise, and their efficiency in achieving objectives. Thus financial analysis is not interested in a specific number or set of numbers; rather it is interested in organizing facts quickly to represent alternative outcomes, to represent these outcomes in a form of ratios and comparative units which permit the investor to decide based on a firm set of criteria applied with judgment.

A CONTEMPORARY APPROACH TO A REAL ESTATE APPRAISAL REPORT

Minnesota Department of Transportation
Annual Real Estate Appraisal Conference

Presented by
Prof. James A. Graaskamp, CRE, SREA
School of Business, University of Wisconsin

- I. A fundamental premise of real estate appraisal is the concept of highest and best use, a premise that views land as a commodity and potential uses for highest profit not necessarily the socially desirable uses.
 - A. The term highest and best use presumes the individual appraiser knows better than society what is best by implication although in fact it boils down to what is the most profitable use which is legal, in demand and within the suitability option of the physical site.
 - B. However, appraisal literature is showing considerable call for redefinition of highest and best use concepts. Consider such key items as:
 1. "Highest and Best Use," William Crouch, The Appraisal Journal, April 1966, pp. 166-176. (Appraiser must prove effective demand and reasonable probability of political permission to use the site.)
 2. "Highest and Best Use - Fact or Fancy," Paul Wendt, The Appraisal Journal, April 1972, pp. 165-174. (Wendt makes the case very well that the opinion of highest and best use must consider so many cash flow variables on an after tax basis that the conclusions must vary with investor type just as judgments and analytical skill must vary by appraiser.)
 3. "The Importance of the Highest & Best Use Analysis," Paul Tischler, The Real Estate Appraiser, May-June 1972. (Tischler argues that proposed use must not only consider highest income to owner but also external costs and economic costs and impact.)
 - C. On a little broader base, the Rockefeller Land Use Commission noted a growing public consensus that land use was central to both environmental balance and social equity and therefore subject to public control first and private development second.
 - D. The definition of fair market value assumes that the buyer is knowledgeable as to all the uses to which it may be put and yet today we are in transition from viewing land as a commodity to land as a public resource.
 1. But the law has always defined private options to use and benefit as those rights which are not preempted by the public since the constitution reserves:
 - a. First claim on productivity - the real estate tax
 - b. First prerogative on use decisions - the police power
 - c. Compensation in cash only for entrenched private rights - eminent domain
 2. Court cases in Wisconsin have held that the land owner does not have inherent right to develop marsh land to the damage of the general public by upsetting the natural environment...

... nothing this court has said or held in prior cases indicates that destroying the natural character of a swamp or a wetland so as to make that location available for human habitation is a reasonable use of that land when the new use, although of a more economical value to the owner, causes a harm to the general public. ... While loss of value is to be considered in determining whether a restriction is a constructive taking, value based upon changing character of the land at the expense of harm to public rights is not an essential factor or controlling. The Land belongs to the people... a little of it to those dead... some to those living... but most of it belongs to those yet to be born..." Just vs. Marinette, 56 Wis 2d 7.

3. Wisconsin courts have held that the owner and the appraiser have constructive notice of soils and suitability for septic tank since the Soil Conservation Service is available in the courthouse, same as the Register of Deeds.

- E. Recognition of the fact that profit maximization must be limited by concerns for physical environment and community priorities for land use has resulted in redefinition of the most basic concept in appraisal; i.e. highest and best use, in the authorized terminology handbook sponsored by the American Institute of Real Estate Appraisers and the Society of Real Estate Appraisers. Compare the 1971 definition with that for 1975:

Highest and best use concept -

"A valuation concept that can be applied to either the land or improvements. It normally is used to mean that use of a parcel of land (without regard to any improvements upon it) that will maximize the owner's wealth by being the most profitable use of the land. The concept of highest and best use can also be applied to a property which has some improvements upon it that have a remaining economic life. In this context, highest and best use can refer to that use of the existing improvements which is most profitable to the owner. It is possible to have two different highest and best uses for the same property: one for the land ignoring the improvements; and another that recognizes the presence of the improvements."

P. 57, Real Estate Appraisal Principles and Terminology, Second Edition, Society of Real Estate Appraisers 1971.

"Highest and Best Use: That reasonable and probable use that will support the highest present value, as defined, as of the effective date of the appraisal. Alternatively, that use, from among reasonably probable and legal alternative uses, found to be physically possible, appropriately supported, financially feasible, and which results in highest land value. The definition immediately above applies specifically to the highest and best use of land. It is to be recognized that in cases where a site has existing improvements on it, the highest and best use may very well be determined to

be different from the existing use. The existing use will continue, however, unless and until land value in its highest and best use exceeds the total value of the property in its existing use. Implied within these definitions is recognition of the contribution of that specific use to community environment or to community development goals in addition to wealth maximization of individual property owners. Also implied is that the determination of highest and best use results from the appraisers judgment and analytical skill, i.e., that the determined from analysis represents an opinion, not a fact to be found. In appraisal practice, the concept of highest and best use represents the premise upon which value is based. In the context of most probable selling price (market value) another appropriate term to reflect highest and best use would be most probable use. In the context of investment value an alternative term would be most profitable use." Real Estate Appraisal Terminology, Edited by Byrl H. Boyce, Ph.D. SRPA, Ballinger Publishing Co., Cambridge, Mass. 1975

- F. The purchase of a piece of real estate today involves the acceptance of a great many assumptions about the future. Those who take care to validate these assumptions in a period of transition as to public land use control tend to have the most successful investment.
1. Business decisions today make explicit recognition of their assumptions and the need to act under conditions of uncertainty.
 2. Business risk is the difference between assumptions about the future and realizations, the proforma budget and the end of the year income statement.
 3. Risk management is the control of variance between key assumptions and realizations.
 4. An appraisal is a set of assumptions about the future productivity of a property under conditions of uncertainty.
- G. The concept of highest and best use of land was a commodity concept which did not consider externalities adequately. It is being replaced by concepts of most fitting use and the concept of most probable use.
1. The most fitting use is that use which is the optimal reconciliation of effective consumer demand, the cost of production, and the fiscal and environmental impact on third parties.
 2. Reconciliation involves financial impact analysis on "who pays" and "who benefits" - thus the rash of debate on how to do impact studies.
 3. The most probable use will be something less than the most fitting use depending on topical constraints imposed by current political factors, the state of real estate technology, and short term solvency pressures on consumer, producer, or public agency.
 4. Most probable use means that an appraisal is first a feasibility study of alternative uses for a site in search of a user, an investor, and in need of public consent.
- H. No matter what the field, a decision model must be considered in light of how it fits the following constraints:
1. The question to be answered
 2. The facts available
 3. The theory
 4. Credibility with the decision maker
 5. Facility of the analyst
 6. Cost benefit ratio of method

II. Uncertainty, fixed point values, and central tendency.

- A. Definition of Market Value: "The highest price estimated in terms of money which a property will bring if exposed for sale in the open market, allowing a reasonable time to find a purchaser who buys with knowledge of all the uses to which it is adapted and for which it is capable of being used." The Appraisal of Real Estate, Sixth Edition, American Institute of Real Estate Appraisers, 155 E. Superior Street, Chicago, Illinois 60611, page 25.
1. Competitive market conditions
 2. An informed buyer and seller
 3. No undue pressure on either party
 4. "Rational" or prudent economic behavior by both buyer and seller
 5. A reasonable turnover period
 6. Payment consistent with the standards of behavior of the market
 7. Market Value looks at the transaction from the point of view of the buyer
- B. It should be noted that there is an equal balance between the uses to which it may be put and the viewpoint of the buyer. The element of uncertainty is carefully hedged by a statement of limiting conditions:
1. To hedge the appraisal conclusion with a variety of limiting conditions at a time when the variables for consideration are increasing, is to produce a value conclusion that is almost fictitious.
 2. Since the concept of limiting conditions must be used sparingly lest the appraiser support consistency rather than accuracy, better methods must be found to introduce some tolerance for the conditions of uncertainty which surround the appraisal estimate.
 3. Given all the variables, a more logical appraisal format is required, at the very least.
- C. There may be many questions a client wishes answered, decisions which are the purpose of the appraisal. The appraiser always avoids his clients problem by stating "the purpose of this appraisal is to determine fair market value," thereby redefining the clients problem to the one question the appraiser is prepared to answer.
1. Given all the different applications of an appraisal and the need to broaden the market for appraisal services a more flexible appraisal format is required.
 2. Given all the assumptions under conditions of uncertainty, there is great need to dimension the appraisal answer with the range of alternative transaction prices which might occur.
- D. Purpose is a critical issue - when appraising for the seller isn't it your function to predict the most probable sales price even if the market depends on dummies and doctors? On the other hand the mortgage lender may be more concerned with income value in terms of cash available to pay off the loan once the dummies have been burned and foreclosed.
- E. As a basic premise for reorganization, it can be assumed that the function of the appraisal report is to reflect the clients purposes for which he needs an appraisal:
1. For the mortgage lender, the issue is the liquidating value or probability of future cash returns being adequate to repay the loan, interest, and cost and the distribution of profit centers over time

- to maintain repayment incentive to the borrower.
 - 2. For the courts eminent domain or assessment appeal, the statement of function leads to the definition of value as the jurisdictional market value.
 - 3. A report for a would-be buyer or seller might lead to the definition of value as investment market value.
 - 4. For most cases the appraiser would seek to determine the most probable selling price.
- F. Investment market value is a term coined by Mack Hodges for the present value of future income receipts, considering a specific set of assumptions about the after tax cash flow of property and requires some general description of the investment standards and tax status of buyers interested in a specific type of property, specifically income-investment property.
- G. Investment value, which requires some detail about motivations of a probable or specific buyer, is a special case of the broader concept of "most probable sales price" (Vp). This approach makes the point conclusion explicitly a statement of the central tendency (mode, mean, or median) around which a transaction price is likely to fall. Thus it generally supplies a valuation as a range of prices within which a transaction would most likely occur, similar to but not necessarily a concept of statistical standard error.
- H. Most probable selling price is derivative of the theoretical work of Prof. Richard U. Ratcliff.
- 1. The quotable definition: "The most probable price is that selling price which is most likely to emerge from a transaction involving the subject property if it were to be exposed for sale in the current market for a reasonable time at terms of sale which are currently predominant for properties of the subject type."
 - 2. See his article "Is There a 'New School' of Appraisal Thought?", The Appraisal Journal, October 1975.
 - 3. For the full theory: Valuation for Real Estate Decisions, R. U. Ratcliff, available from Democrat Press, P.O. Box 984, Santa Cruz, California 95060.
- III. The logic of the approach not only makes economic sense but leads to a superior outline for writing and reading an appraisal report. It gives the appraiser more freedom to use whichever technique seem appropriate but deny the appraiser the escape of convenient limiting assumptions and of the perfect market-prudent investor fictions of classic appraisal.
- A. The purpose of the appraisal (assessment, mortgage loan, insurance, etc.) leads to a selection of a value definition.
 - B. Detailed analysis of the property lead to a statement about most probable productive use.
 - C. Most probable use leads to inference about the most probably buyer-type, his motivation, and economic logic.
 - D. Comparability becomes a matter of analyzing a buyer-type rather than only a physical piece of nearby real estate. Buyer-type leads to a choice of valuation for appraisal method. In Ratcliff the basic approaches are:

1. Preferred method is to infer buyer behavior from actual market transactions.
 2. In the absence of adequate market data, the method requires simulation of probably buyer investment analysis or enterprise budgeting.
 3. Note that one or more of the three approaches may be used or some other technique may be utilized. For the next two days we are going to be looking at ways of analyzing productivity, or simulating investment productivity of agricultural property.
 4. Buyer type may be a class of buyers, the property owner next door, or a particular investor with a strong preference for property attributes identified. Past market actions can provide evidence that buyers are not fully informed and that prices are being set by ignorance but it is still probable price.
- E. The relationship of the report format to the choice of methods can be better understood by moving through a report outline provided in Exhibit 1.
1. It is useful to note that this general appraisal report form is very similar to that of a feasibility analysis of a specific site. An appraisal is a special case of the feasibility problem of a site in search of a use which has a market and a customer.
 2. The report provides equal balance between the physical attributes of the site and the investment assumptions of typical buyers.
 3. It forces the appraiser to be explicit about what he means in terms of property management, farm management, tree management, recreational property management or whatever. It requires the appraiser to have some professional ability to identify a program for utilization of the land.

Suggested Outline for
A CONTEMPORARY REAL ESTATE APPRAISAL REPORT
Based on Appraisal Theories of Richard U. Ratcliff
Prof. James A. Graaskamp
University of Wisconsin School of Business
3/14/77

Letter of Transmittal

1. Brief statement of appraisal issue
2. Value conclusion as most probable price within stated transaction zone
3. Sensitivity of conclusion to critical assumptions
4. Incorporation by reference of limiting assumptions and conditions

Table of Contents

Table of Exhibits

Digest of Facts, Assumptions, and Conclusions

1. Property type
2. Property location
3. Property ownership pattern
4. Keystone physical attributes
5. Keystone legal attributes
6. Keystone linkage attributes
7. Keystone dynamic attributes
8. Most probable use conclusion
9. Most probable buyer assumption
10. Most probable price prediction and central tendency
11. Correction of preliminary value estimate for external factors or market position of parties
12. Test of corrected probable price for consistency with most probable buyer objectives
13. Final value conclusion and range of error estimate as appropriate

I. Basic appraisal process constraints

- A. Statement of issue and circumstances for which appraisal is intended to serve as a decision benchmark and date of valuation
- B. Special problems implicit in property type or issue which effect appraisal methodology and definition of value
- C. Special assumptions or instructions provided by others
- D. Definition of value to be the objective of appraisal analysis and discipline of appraisal process
 1. State selected definition and source
 2. List implicit conditions of the definition
 3. Special assumptions required by relevant legal constraints
- E. Definition of legal interests to be appraised
 1. Legal description and source

2. Permits, political approvals and other public use entitlements included in sale
3. Fixtures or personalty to be included with sale
4. Specific assets excluded as inconsistent with issue or premise of appraisal

II. Property analysis to determine most probable use

A. Site analysis

1. Physical (static) site attributes (including size, shape, geology, slope, soil, hydrology, etc.)
2. Legal-political attributes (including zoning, covenants, easements, special assessments, or other land use codes and ordinances, etc.)
3. Linkages of site (including key relationships to networks, populations, or activity centers which might generate need for subject property)
4. Dynamic attributes of site (perceptual responses of people to site in terms of anxiety, visibility, prestige, aesthetics, etc.)

B. Improvement analysis

1. Physical (static) attributes of improvements (cataloged by type, construction, layout, condition, structural flaws, etc.)
2. Special capacities and conditions of site improvements (such as wells, bulkheads, irrigation systems, parking surfaces with unique salvage or re-use characteristics)
3. Legal-political constraints on use of existing improvements (including capacities imposed by utilities, building codes and inspection liens, fire codes, conditional use procedures, or neighborhood planning groups)
4. Special structural linkages to off-site elements (tunnels, bridges, adjoining structures, etc.)
5. Dynamic attributes of existing improvements (affecting how people relate to the property such as historical sentiment, building style, impressions created by bulk, texture, previous uses, or functional efficiency)
6. Current uses and tenancies of improvements, if any

C. Identification of plausible alternative use scenarios for subject property

D. Comparative analysis of alternative uses for fit to constraints and exploitation of marketable attributes

1. Testing and ranking of use strategies for effective demand
2. Testing and ranking alternative use strategies for political compatability
3. Testing alternative use strategies for compatability with physical property attributes within reasonable cost to cure

E. Ranking of remaining alternative use strategies for economic viability

F. Selection of most probable or most fitting use

III. Selection of appraisal methodology appropriate to most probable use

- A. Specification of most probable buyer type implied by most probable use
 - 1. Alternative buyer types and motivations
 - 2. Specification of essential site, improvement, financial, or key decision criteria of principal alternative buyer types
 - 3. Selection of most probable buyer type as basis for prediction of a sales transaction with logic for discard of alternatives
- B. Explanation of appraisal methodology for prediction of probable purchase price of subject property assuming most probable use and most probable buyer models
 - 1. Preferred method - to infer buyer behavior from actual market transaction and market data available from sales by comparable buyers of acceptable alternative properties
 - 2. In the absence of adequate market sales data, the alternative method selected for simulation of probable buyer decision process
 - 3. The test proposed to relate probable price prediction to criteria of probable buyer profile
- C. Search for comparable market sales transactions
 - 1. Explanation of search parameters
 - 2. Investigation of sale transaction circumstances
 - 3. Evaluation for comparability
 - 4. Definition of predominant terms of sale
- D. Establishing basis for sales transaction comparison
 - 1. Unit of comparison
 - 2. Method of comparison
 - 3. Source of comparative adjustments
 - 4. Decision as to adequacy for inference from market transactions
- E. Simulation of probable buyer decision process if market comparison approach is inconclusive or impossible
 - 1. Explanation of simulation model
 - 2. Schedules of simulation assumptions
 - 3. Range of alternative simulation predictions
- F. Determination of most probable price and standard error of prediction
- G. Correction of preliminary value estimate for external factors
 - 1. Identification of conditions relative to date of appraisal not present in market comparison assumptions
 - 2. Specification of political contingencies which might upset normal appraisal assumptions of substitution
 - 3. Identification of any violation of conditions in the definition of value by the appraisal methodology
 - 4. Indication of adjustment necessary to preliminary probable price estimate or explicit statement that no adjustment is necessary

H. Test of most probable price or value conclusion by means of:

1. Comparison to a selected alternative appraisal methodology
2. Comparison to decision criteria appropriate to issue (such as financial ratios required by mortgage lender, comparative assessments of similar property for the tax appeal board, rates of return in alternative investments, construction prices for similar property, or whatever demonstrate consistency with statement of the issue)

IV. Appraisal conclusion and supporting documentation

- A. Definition of value and value conclusion of the report
- B. Certification of independent appraisal judgment
- C. Statement of limiting conditions which establish:
 1. Contributions of other professionals on which report relies
 2. Facts and forecasting under conditions of uncertainty
 3. Assumptions provided by the client
 4. Controls on use of appraisal imposed by the appraiser
- D. Appendices and supporting legal documentation of permits, etc.
- E. Professional credentials

CONTEMPORARY REAL ESTATE CONCEPTS & APPRAISAL METHODS

Prepared for
Minnesota Department of Transportation
Annual Real Estate Appraisal Conference
Thursday, May 5, 1977
Paul's Place Inn, St. Paul, Minnesota

Instructor: Prof. James A. Graaskamp
University of Wisconsin School of Business

AFTERNOON SESSION

III. Property Analysis to Determine Most Probable Use

An appraisal report is a Type I feasibility study, specifically a site in search of a market. Therefore it is necessary to determine the alternative use programs which could be put into operation to fit the real estate to the effective demand of real estate users in the market-place. In short, the questions are what kind of space-time can be created to sell or rent and who needs it?

- A. To develop alternative scenarios (hypothesis about the future use of the real estate), it is first necessary to inventory the attributes of the real estate and the constraints which might curtail such use.
 1. Physical (static) attributes existing at the subject property.
 2. The hierarchy of legal constraints controlling alternative uses:
 - a. Land use zoning
 - b. Building codes
 - c. Local political factors
 - d. State regulations such as platting laws, shoreline controls, etc.
 - e. Federal controls (where relevant)
 - f. Private covenants and licenses
 3. Linkage attributes in evaluation of the strength of these relationships (Relationship to generators of flows of people and things)
 4. Dynamic attributes and evaluation of their significance (How people perceive the site, prestige, anxiety, etc.)
- B. Selection of alternative use strategies (scenarios)
 1. No change from existing use
 2. Existing use plus several hypothetical alternatives consistent with attribute analysis
 3. It is useful to test for economic viability and then weed out those alternatives where the numbers are plausible on the basis of their political compatibility, technical feasibility, or available effective demand for the real estate.

- C. A quick and effective method of testing for economic viability are the front and back door approaches in Exhibit 6 & 7. These are not valuation methods but they do make it possible to rank alternatives even though the justified investment budget initially computed is subject to all of the potential errors of the residual method of valuation.
- D. With an initial economic ranking of alternatives, it is then necessary to evaluate each alternative scenario in the following order:
 - 1. Political acceptability with those who would regulate that use for development process.
 - 2. Effective demand potential scaled as to both numbers and dollars which could be paid or financed and be competitive with alternatives on the market.
 - 3. Given political requirements and maximum budget derived from effective demand, it is then possible to comment on the basic technical feasibility since that element often depends on the money available for technical solutions.
 - 4. See Exhibit 8.
- E. The most fitting use is that use that is economically viable in terms of effective demand and cost to produce and politically acceptable. The relationships between effective demand and cost to produce is determined by technical aspects of feasibility analysis. Not only do the technical problems determine cost but basic design concepts must be discovered to neutralize negative attributes of the property while marketing the positive attributes of the property. See Exhibit 9 for sample appraisal demonstration.
- F. The concept of most probable buyer follows from the most fitting or most probable use since that use will require an investor with the expertise and the investment limitations appropriate to the use identified.
 - 1. Comparable sales must be qualified not only as to similar functional applications of the property but also in terms of similar investor characteristics.
 - 2. For example; comparable buyers have an impact on sales price:
 - a. First owner or second owner tax shelter property such as apartments, particularly subsidized apartments or structures suitable for renovation.
 - b. Small office buildings of 12,000 sq. ft. or less often sell to users while larger office buildings sell for income property investment generating up to 10% cash on cash.
 - c. Used commercial projects in need of intensive renovation will sell to professional developers who will then find partners down stream of the original purchase.

3. Alternative buyer types must be reviewed and a profile of the most likely buyer selected. Market comparables will both suggest the type of buyers in the market and the analyst will have to match market observations to the attributes of the specific property. Think like a broker! The most likely buyer will be either the prime tenant or a nearby enterprise needing to expand or change from tenant to owner status.

IV. Prediction of Most Probable Sales Price

As you recall from the morning session there are only two ways to predict probable sales price, a future transaction under conditions of uncertainty. The preferred method is to rely on inference from actual sales to buyers fitting the most probable buyer profile. In the absence of sales the appraiser must attempt to simulate the buyers logic.

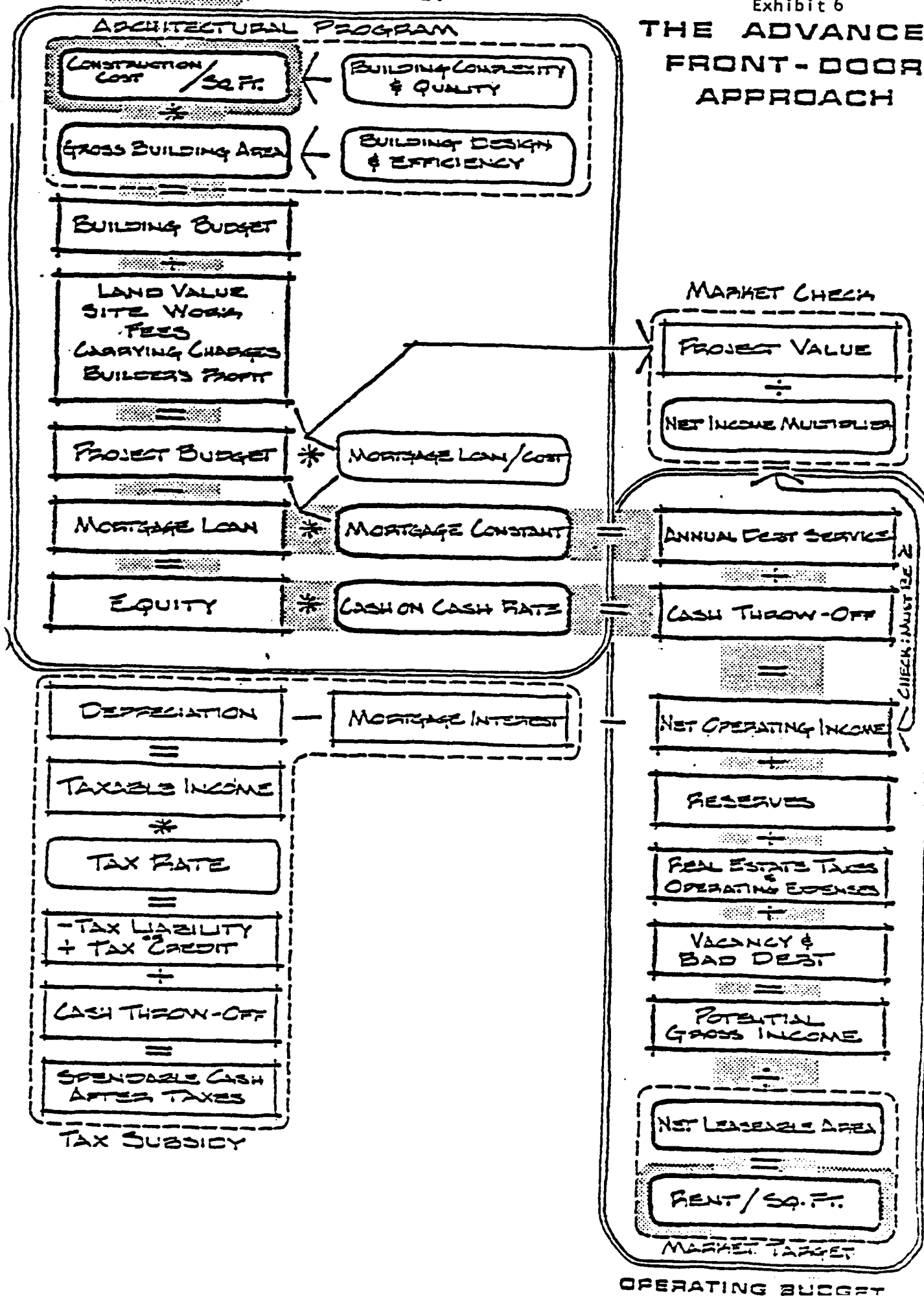
- A. Reference to the sample appraisal excerpts in Exhibit 9, for the last five pages will demonstrate the use of linear regression to make seemingly unlike properties serve as appropriate sales for comparable buyer purposes.
 1. Note the use of averages and a standard error of the mean for sales of apartment sites. The prices seem scattered until the actual mix of units expressed as number of rooms is utilized. Where there are sufficient sales a mean with standard error calculation provides a good measure of the transaction zone around the most probable price.
 2. Two examples of linear regression using weighted point totals are given. The appraiser must be rigidly objective in establishing points for each category of factors. However, he may adjust the weights given in each category as a method of exploring to some degree buyer motivation.
- B. In the absence of sales or where there is a property which is clearly a commercial property for income, after-tax cash flow may be superior to the market approach, particularly when the sale involves unusual financing terms or other factors.
 1. See Exhibit 10
 2. A variety of cases in California, Michigan, and Wisconsin have been decided on the basis of after-tax cash flows.
 3. In one case in Wisconsin an appraisal based on the cost approach of a major insurance company office building was modified by testing the resulting value to determine the resulting investment rate of return. Successfully lower numbers were tested until the after tax rate of return became a minimal acceptable after-tax yield. The difference between the justified price and cost was determined to be economic obsolescence.
- C. Most probable sales price theory recognizes that the error of prediction and the unpredictable aspect of behavior permit a range of error. It is important to know the degree of error that may be inherent in a rational assumptions or revealed by the dispersion of sales transactions in the marketplace.

1. The transaction zone attempts to measure the range of alternative prices most likely to occur around the most probable price.
 2. Statistical technique applied to market sales such as averages deviation from a mean, or standard error calculation for linear regression all provide an initial measure of this range or dispersion of transaction prices.
 3. Financial simulation can also reveal a range of alternatives utilizing sensitivity analysis. See Exhibit 11.
 4. However, the appraiser must modify these initial measures of error for any conditions, economic, physical, or market, which did not exist at the time comparable sales occurred or were not accounted for in the assumptions with which the appraiser simulated buyer logic. Note that only those national, regional, or community factors which bear on the subject property are brought in at the end of the initial appraisal and only as relevant. The traditional appraiser moves from these general conditions to the particular; the modern appraisal works inductively from the facts it knows about the property toward a larger framework of opinion and assumption.
- D. How do these techniques for most probable price relate to fair market value. Very simply, as we use the following definition:
- "Fair market value is the most probable selling price, i.e., that selling price which is most likely to emerge from a transaction involving the subject property if it were exposed for sale in the current market for a reasonable time at terms of sale which are currently predominant for properties of the subject type."
1. Implicit in this definition is:
 - a. Prediction of a future transaction price is a business forecast under conditions of uncertainty. Therefore it is appropriate to state the value conclusions as a central tendency within a range of alternative price outcomes, reflecting the imperfections of the real estate market, the negotiation posture of buyer and seller, and the limitations of the appraisal art.
 - b. It is not necessary that buyer and seller have a variety of alternatives beyond making the transaction or doing nothing.

CAPITAL BUDGET

Exhibit 6

THE ADVANCE FRONT-DOOR APPROACH



CAPITAL BUDGET

ARCHITECTURAL PROGRAM

24.64

*

39,000

960,982

+

237,765

=

1,198,747

*

45 %

898,640

*

.113477

300,107

*

.075

36,037

-

85,371

=

3075

*

50%

=

- 1537

+

22,508

=

20,971

TAX SUBSIDY

150% / 40 yrs on
960,982

THE ADVANCED FRONT-DOOR APPROACH

MARKET CHECK

1,198,747

÷

9.6

101,975

+

22,508

=

124,483

+

0

+

72,345

+

10,359

=

207,187

÷

33,150

=

6.25

MARKET TARGET

OPERATING BUDGET

OPERATING BUDGET

MARKET SURVEY

RENT/SQ. FT.

MARKET RENT / SPACE UNIT

*

NET LEASEABLE AREA

= TARGET CAPTURE RATE

=

POTENTIAL MARKET TOTAL SPACE UNIT DEMAND

POTENTIAL GROSS INCOME

*

DEFAULT POINT

TOTAL CASH OUTLAYS

OPERATING EXPENSES

=

CASH MARGIN

REAL ESTATE TAXES

=

VACANCY

RESERVES

=

CASH AVAILABLE FOR DEBT SERVICE

MORTGAGE CONSTANT

MORTGAGE LOAN

CASH ON CASH RATE

EQUITY

CASH THROW-OFF

PRINCIPAL REPAYMENT

DEPRECIATION

TAXABLE INCOME

TAX RATE

- TAX LIABILITY
+ TAX CREDIT

CASH THROW-OFF

SPENDABLE CASH
AFTER TAXES

TAX SUBSIDY

Exhibit 7

THE ADVANCED BACK-DOOR APPROACH

MARKET CHECK

POTENTIAL GROSS INCOME

VACANCY, R.E. TAXES & OPERATING EXPENSES

NET OPERATING INCOME

NET INCOME MULTIPLIER

TOTAL PROJECT VALUE

LAND VALUE
SITE WORK
FEES
CARRYING CHARGES
BUILDER'S PROFIT

BUILDING BUDGET

GROSS BUILDING AREA

CONSTRUCTION COST / SQ. FT.

ARCHITECTURAL PROGRAM

CAPITAL BUDGET

OPERATING BUDGET

Exhibit 7 (cont'd.)

THE ADVANCE BACK-OFF APPROACH

MARKET SURVEY

6.25	←	6.25
*		
33150	=	10%
	*	
=		331500
207,187	*	84.14%
174,320	=	37,294
32,867		35,051
10,359		
0		

MARKET CHECK

207,187
=
124,483
*
9.6

22,508
+
16,604
=
36,037
=
3075
*
50%
=
-1537
+
22,508
=
20,971

→ 150% / 40 yrs on
960,982

101,975
÷
.113477
=
.075

898,640
+
300,107
=
1,198,747
=
237,765
=
960,982
÷
39,000
=
24.64

CHECK: MUST BE 2

ARCHITECTURAL PROGRAM

CAPITAL BUDGET

TAX SUBSIDY

Explanatory Notes to Exhibits 6 & 7

I. Preliminary Test of Economic Feasibility

- A. There are two basic financial approaches to feasibility analysis which provide an initial set of numbers or financial constraints to be tested against facts in the marketplace. Both are related to the space-time equals money-time truism and the financial concept of cash flow converted to justified investment, i.e., capital budget.
 1. The capital outlay approach permits conversion of the total cost to acquire to a required rent schedule. (See Exhibit 6 for a flow chart representation). It converts the capital cost of a space-time product to an operating revenue over time equivalent. Somehow it is called the front door approach.
 2. The market revenue approach permits conversion of a desired rent schedule into a detailed budget allocation for justified investment in the project, concluding with net building budget for brick and mortar of various rental components in the project. (See Exhibit 7). It is called the back door approach but is preferable to link financing to rents, rather than to a ratio of a soft value number.
- B. Both the capital and the market approaches are models which serve several functions at the outset of any feasibility study, for purchase of an existing project or design specification of a proposed one. Like all models they oversimplify the case and ignore income tax consideration and non-quantitative objectives of the client. Nevertheless at the start they perform several useful functions for the analyst:
 1. The formulas edit the data necessary to specify the space-time product and to convert that product to money-time assumptions.
 2. The process immediately focuses analysis on the testing of the critical assumptions for success, namely availability of the required rent or possibility of construction within the required budget.
 3. It permits the analyst to repeatedly adjust the assumptions in a search to bracket a range of workable solutions (alternative choices) and then seek the relevant market data which may rebut or support the assumption of the capital or market proforma model.
 4. The capital and the market approach are the two components of a reversible equation which permits sensitivity analysis of the critical variables which are within the control, in part, of the investor-developer.

II. Risk Management Aspects of Front Door - Back Door Approach

The risk manager is first interested in conserving his net worth position and then in realizing the minimum acceptable return of expectations. To those ends the front door - back door approach provides a preliminary criteris or test.

- A. The reserve items represent cash unavailable for distribution because it is needed for maintenance of operations. In addition, it represents the cushion available for surprise, contingencies, or errors in the estimate of revenues, vacancy, real estate taxes, or expenses. That is the true function - to cushion the impact of variance on cash required for debt service or cash dividends for equity.
- B. The loan-to-cost ratio is the lender's first defense so that:
 - 1. Devaluation due to static losses falls on the borrower and,
 - 2. the cash lost by the borrower provides incentive to control dynamic or internal risks.
- C. The default point is more useful as it represents the cash breakeven point, expressed as a ratio of gross potential rent. If revenues fall below that point, either the lender is not paid or the borrower puts in additional cash: It represents the belief that solvency, not value, is critical financial issue for lender and owner.
- D. Maximum potential loss is the sum of cash equity, personal obligations, on notes, and contingent tax liabilities in the event of foreclosure.
- E. The reciprocal of cash-on-cash for the equity position is one measure of the payback period, i.e., how long it takes before maximum potential loss to equity is reduced to zero.
 - 1. Assume no personal obligation on note and no tax on foreclosure. A 12% cash-on-cash ratio is an 8.5 year payback.
 - 2. Later, when we consider after-tax benefits and other sources of cash back to the owner, the payback will shorten meaning that the maximum potential loss over time is reduced. This is an important strategic concept.
 - 3. To reduce maximum potential loss by increasing the mortgage increases the default point. Use of the corporate shell reduces maximum potential loss to the shareholders but prolongs the payback period by reducing tax shelter.
- F. The next step is to apply front door and back door approaches to a variety of cases to see how it can be extended, detailed, etc.

Exhibit 8

	Political Acceptability	Technical Feasibility	Market Acceptability	Financial Viability
Scenario #1 (Parking lot)	Demolition permit would be fought by City Hall staff and City Council.	Poor access from alley only.	Good market with legislators and other businesses on 100 N. Pinckney block.	Would reduce holding costs but produce negative justified purchase of subject as is. Residual value = -\$32,560. See Appendix
Scenario #2 (New building)	Demolition permit and building permit contingent on acceptance of historical symbolic facade and energy efficient design. City Hall would distrust demolition for fear new building would not materialize.	3-story, masonry plank and bearing wall is low cost construction. Elevator and sprinklers meet codes. Has cost advantage over high-rise.	Despite slight rent advantage modern office space is soft market and building too small to compete for state government offices. Parking access still inadequate to compete with other non-investment bank buildings.	Justified investment produces negative justified purchase unless investors will pay for future appreciation. Residual Value = -\$53,995 See Appendix
Scenario #3 (Retail renovation)	City would accept renovation of 1st floor into 3 small shops and improvement to minimum fire codes as City Hall is desperate to attract new retail units to justify Concourse proposal.	Minimum unknown structural risks as foundations for fire walls exist and mechanicals for 1st floor only were improved by previous tenant.	All new shops and enterprises on the Square have preferred smaller 20x75 spaces as shown in analysis of market comparables. Large retail spaces remain vacant (Wolf-Kubly, Chandlers, Manchesters Home Store, Park Hotel)	Justified investment less minimum renovation cost and risk of overruns provide a positive budget for purchase as is. Residual value = \$58,068 See Appendix
Scenario #4 (Retail & office suites renovation)	Building Dept. would require extensive modification of 2nd and 3rd floors; better fire-proofing of basement and might push for landmark conservation of atrium.	Office space requires less window area, no open space, no minimum room sizes so it's easier to remodel as office space than as apartments. Would require complete relocation of HVAC and expensive fire-proofing of atrium. Could retain exterior metal grid.	Office suites would have to be 2 floors high with spiral stair - unconventional and with inadequate parking or view of capital. Soft market except at low rents for graphic artists and related uses.	Justified investment produces higher residual for building as is, but with greater risk of unexpected renovation costs and high risk of office vacancy or low office rents. Residual value = \$97,821 See Appendix

	Political Acceptability	Technical Feasibility	Market Acceptability	Financial Viability
Scenario #5 (Retail plus apartment renovation on 2nd or 3rd floors)	Nothing could please City Hall more than 5 townhouses on the Square above retail shops. Required vertical 2-story units more suited to residential than office. Required window area might give City Hall excuse for requiring removal of metal screen and expensive restoration of Victorian building front. Open space requirement met with 2nd floor deck over parking.	Expensive renovation required to meet stiff fire codes for residential uses. No. of units constrained by size of lot to 5. Atrium roof would need to be removed to provide outside window area. Atrium floor must be water-proofed. Cost per unit high relative to smaller existing apartments near Square.	Good market for a few 2-bedroom apartments on the Square for legislators or clerical people working on Square. 4 single people could pay \$300-320 a month and would not need parking.	Produces virtually same justified value as office space. Has greater risk of overrun in remodeling budget but much lower risk in achieving rental income than office space. Apartments could be done in 2 or 3 phases after retail 1st floor has been renovated and HVAC relocated. Residual value = \$104,313 See Appendix

Exhibit 9

TABLE OF CONTENTS

Letter of Transmittal	Page
I. Statement of Appraisal Purpose and Fair Market Value	1
II. General Description of Property	1
III. Appraisal Report Research and Organization	2
IV. Subject Site Attributes	3-5
V. Subject Site Linkages	5-7
VI. Dynamic Site Attributes	7-8
VII. Alternative Redevelopment Strategies for Subject Site	9-13
VIII. The Most Probable Buyer-Investor	13-14
IX. The Most Probable Sales Price for Subject Property	14-17
FAIR MARKET VALUE CONCLUSION	18
Statement of Limiting Conditions	
Certificate of Appraisal	
Appendix I and II	
Professional Credentials	

I. Statement of Appraisal Purpose and Fair Market Value

- A. The purpose of this appraisal is to provide an opinion of fair market value for the subject property to be described in a narrative appraisal report to the City of Madison Real Estate Division. The appraiser has been instructed to regard the properties in question as a single entity owned by the Lake Development Monona Partnership, although title reports indicate three separate ownerships, and to consider highest and best use only as consistent with existing C-3 zoning as specified in a letter from M. N. Gawlik to Landmark Research, Inc., dated August 30, 1974.
- B. For purposes of this appraisal fair market value is defined as the amount which can be realized on sale by an owner willing, but not compelled to sell, to a purchaser willing and able but not obliged to buy. Wis. J.I. Civil Part II 8100 P.C. Monday P.T.A. vs. Milwaukee City Expressway Commission 24 Wis. (2d) 107-128 NW s(3)(63) 1963.
- C. It is recognized that the subject site is currently pledged toward a variety of notes and mortgages but these claims upon the asset are not recognized in this valuation. Instead the purpose of the appraisal is to decide if the fair market value of the site would justify assumption of these notes by the buyer and since release of an obligation is constructive receipt of cash, the appraisal seeks the cash price which the seller could expect as fair market value.

II. General Description of Subject Property

- A. The general location of the property is in the 600 block of Williamson Street in Madison, Wisconsin on the shore of Lake Monona at the foot of Blount Street. Improvements include the former Crane Building Warehouse which is partially occupied by a used furniture shop; an abandoned and vandalized commercial garage building; an old railway spur track; and below grade rubble and footings of a demolished brewery. The name of the former brewery gives the site the general reference (identification) of the Fauerbach property.
- B. The legal description of the subject property defines it as: Part of lots 3 and 4 and all of lots 5, 6, 7, 8, and 9 of block 126, Original Plat, City of Madison, Dane County, Wisconsin. (See Exhibit #1; for full legal description supplied by City of Madison).
- C. The tax parcel numbers include:

Parcel No.	Land Assessment	Improvement Assessment	Total Assessment
709-134-2002-5	70,200	15,200	85,400
709-234-2003-3	56,200-	26,900	83,100
709-234-2004-1	111,200	0	111,200

III. Appraisal Report Research and Organization

- A. The key question in forecasting the fair market value of any property is determining what might be the most profitable use to which the property could be put by possible investors in the marketplace. Once some determination of the most probable use has been made, it is possible to identify the most probable type of buyer who would seek that site and then, discover how that buyer might determine his offering price given his identified objectives, legal and economic constraints to which the property is subject, and available alternatives. The best method for determining most probable buyer behavior is by inference from actual purchase prices paid for properties of similar use potential. Where sufficient market data is not available, it may be possible to simulate the income expectations that would result from ownership and assign some part of that investment value to the land as it presently exists. Where existing improvements play a minimal part in the calculus of possible investors, the cost approach is irrelevant, as in this case, and should not be used.
- B. To identify alternative possible uses for the site, it will be first necessary to describe the various characteristics or attributes of the subject property which provide important advantages or disadvantages to the investor. These attributes can be subdivided into static attributes (inherent physical characteristics), linkages (relationship to activities and properties around it), and dynamic behavioral attributes (attitudes of various public segments to the site).
- C. In this case the appraiser will test a number of different development strategies for the site consistent with C-3 zoning, and select the probable use strategy for private investment in light of site attributes and market demand as of October 1, 1974. This will lead to a general identification of the most probable type of buyer who would be interested in the site and that in turn would lead to selection of comparable sales for analysis.
- D. Primary reliance will be placed upon the market comparison approach but it should be noted that current economic conditions affecting the level of effective demand, the degree of leverage, the cost of construction, and the income tax environment of real estate represent a change in conditions which require careful adjustment of sales prices occurring in the more prosperous years just passed.
- E. To assist in the technical analysis of site potentials and to provide some initial sketches of alternative layouts consistent with existing zoning, this study has utilized the services of Glad, Sarko, and Associates of 418 Russell Walk, Madison, Wisconsin, land planning consultants and designers.

IV. Subject Site Static Attributes

- A. The subject property presently has an irregular shape, as it lies between a somewhat meandering shoreline of Lake Monona to the south and a bend in the 600 block of Williamson Street--a major boulevard arterial on the north which suffers a reduction in width from 120 feet of right-of-way to 100 feet at the west end of the subject property. The property has approximately 425 feet of frontage on Lake Monona, 257 feet of depth on its Blount Street frontage to the southeast, but only approximately 310 feet on Williamson Street and 150 feet of depth on its western border which slices across Lots 3 and 4. These borders encompass about 94,470 square feet of land area. However, this generous site area is misleading, despite its zoning as C-3 Highway Commercial District due to the following: (See Exhibit #2 & #3)
 1. A dockline is established for lake front property by the State of Wisconsin which establishes the shoreward point beyond which construction or substantial grade changes are not permitted. This dockline leaves 21,200 square feet of land area between it and the high water level which is set at 1.50 feet, City datum, leaving approximately 73,270 square feet available for development, if it were not for the new Madison waterfront controls.
 2. The site is subject to the more restrictive waterfront development standards as established by City of Madison, Ordinance 4664 (as of 8-5-74), which requires the following:
 - a. A conditional use permit for virtually any change in the status quo. (See 28.04(19) City Building Code.
 - b. Shoreline to building setback shall conform to existing development pattern which in this case has been dictated by the Chicago and Northwestern spur track. From discussions between John Glad and Barney Riley of the City of Madison Zoning Department, on September 17, 18, and 19 it was determined that the building line would be a distance of 101 feet from the lake shore. Thus the area left for development is approximately 49,730 square feet between the rear yard line and Williamson Street.
 3. City of Madison Ordinance 28.09 2d(3) and 28.09 4d (1) further modify C-3 zoning. Residential use is restricted to the second floor and above, and to 50% of the total building floor area unless a conditional use permit for greater residential area is obtained. Recent decisions of City Council suggest flexibility on area limit but reluctance to permit residential on first floor.
- B. The dominant positive feature of the site is its 425 feet of southeast shoreline exposure on Lake Monona, providing an opportunity for a pleasing view and excellent solar orientation. The site has a gradual slope of 4% from Williamson Street down to the lakeshore.
- C. The physical character of site improvements is mixed and negative, generally representing clearance costs before vacant site could be utilized. Lots 8 & 9 are essentially leveled with fill and rubble from a former brewery and the condition of underground footings and

basement floors which remain below the backfill is not known but could pose additional expense for new construction. On Lot 7 is a one and two story building with concrete foundations, a partial basement for a boiler room, and brick mill construction. Outside walls are masonry and building tile with steel industrial windows. Interior of building is a medium strength wood beam and second floor loft system spanned by large wood arch trusses which feature some skylights and a front section of office-display space. The arches, skylights and fair condition of the building would seem to indicate that it has some potential for restoration and reuse.

The remainder of the parcel of Lots 4, 5, and 6 are covered by a one-story garage building, with a small partial basement, a few minor structural additions, and a paved concrete apron on Williamson Street which once served as a Sinclair Filling Station. The wooden roof, supported on light steel trusses has rotted away and would need to be replaced. The balance of the building has been vandalized to the extent there are no windows remaining, wall board has been ripped away, and interior fittings stolen or burned (by unknown occupants to keep warm)? The obsolete layout and vandalism lead to the conclusion that this building should be razed. To the rear of the building is a side track coming from the Blair Street side which has been officially released by the Northwestern Railroad and could be removed.

Approximately 100 feet of land between Lake Monona and the existing building is unimproved except for cinder and gravel surfacing and some industrial fencing. There is a concrete alley between lots 6 and 7 to provide access. At the foot of Blount Street, to the southeast corner of the site, is a popular fishing pier. A nearby culvert dumps hot water from the Madison Gas & Electric generator plant into the lake so that the lake never freezes in this immediate vicinity.

At the southwest corner of the site is an easement approximately ten feet in width and an inoperative pumping station which have been the property of Madison Gas & Electric Company since 1899. There is no indication that this interest has been abandoned or released as was the case with the side track.

- D. Utilities available on the Williamson Street frontage include 8" sewer collector, 8" city water line, 6" Madison Gas & Electric gas line, and full electric service. Sewer may be inadequate for extensive apartment development on subject site depending on current load. Madison Gas & Electric may be able to supply steam or hot water for heating from its generator plants two blocks away as it currently supplies several downtown Madison office buildings.
- E. Because of the heavy traffic on Williamson and the boulevard median strip, future development of the subject site will probably be limited to one access point on Williamson and one on Blount Street. Parking will impose a major constraint on the extent of permissible commercial floor area development since City Building Code requires one parking

S. BLOUNT STREET

stall for each 300 square feet of commercial area. For residential purposes the limiting factor for development of the subject site is the required lot area per dwelling unit.

Type	Land Area Required	Open Space/DU
Efficiency	700	160
1-bedroom	1000	160
2-bedrooms	1300	320

Development alternatives will be considered after key site linkages and behavior attributes have been identified in Sections V & VI.

V. Subject Site Linkages

Site linkages refer to the relationship of the subject property to off-site activities and to other sites; which might facilitate an exchange of people, goods, and services and therefore contribute to the usefulness of the property. Reference to the district zoning map indicates the subject site is at the foot of a major industrial (M-1) zone for the City of Madison. It is also at the gateway to the near east side residential area commonly referred to as the Marquette neighborhood, which is generally zoned R-5 or R-4A. The Williamson Street commercial zone is a relatively low grade retailing area with no cluster of ancillary service or convenience retail stores in immediate proximity to the subject site.

- A. On the northeast side of the subject property, across Blount Street, is located the new and well furnished Elks Club Building, which is the scene of a variety of civic and commercial activities and functions. That is the only civilizing amenity, contiguous to the site. At the northwest corner of the Blount Street intersection is a day care center in a converted, small commercial building, for children of eastside families who are dropped off by parents on their way to work in downtown Madison via public transit.
- B. The northwest site exposure across Williamson Street is dominated by a one-story truck garage and truck pool lot, which is leased on a long term basis to the U.S. Post Office. At the foot of Williamson Street facing Blair is an old filling station converted to a used car lot. The subject site also has a view down Williamson Street to the west, toward an old hotel and several bars along a strip of Wilson Street primarily known for a variety of recent crimes of violence.
- C. The visibility of the subject site from the direction of the Wilson and Williamson Street access points to the west and from John Nolan Drive and Law Park to the southwest, is blocked by an old two-story building on the western half of block 126 in which the subject is located. This building presently houses an annex of the U.S. Post Office and a number of auto parts and appliance wholesalers. Since the federal government is presently considering construction of

consolidated post office operation on the far east side of Madison, it is possible that leases on the garage building and the annex will be terminated within the next few years. As it would be speculative to assume that better neighbors than the U.S. Post Office might be found for these buildings, the compatibility and stability their use must be considered suspect.

- D. Just beyond the immediate contiguous environment of the subject site are a number of adverse influences. East of Blount Street is the major coal-fired generator plant of Madison Gas & Electric, with five tall smoke stacks and a variety of coal unloading and lifting machinery systems. Any building on the subject site would need to be carefully designed to screen out a view of the plant and to avoid undesirable accumulations of soot and noise. At one time there was a major railway station for the Chicago & Northwestern Railroad at the corner of Wilson and Blair. The station has been converted into MG & E offices but switching yards remain east of Patterson Street. Two major rail tracks cross Williamson Street at the Blair-Wilson Street intersection to create a significant psychological and physical barrier between the subject site and the Madison Square six blocks away.
- E. The street linkages of the site are in a significant state of flux. The City Planning and Traffic Engineering Departments are considering two alternative plans to relieve the congestion of the four corner, angular intersection of Williamson, John Nolan Drive, Wilson and Blair Streets, which is further complicated by the Northwestern Railroad crossing through the center of the intersection.
 1. One plan would make Blair Street one way from East Washington to John Nolan Drive in order to divert north-south through traffic around the congested Madison Square via John Nolan Drive. At the same time Blount Street would be made one way to East Washington to handle traffic traveling east on John Nolan Drive. Left turns from Williamson to Blount would require a stop light at that intersection. Various measures are also under consideration to reduce vehicle through traffic in the Marquette neighborhood by a modification of Spaight and Jennifer Streets at the Livingston Street intersection.
 2. An alternative plan--which is apparently the preferred plan--would convert Blair Street into a wider two way arterial connecting John Nolan Drive on the Lake Monona side of the isthmus to East Washington and to Gorham Street on the Lake Mendota side. When considered with the Regent Street improvements already completed at the west end of John Nolan Drive, the Blair Street project would provide an outer loop around downtown Madison. The demolitions required for that street improvement plus those which continue as part of the State Office Building project between Webster and Franklin would eventually lead to a significant renewal of the area between the subject site and the Capitol Square area.

3. Further development of John Nolan Drive and the Blair-Blount connectors together with a reduction of traffic through the Marquette neighborhood, will lead to increasing traffic volumes on Williamson Street. This in turn will create traffic levels which could be unacceptable for FHA residential environmental noise specifications for residential construction and which would constitute a barrier to pedestrian access to the Square. Final traffic plans might also make the automobile route from the subject site to the Square even more circuitous than is presently the case with the median strip preventing left turns toward the Square from the Williamson Street access points of the subject site.

VI. Dynamic Site Attributes

Dynamic site attributes are concerned with the attitudes of people as they relate to the subject property or the behavior of the consumer as he evaluates the utility of the property for his own purposes. It has already been suggested that the high intensity intersection at Williamson and Blair would intimidate the pedestrian and may in the future be designed to divert the motorist in directions less than convenient to the subject property. It is a classic case where proximity (to downtown Madison, to Law Park, and to the services on East Washington Avenue) is nevertheless not accessibility with convenience and safety for the occupant of the subject site.

- A. The Madison resident typically associates the site area with the rail yard and tracks, the power plant, and the saloons and bowery atmosphere of Williamson Street between Butler and Blair. While the subject property is on the lakeshore, it is not given a prestige rating.
- B. In several market surveys (Stewart '69, DeLisle '73, and Ibach '74), the subject property has been presented as one of a number of alternative lake view sites which could be selected by prospective luxury apartment or condominium tenants. These reports showed that Lake Mendota in the Mansion Hill area was regarded as the prestige area, and that several alternative sites on the Lake Monona side were all greatly preferred to the subject site, which the Madison consumer does not presently consider residential in character.
- C. The subject site would benefit greatly from a physical and visual connection with Law Park to the southwest and the amenities at the Clark Park beach one and a half blocks to the east. However, the old warehouse building occupied by the Post Office Annex blocks the view from and to Law Park. It would seem desirable to assemble all of block 126 in order to create visual impact for the better on traffic approaching from John Nolan Drive and from Blair Street. Without such assembly, the subject property is cut off from those elements which otherwise might enhance its market recognition.

- D. The marketability of a site depends in part on the attitudes created by the approach zone for pedestrians and motorists. This attitude is a function of the stress and anxiety created by the intensity of traffic, the attractiveness of the visual surroundings, and the sense of safety of the pedestrian who is conditioned to shy from unsavory saloons and lonely industrial night-time zones. All of these negative elements are present to a large degree at the subject site and it would be speculative at best to anticipate any improvement or change in current land uses during the next 3 to 5 years.

VII. Alternative Redevelopment Strategies for Subject Site

With the assistance of Glad, Sarko and Associates and Bernard Riley, City Zoning Administrator, a variety of development alternatives were explored to establish allowable gross building areas, building configurations, and required parking facilities. Exhibit #4 summarizes all of the alternatives considered. Each of these alternatives was then evaluated in light of current Madison market requirements, consumer acceptability, and floor area ratio intensity of use.

- A. For residential uses a major constraint on development intensity is the land area per dwelling unit, while for commercial uses the required parking index quickly puts a limit on maximum size of development. Given existing ground water conditions, it is assumed there can be only one level of parking below the grade of Williamson Street. Parking ramp construction costs about \$4800 a car stall at today's prices, a factor which drives up building costs faster than off-setting rental rates. Above grade ramps would be economically unfeasible for commercial and would preclude total development of permissible site floor area ratios.
- B. Lot area setback requirements would be most favorable for a two-story building:
1. Minimum setbacks for residential development:
 - Lake Side-Average 101 ft. from shoreline
 - Williamson Street - 20 feet
 - South Blount Street - 10 feet
 - Easement (pump house alley) - 10 feet
 2. Minimum setbacks for commercial use:
 - Easement (pump house alley) - 10 feet
 - Lake Shore - 101 feet from shore
 - All Other Sides - none
- C. Exhibit #4 provides a summary of nine different potential combinations of residential and commercial development which might be considered on the subject site. Only three of these appear to be viable for consideration as of this date. The other alternatives have been eliminated from consideration not only because of zoning change required but for additional reasons as follows:

EXHIBIT 4

Fairbach Site Development Options

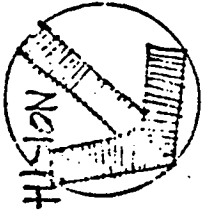
Options	Use	Building Area	No. of Stories	Parking Stalls	Location	Primary Constraint	Yard Requirements		
							FR.	S	Zoning Change
A.	Res.	75,000	3	89	AG	* LA/DU	20'	10'	Yes-pkg
B.	Res.	75,000	3	89	BG	LA/DU	20'	10'	No
C.	Comm.	90,000	3	200	BG	Parking	-	-	Yes-pkg
D.	Comm.	60,000	2	100 200	AG BG	Parking	-	-	No
E.	Comm.	33,000	1	111	BG	Parking	-	-	Yes-pkg
	Res.	75,000	3	89	BG	LA/DU	20'	10'	Yes-ORD
F.	Comm.	48,000	2	111	BG	Parking	-	-	Yes-ORD
	Res.	75,000	3	50 89	AG BG	LA/DU	10'	10'	
G.	Comm.	60,000	2	111	BG	Parking	-	-	Yes-ORD
	Res.	75,000	3	92 89	AG BG	LA/DU	20'	10'	
H.	Comm.	208,400	8	696	AG (4-level ramp)	Bldg. Ht.	-	10'	101
	Res.	78,000	3	89	BG	Set Backs	20'	10'	Yes-PUD
	Ramp		4						
I.	Old Comm.	14,200	2	32	AG	Parking	-	10'	No
	Res.	65,000	6	55 37	BG AG	LA/DU	20'	10'	

* Land Area per Dwelling Unit

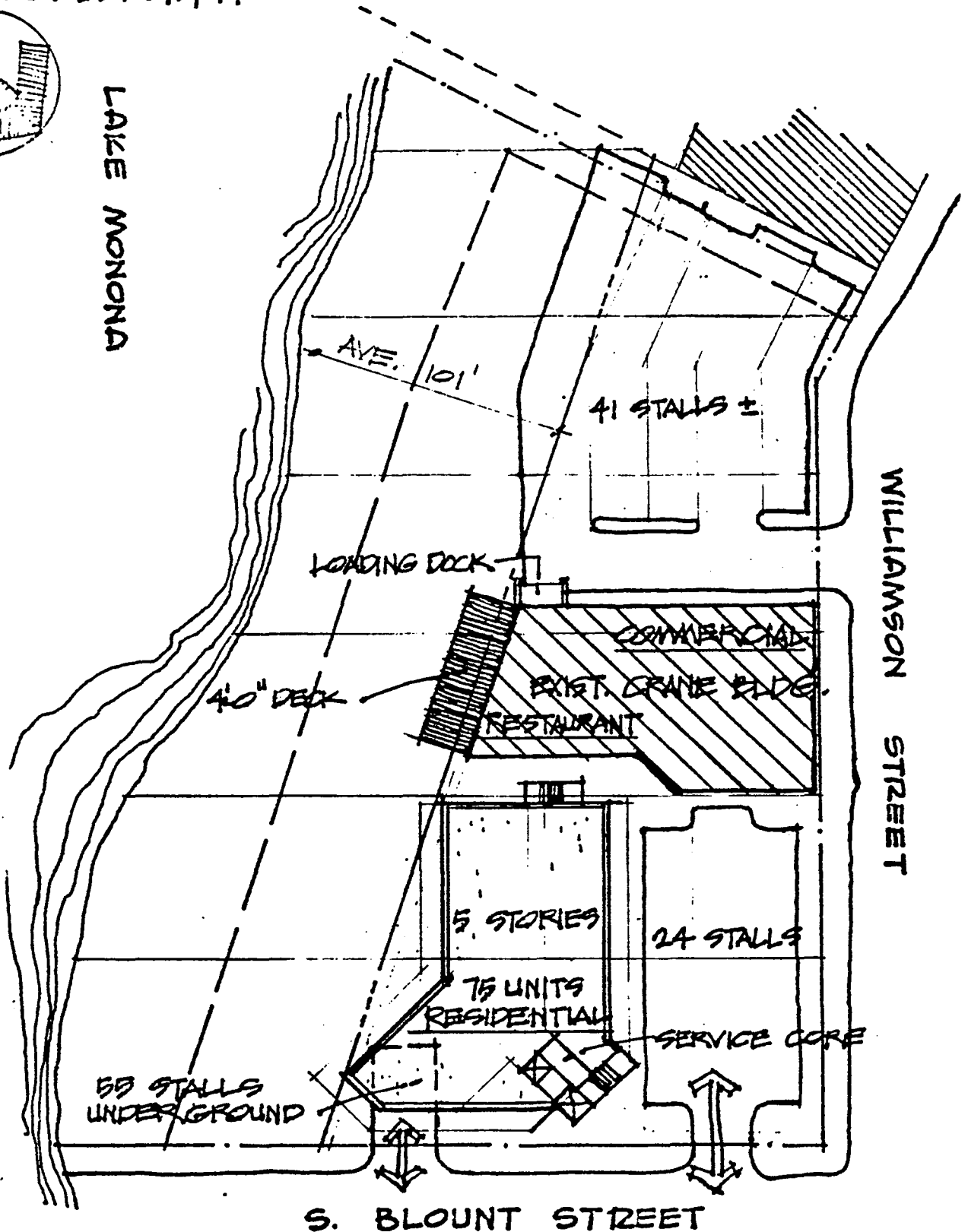
2 PARCEL CONCEPT: COMMERCIAL CRANE BLDG.
75 NEW RESIDENTIAL UNITS

OCTOBER 18, '74

SITE PLAN SCALE: 1" = 60'



LAKE MONONA



S. BLOUNT STREET

1. Option A with above grade parking (See Sketch #1) would produce a very cluttered appearance for what would be marketed as a luxury apartment location. It would put cars between the building line and lake, a feature probably unacceptable to City Hall. Indeed above grade parking would represent a security problem and a marketing deterrent in subject site neighborhood.
 2. Option C has been eliminated because there is no room for 100 above grade parking units and no market for speculative commercial office space in Madison. The City already has a significant surplus of A and B grade office space vacant in the downtown area due to construction of new bank office buildings; several speculative office buildings such as VIP, several remodeled office buildings such as the Hovde Tower and Cantwell Building, and another bank building on the boards.
 3. E, F and G (See Sketches #1 & #2) would require an additional conditional use permit from the City Council since the residential development greatly exceeds the maximum of 50% of gross building area permissible under C-3. Indeed a zoning change to PUD or ORD would probably be required and is assumed to be unavoidable. There is also little market for high rent commercial space which is combined with residential on the upper floors. A survey done for Investment Services, Inc. in 1974 (Ibach study) indicated considerable objection by both prospective commercial and higher income residential tenants to such a combination in the same building in Madison. Both F and G require additional above grade parking which means either that part of the first floor of the building must be parking (which hurts its commercial space marketability) or surface parking must be permitted in the lakeshore strip between rear building line and open space which is probably not acceptable to the City according to zoning administrator Bernard Riley.
 4. Alternative H represents the extreme building envelope which could be put on this site were it developed to downtown Chicago standards. It would require one level of underground parking plus four levels of ramp parking before reaching eight stories of commercial space and three stories of residential. That general scheme may be appropriate to the John Hancock Building, but it would be extremely speculative for Madison on any site. There would be no market for 208,000 gross feet of office space in central downtown Madison, let alone in a fringe downtown area. At least the sky is not the limit, as the 15-story height reaches the foot of elevation on the Capitol dome columns.
- D. Three alternative development options (B, D, and I) remain to be explored as the most probable use for the subject site. A preliminary estimate of site value for each of these uses provides an initial indicator of the probability of such uses as seen by a prospective purchaser:

1. Option 1(B) is exclusively a three-story residential building with 89 below grade parking stalls for 89 apartment units, 80% one-bedroom and 20% two-bedroom and could be built with a building area of 75,000 sq. ft. A possible configuration is suggested in Sketch #1, Option A, with the surface parking omitted and parking placed below the building. The number of stories is limited by the need to use the lowest cost construction method available and remain competitive with the large number of efficiencies and one-bedrooms recently built near the Square.
 2. Option 2(D) would be exclusively a 60,000 sq. ft. commercial building, intended primarily as a home office building for a Madison firm. It would offer 200 parking stalls below grade. The 20,000 sq. ft. first floor would cover less than 50% of ground area, leaving guest parking on the surface and good views of lake from Williamson Street.
 3. Option 3(I) is a mixed use alternative (See Sketch #4) and makes use of the existing Crane Building with its interesting wood beam roof and truss interior. The latter offers opportunity for small specialty shops and a restaurant looking over the lake, in the style but not the scale of Toronto's Boardwalk, San Francisco's Ghiairelli Square, or Rochester's River Front Square. The present Sinclair garage building would be demolished to provide 32 parking stalls for the restaurant in the Crane Building. Only 20 stalls would be required since this would be a renovation of an existing structure and would therefore avoid the requirement of one parking stall for each 300 sq. ft. of commercial according to the opinion of Zoning Administrator, Bernard Riley. A residential tower six stories high with 75 apartments on five floors could be built at the Blount Street side of the site to maximize views of the lake and the Capitol and simultaneously to avoid views of the power plant. This building would have no commercial area on the first floor, no enclosed space other than the lobby, no less than 20 surface parking spaces, and 55 underground parking stalls. Residential amenities would not only include the broad lake-front strip but also the adjacent restaurant and miscellaneous specialty shops in the Crane Building.
- E. To select a most probable use from the three alternatives above, it is necessary to make a reasonable preliminary estimate of a sales price consistent with recent transactions in the Madison market and to adjust price for the time required under current conditions to market and convey the existing site to an investor likely to develop the uses proposed. These comparative sales estimates adjusted for the present value of money over the assumed marketing period are summarized in Exhibit #5 where a preliminary pricing formula for each of the three options is displayed. The assumptions for each alternative follow:

EXHIBIT #5

Preliminary Market Estimates For Three Alternative Use Strategies Of Subject Parcel to Determine Most Profitable Use (Highest & Best Use)

Option	Use	Formula	Total
#1	Residential 3-story (See VII, D(1) & Appendix III)	$+ \text{Units} \times \% \text{ one-bd.} \times 2.5 \text{ rms/1-bd} \times \text{land price/rm}$ $+ 89 \times .80 \times 2.5 \times 1500$ $+ 89 \times .20 \times 1.5 \times 1500$ Total Possible Sales Price Present Value Factor Time on Market - 24 months, cost of money 15% Total present value of possible sales price	 267,000 <u>40,050</u> 307,050 x .756144 230,000
#2	Home Office (See VII D(2) & Appendix III)	Gross Sq. ft. of Buildable area (within dock line) 73,000 x \$4.80 Total possible sales price Present Value Factor Time on Market - 36 month, cost of money 15% Total present value of possible sales price	 350,000 x .657516 230,130
#3	Residential Tower (See VII D(3) & Sketch #4)	$+ 40 \text{ efficiency} \times 1.5 \times 1500$ $+ 35 \text{ 1-bedroom} \times 2.5 \times 1500$ Time on market - 24 months, cost of money 15% 14,200 sq. ft. Crane Building x \$5/sq. ft. = 26,000 sq. ft. commercial land x \$2.40 = Total for commercial parcel Present value factor Time on market - 12 months	 90,000 131,250 221,250 x .756144 167,297 71,000 62,400 133,400 x .869565 115,999 283,296 Total Present Value of Possible Sales Price rounded to 285,000

1. Option 1(B) assumed development of the site with a low-rise residential structure. The neighborhood south and east of the Square experienced heavy building of efficiencies and small one-bedroom apartments as indicated by building permit study for Madison in Appendix 1. These units recently have had high overall vacancies. The land acquisition prices suggest a relatively low cost of land per apartment unit because the efficiency units have such small lot area per dwelling unit and open space requirements. The majority of the new buildings are in R-6 zones which require less land per unit than the subject site C-3 zoning, which follows C-1 standards. The subject site attempts to avoid direct competition with these by providing an assumed 80% mix of large one-bedroom and 20% generous efficiency units but this change from the approximate 80-90% efficiency to 10-20% one-bedroom mix of the recent developments argues for land cost comparison on a per room rather than per apartment basis. Analysis of recent downtown apartment land sales is provided in Exhibit #6. To determine the present value of sale for residential purposes only, it was assumed that both the surplus of units downtown and the economic crisis for 1975 would discourage residential construction in this area for at least 24 months. Also during this time the Williamson-Blair Street Intersection plan would be resolved as well as future uses for contiguous post office property. The cost of money at 15% compounded, suggests a present value of possible sales price under Option #1(B) of about \$230,000. (See Exhibit #5)
2. Option 2(D) assumed use of the site for a prestige home office structure. A very careful comparative analysis was made of recent site purchases by Madison firms for major office structures including lakeshore property for the Continental Mortgage Insurance (CMI) Building, lake view property for James Wilson Plaza (VIP), the recent listing of extensive frontage on Lake Monona by Wisconsin Physicians Service (WPS-1), the new home office site of WPS on E. Broadway (WPS-2), the IBM site on the Beltline near the Arboretum and the 1973 negotiations for the sale of the Doty School property on West Wilson Street (Doty School). Of all these decisions, it should be noted that IBM conducted one of the few truly thorough searches for a site in downtown Madison; a search marked by rational selection criteria, and chose the Beltline location at the lowest cost per sq. ft. of gross land. The IBM building will depend on surface parking as subsurface contains rock formations necessitating expensive excavation costs. The second lowest price was paid by the speculative builder of James Wilson Plaza (VIP) while the higher prices were paid on more prestigious sites on Lake Mendota. Site assemblages by banks and utility companies and institutions near the Square are not considered comparable sales due to the fact that buyers were locked into existing locations and specific parcels.

Virtually a full appraisal of the home office option is provided in Appendix II. A linear regression comparison suggests a value of \$4.80 on the average for the subject property when compared to recent home office site purchases. The total possible sales price for the office use would require as long as three years to realize. Economic conditions in 1974 and the recent surge in office building construction, both for use and for speculation resulting in a softening of the for-use market and an over-saturation of the for-rent market; coupled with the decreased marketability of the subject site resulting from uncertainty of the future utilization of the Reynolds Building (Post Office Annex) site which will have a direct impact on the visibility of the subject site from the John Nolan Drive approach, argue for this extended 36 month market exposure. Thus, with the cost of capital at 15% compounded, the discounted present value of Option 2(D) indicates a possible sales price of approximately \$230,000.

3. Option 3(1) is a combination of a restaurant-specialty commercial use rehabilitation of the existing Crane Building and a high rise 75 unit residential tower as opposed to a long three-story 89-unit apartment building in Option #1(B) at the Blount Street end of the subject site. Land for the residential tower has been initially estimated on the same per room value as in Option 1(B) for purposes of best use comparison. Note that Option 3(1) anticipates sale of the total parcel in two sections, with the residential sale probably not occurring for at least 24 months consistent with Option 1(B). There are a number of restaurants both with existing establishments in Madison and from out-of-town who are currently searching for a site, with attributes not unlike the Crane Building site given additional parking. Thus, the smaller commercial parcel presumably could be sold within 12 months. For these purposes it was assumed that rent structures for commercial and restaurant space would limit the total structural budget to \$25 a sq. ft. of gross area. Assuming that at least \$20/sq. ft. would be required to renovate the building to a point ready for tenant improvement and furnishings the building shell was valued at \$5 a sq. ft. of gross building area. The commercial land to accompany the building cannot exceed 30,000 sq.ft. with the land area per dwelling unit requirements of the C-3 zoning. However, this 30,000 sq. ft. is sufficient to include the land occupied by the existing Crane Building and provide additional parking on the existing Sinclair station parcel. A minimal amount of land is included beyond the existing building line since it falls in the 101 foot setback open space zone required for a rear yard. The commercial land was given a preliminary value of \$2.40 per sq. ft. based on recent suburban Madison restaurant sales but it should be noted that such a land area would provide little more than 30 restaurant parking stalls on grade which is definitely marginal. These values are discounted for one year of marketing exposure until closing. The combined present compounded values at 15% cost of money for the residential portion of the site, the shell of the Crane Building and the commercial land approach \$285,000.

- F. A preliminary valuation of alternative options for reuse of the subject site clearly ranks the mixed commercial use renovation and new construction residential tower Option 3(1) at \$285,000 first compared to the low rise residential option in #1(B) at \$230,000, or purchase of the site for use with a home office building Option 3(1) at \$230,000. It should be noted that these preliminary comparisons should not be considered the appraisal valuation as no adjustments have been made either for removal of existing improvements or for current trends in construction costs, and are based on a cursory analysis of probable effective demand as of October 1.

HOWEVER, BASED ON THESE VALUATIONS IT IS POSSIBLE TO CONCLUDE THAT OPTION #3 IS THE MOST PROFITABLE, PROBABLE (HIGHEST AND BEST) USE FOR THE SITE: NAMELY, THAT USE WHICH WOULD BE LEGAL, PRUDENT, AND POSSIBLE IN THE CURRENT MARKET WHICH PRODUCES THE HIGHEST PRESENT VALUE FOR A STATED TERM OF TIME. THEREFORE, THE REMAINDER OF THIS APPRAISAL VALUATION IS BASED ON THE ASSUMPTION THAT THE MOST PROBABLE USE WOULD BE SUCH A MIXED RESIDENTIAL-COMMERCIAL USE PROJECT, PHASED OVER SEVERAL YEARS BY POSSIBLY TWO INVESTOR-DEVELOPERS.

VIII. The Most Probable Buyer-Investor

- A. Given the assumed most probable use of the property, it is possible to anticipate that not one but several purchasers would be potential investors in specific components of the subject site package. The most immediate prospect would be the commercial property development specialist who is interested in retail specialty centers and in buildings to suit specific clients such as franchise restaurants. This type of developer typically avoids residential development of any type and often negotiates purchase of a site simultaneously with lease of the finished product to one or more anchor tenants. It is therefore assumed that the shell of the Crane Building and the land presently covered by the vandalized Sinclair garage building would be sold to this type of buyer, and a separate buyer would be necessary for the residential portion of the package.
- B. The residential tower site is a speculative acquisition and requires equity investment of such scale that the small local investor of 8-unit buildings and the like is out of the running. The rich professional man seeking tax shelter lacks the technical expertise necessary to execute the construction and merchandising plan required. Therefore, the most probable buyer would be the realtor-packager who could build and manage the proposed six-story tower building while selling off limited partnerships in the venture to a number of local investors. In the current market that possibility is unlikely because the interest rates required on mortgages and the cash return required on equity dollars leads to a capitalization rate and building value lower than the cost to construct plus the profit spread required by the packager.

As mentioned earlier in discussion of dynamic attributes of the site, the present neighborhood has a negative public image due to lack of residential amenities and surrounding adverse land uses. This has been reflected repeatedly in market surveys conducted for potential developers of residential projects in downtown Madison.

To offset the present negative residential character of the site, it would be hoped that the successful renovation of the Crane commercial building would provide some supplemental residential amenities, and greater street safety that comes with more heterogeneity of legitimate activities over more hours of the day. Remodeling of Williamson-Blair intersection and possible removal of surplus post office and miscellaneous commercial uses in the immediate block should improve visual and audio environmental quality for residential uses. Certainly further development at Law Park and a trail and bike path system extended to Clark Park would strengthen the residential quality of the site.

- C. A third possible buyer which might indirectly contribute additional sales dollars to the seller would be the City of Madison which could purchase a portion of the lake frontage right-of-way from the residential developer after that developer has concluded construction of the building. Although Option 3(1) requires ownership of all the backyard open space to meet land area per dwelling unit requirements for 75 units, it is conceivable that following residential development of the site at a density level negotiated with the City, the land beyond the dock line and land within the dock line sufficient to permit construction of a lighted bicycle and/or pedestrian path could be sold to the City, thus increasing the future benefit package to the buyer resulting in a higher present value. So long as the permissible number of residential units was not reduced below 75, the difference in value would be negligible since property income would be unaffected or increased slightly due to presence of contiguous city park. Maintenance expense would drop slightly although access to a boat dock or similar facility would be lost.
- D. The assumption of this report is to assume separate sales of the commercial portion of Option 3(1) and the residential tower portion of the site to professional developers as described above.

IX. Most Probable Sales Price For Subject Property

To forecast the probable sales price or fair market value of the subject property it is necessary to analyze sales for two types of land purchase, multi-family apartment land in the downtown Madison area in 1972-73 purchased by packagers for a syndication, and retail sites for restaurants in the Madison area during the same general market period. However, it is necessary to modify past sales for the impact of current economic conditions which will adversely affect the sale of the subject site. The amount which any developer/packager can pay for land is at best the difference between the present value of the income from a completed rental project and the cost to construct the improvement. High interest rates in excess of 11% and high cash returns currently available on federal securities, tax free municipals, real estate equity trusts, etc.

make high risk investment in real estate--despite tax shelter advantages--relatively unattractive, unless future benefits or returns to equity are discounted sharply at 18-25%, thus compensating investors for this higher risk investment. Consequently the price investors are willing to pay for the present value of those equity benefits income property has fallen unless sellers provide very favorable terms. At the same time construction costs have risen at an accelerating rate. The current economic conditions also decrease the ability of the market to pay these increasing fixed charges so that today few projects are economically feasible when costs to construct are matched against market value, unless land has been acquired at an extremely favorable price. Therefore current market conditions must lead to declining prices for the land component.

- A. Details on five vacant land purchases for multi-family uses are provided in Exhibit #6 and analyzed in Exhibit #7. Since most of these sales anticipated intense use of the site by construction of a high proportion of small efficiencies to one-bedroom apartments, comparison has been related to the total number of rooms built. Assuming 1 1/2 rooms per efficiency and 2 1/2 rooms for a one-bedroom unit the land sales price per room was calculated. These sales were unadjusted for time, demolition, or slight differences of location as the average sales price per room of \$1288 had an unadjusted standard deviation of only \$43. Thus a price range of \$1245 to \$1331 per room would cover 67% of the sales in this market and a range of \$1202 to \$1374 would cover 96% of all sales prices per room for this type of property in downtown Madison 1972-73. Assuming an average of two rooms per apartment this compares with the realtors rule of thumb that \$2400-2750 per apartment in the Square area.
- B. It is our opinion that the same type of site east of the Square under current market conditions would sell at the lower end of the range of two standard deviations from the mean price per room or \$1200 per room. However an upward adjustment is required for presence of the lake view and contiguous city park facilities that would be unique to the subject property. An excessive adjustment is not appropriate to the subject site, however, because of the nearby industrial uses and truck traffic on Williamson Street. The residential character and suitability of the site depends on successful renovation of the Crane Building as a restaurant and retail specialty area and some upgrading of neighboring land uses once present post office facilities are consolidated at the proposed Milwaukee Street post office site. Therefore as October 1, 1974 an upward adjustment of the mean of land per room of 20% is appropriate suggesting an adjusted price of \$1440.
- C. The maximum number of dwelling units which could be placed on the subject site and still provide at least 30,000 sq. ft. of land for the commercial restaurant portion of the development package would be most constrained by the land area per dwelling unit requirements of the C-3 zoning, applicable to the entire site.

Given the existing residential rental market in central Madison, characterized by an over-saturation of efficiency units, the recommended mix of efficiency to one-bedroom units of

50:50 is recommended. Assuming a total site area of some 63,000 sq. ft. more-or-less (Total Site Area--94,473 sq. ft. -- less 30,000 sq. ft. to commercial) the maximum number of dwelling units which could be placed on the site would be:

Type DU	Land Area/DU	Total # Units	# Rms/DU	Total Rms	Total Required Land Area
Efficiency	700	38	1.5	57	27,000
One-bedroom	1000	37	*3	111	37,000
		<u>75</u>		<u>168</u>	<u>64,000</u>

* Reflecting larger units and full kitchen a room count of 3 is used for these one-bedroom apartments as opposed to bedroom units in comparable sales.

The 75 apartment units would be distributed on five floors with 15 units per floor not to exceed 12,000 gross sq. ft. per floor. The first floor level would contain the lobby entrance and 20 parking stalls, with the remaining 55 stalls below grade.

- D. Using the adjusted market value of land per room (See B above) and the total rooms indicated (Item C above), it is possible to forecast the probable sales price of the 63,400 sq. ft. of residential land component of the site:

$$\begin{aligned} \$1,440 \text{ per room} \times 168 \text{ rooms} &= \$241,900 \text{ or rounded to the} \\ &\text{nearest 1\%} = \$240,000. \end{aligned}$$

- E. The balance of the site, the specialty-commercial restaurant area, would comprise some 30,000 sq. ft. of land, more or less. This area would include the existing Crane Building which covers approximately 8600 sq. ft. of ground area. The shell of the building is valued separately from the land area to determine most probable market price for the commercial area package.

1. It is assumed that the total cost of renovation should produce a price of \$25 a sq. ft. of gross building area before tenant improvements for display, kitchens, etc. For these purposes it was assumed that \$20 a sq. ft. of gross building area, providing a building budget of \$284,000 (8600 sq. ft. for the ground floor plus 5600 sq. ft. mezzanine). This budget would include demolition of Sinclair station and resurfacing required for parking.
2. The balance of the budget of \$5 a sq. ft. is used to represent a value of the existing building shell.

$$\$5 \text{ per gross sq. ft.} \times 14,200 = \$71,000 \text{ for Crane Building}$$

- F. To value the commercial land it was decided that Madison sales to middle priced restaurants would be most comparable to the uses proposed for the Crane Building. Such restaurants are looking for sites on

a high traffic artery, with 30-45,000 sq. ft. of land area, good visibility, convenient access and good linkages to traffic generating land uses such as neighborhood shopping and multi-family residential for family business, nearby businesses for luncheon volume and possible convenience for travelers and motel visitors. Since this type of site differs widely from one side of town to the other, a simple average of sales prices is inappropriate. Instead each comparable sale is analyzed and compared with the subject property on a point scale for selected attributes and these point scales are weighted to reflect the relative importance of these items to the type of buyer seeking the restaurant site. The selected comparable sales are described in Exhibit #8, analyzed for attribute points and weightings in Exhibit #9 and then converted to a simple linear regression formula to compute value in Exhibit #10.

- G. Reference to Exhibit #9 will indicate that the subject property scored as well or better than the comparables in terms of shape, site preparation required and access to a frontage road but scored poorly in the percent of usable area because of the setback improvement line, visibility, and the inability to make a left turn from Williamson onto the site. In terms of linkages the subject site is average in terms of traffic volume but poor in terms of proximity of retailing attractions such as shopping centers and other drive-ins. It also ranked very poorly in terms of the drawing power of development activities and its related implications for growth of market and for positive consumer attitudes relative to its address. The linear regression formula that results from this analysis is:

$$\text{Price} = a + b (\text{weighted points scored by subject site}) (\text{See Ex. \#10})$$

$$\$1.80/\text{per sq. ft.} = \$0.76 + .00087 (1190)$$

- H. The \$1.80/sq. ft. of land represents a type of average estimate for which a standard deviation of 15¢ has been calculated, adjusted for the small sample. The coefficient correlation indicates that this estimating formula explains about % of the value differences between the various sales prices selected. By increasing the mean price of \$1.80 per sq. ft. by two standard deviations ($2 \times .15$ or 30¢) it is possible to conclude that 95% of alternative offering prices would be \$2.10 a sq. ft. of land or less under current market conditions and assuming that differences around the mean due to negotiations and other influences will be randomly distributed. Therefore it is concluded in this case that:

$$30,000 \text{ sq. ft. of commercial land} \times \$2.10 = \$63,000$$

- I. The fair market price of the subject property is then estimated by combining the most probable prices for each of the three components analyzed above:

Residential parcel component =	\$240,000	(64,400 sq. ft. of land)
Crane Building structure as is =	71,000	--
Commercial land portion of site =	63,000	30,000 sq. ft.
	<u>374,000</u>	<u>94,400</u>

Rounded to: \$375,000

VALUE CONCLUSION

Based on the assumptions, limiting conditions, and property analysis above, it is the opinion of the appraiser that the fair Market Value of the subject property herein described as of October 1, 1974 is:

THREE HUNDRED SEVENTY-FIVE THOUSAND DOLLARS

(\$375,000)

APPENDIX I

Multi-Family Residential Building Permits 1971-1974 Central Business District Area

Year	Date	Address	No. of Units	Total per Year
1971	March 22	22 N. Franklin	12	<u>139</u>
	April 27	523 W. Wilson	24	
	April 2	134 E. Johnson	24	
	Nov. 17	130 N. Hancock	22	
	Dec. 28	424 W. Dayton	<u>57</u>	
1972	Jan. 28	22 N. Hancock	24	<u>652</u>
	April 18	22 Langdon	72	
	April 18	219 N. Frances	24	
	May 17	507 W. Wilson	49	
	May 11	102 N. Franklin	43	
	June 14	140 Iota Ct.	36	
	June 21	111 S. Bassett	24	
	June 28	434 W. Mifflin	73	
	July 14	738 E. Dayton	16	
	July 25	512-18 W. Wilson	40	
	Aug. 17	511 W. Johnson	64	
	Aug. 28	427-31 W. Main	24, 42, 43	
	Sept. 8	526-30 W. Wilson	24	
	Nov. 28	307-15 E. Johnson	22	
	Nov. 14	15 N. Hancock	<u>32</u>	
1973	Jan. 4	544 W. Johnson	12	<u>236</u>
	Feb. 2	409 W. Doty	11	
	Feb. 28	420 W. Wilson	43	
	March 30	415 W. Johnson	68	
	May 8	22 Langdon	Add'l Fee	
	May 31	422 W. Johnson	28	
	June 14	454 W. Dayton	55	
	June 15	511 W. Main	<u>19</u>	
1974	Mar. 20	528-30 E. Washington	8	<u>8</u>
	to Oct. 10	-----	<u>-</u>	

EXHIBIT # 7(a)

Vacant Land Market Comparison Residential Use Land Price: Mean

Comparable Sales

Factors	420 W. Wilson No. 1	219 N. Frances No. 2	102 N. Franklin N. 3	434 W. Mifflin N. 4	427-31 W. Main No. 5	Mean (X) 1-5
Sales Price	\$84950	\$48000	\$86900	\$160000	\$53000	\$432850
Date of Sale	'73	'72	'72	'72	'72	
Land Area (sq.ft.)	13068	7920	15246	26400	8712	71346
No. of Dwelling Units Built	43	24	43	73	24	207
Total Gross Bldg.	20070	12670	24364	43040	10900	111044
Total # Rms Blt.	65.5	38	65.5	130.5	40	339.5

Mean Land Price - \$/per:

1. Square Ft. of Land	\$6.50	\$6.06	\$5.60	\$6.06	\$6.08	\$6.06
2. Dwelling Unit Blt.	\$1976	\$2000	\$2020	\$2192	\$2208	\$2079
3. Total Gross Bldg. Floor Area	\$4.23	\$3.79	\$3.79	\$3.72	\$4.86	\$4.08
4. Total # Rms Blt.	1297	1263	1327	1226	1325	1288

EXHIBIT #7 (b)

Vacant Land Market Comparison
Residential Use Land Price
Mean & Standard Deviation
(See also Exhibit #6)

	Comparable	Land Price/ Comparable	$ X-X $	$(x_i-X)^2$	Variance $\frac{1}{n-1}(x_i-X)^2$	Standard Deviation = Variance
Land Price Per:						
Sq. Ft. of Land (Row #1, Ex. #6)	1	\$6.50	.44	.19		
	2	6.06	0	0		
	3	5.60	.46	.21		
	4	6.06	0	0		
	5	6.08	.02	0		
Total		\$30.30		.40		.10
Mean (sum x_i 's) $\frac{\sum x_i}{n}$		\$ 6.06				
No. of DU Built						
(Row #2, Ex. #6)	1	1976	53	2809		
	2	2000	29	841		
	3	2020	9	81		
	4	2192	163	26569		
	5	2208	179	32041		
Total		\$10396		62341		15585
Mean		\$ 2079				
Total Gross Bldg. Area Built						
	1	\$4.23	.15	.02		
	2	3.79	.29	.08		
	3	3.79	.29	.08		
	4	3.72	.36	.13		
	5	4.86	.78	.61		
Total		\$20.39		.92		.23
Mean		\$ 4.08				
Total No. Rooms Blt.						
(Row #3 Ex. #6)	1	\$1297	9	81		
	2	1263	25	625		
	3	1327	39	1521		
	4	1226	62	3844		
	5	1325	37	1369		
Total		\$6438		7440		1860
Mean		\$1288				43

EXHIBIT #8

Basic Information on Restaurant-Commercial Land Sale Comparables

	Barnaby's East	Barnaby's West	Bud's West	Pigs Ear East	Marc's Big Boy South	Marc's Big Boy East
Sales Price	\$92,000*	\$89,000	\$75,700	\$91,000	\$87,500	\$85,000
Sales Date	10-6-70	6-30-70	6-29-71	5-20-72	9-3-69	3-15-68
Type of Deed	Lease with Option	WD	WD	WD	WD	WD
Volume & Page	209-455	184-75	264-173	344-385	130-463	15-108
Grantee	Barnaby's Inc.	Barnaby's Inc.	Clyde Chamberlain	Poole, Inc.	B & G Realty	B & G Realty
Area	38,211	32,900	45,236	141,570	38,327	30,237
Zoning	C-2	C-3-L	C-3-L	M-1	C-2	C-2
Principal Business Frontage	E. Washington Ave.	Mineral Point & Grand Canyon Roads	Odana Rd.	Cottage Grove Road & Atlas Avenue	S. Park Street	E. Washington Ave.
Position on Block	Inside lot	Corner lot	Inside lot	Corner lot	Corner lot	Inside lot

All have city services, Pigs Ear did not have curb and gutter
No adjustment of time required as restaurant economics would not permit inflation of land prices.

Landmark Research, Inc.

EXHIBIT #9

Attribute Point and Weight Comparison
Of Restaurant-Commercial Land Sales and Subject Property

(See Exhibit #8)	Barnaby's East	Barnaby's West	Bud's West	Pigs Ear East	Marc's Big Boy South	Marc's Big Boy East	Subject
30 *Site	Points Wgt'd Pts						
Shape	5	1	5	3	5	3	5
% Usable	3	3	5	5	5	5	1
Site Preparation	3	1	5	5	5	5	5
Visibility	3	5	5	3	5	3	3
Access							
Left & Right Turn	5	5	5	3	3	3	1
Frontage Road	3	5	5	1	5	5	5
Total	<u>18</u>	<u>20</u>	<u>25</u>	<u>20</u>	<u>28</u>	<u>24</u>	<u>20</u>
Weight	540	600	750	600	840	720	600
50							
Linkages							
Traffic Volume	5	5	3	3	5	5	3
Supportive Retail/Serv.	5	5	3	1	1	3	1
Proximity to Multi-Family Residential	1	5	5	1	3	3	3
Proximity to Employm.	3	3	3	1	1	5	3
**Interstate-Beltline	2	1	1	3	2	2	1
Total	<u>15</u>	<u>18</u>	<u>15</u>	<u>9</u>	<u>12</u>	<u>18</u>	<u>11</u>
Weight							
Image							
Development Activity	5	5	3	1	1	3	1
Prestige of Street Address	<u>5</u>	<u>5</u>	<u>3</u>	<u>1</u>	<u>3</u>	<u>5</u>	<u>1</u>
Total	10	10	6	2	4	8	2
	<u>200</u>	<u>200</u>	<u>120</u>	<u>40</u>	<u>80</u>	<u>160</u>	<u>40</u>
*Scale 1,3,5 Except **	<u>1490</u>	<u>1700</u>	<u>1620</u>	<u>1090</u>	<u>1520</u>	<u>1780</u>	<u>1190</u>

Sedmark Research, Inc.

Exhibit #10

Determination of Linear Regression Weighted Mean Value of Land/sf Commercial-Restaurant

Comparable	1 Land \$/sf	2 Total Wgtd. Pts.	3 (Land \$/sf) ²	4 (Wgtd.Pts) ²	5 (3 x 4)
	Y _i	X _i	Y _i ²	X _i ²	X _i Y _i
1	\$2.40	1490	5.76	2220100	3575
2	2.73	1700	7.45	2890000	4641
3	1.67	1620	2.79	2624000	2705
4	.64	1090	.41	1881000	698
5	2.28	1520	5.20	2310400	3466
6	2.81	1780	7.90	3168400	5002
TOTAL	\$12.53	9200	29.51	15093000	20087
Mean	(Y)=\$2.09	(X)=1533			

Calculations of Mean, Standard Deviation

$$\text{Sum } y^2 = Y^2 - n(Y)^2$$

$$= (29.51)^2 - 6(2.09)^2$$

$$= 845$$

$$\text{Sum } x^2 = X^2 - n(X)^2$$

$$= 1509300 - 6(1533)^2$$

$$= 993366$$

$$\text{Sum } xy = XY - n(x)(Y)$$

$$= 20087 - 6(1533)(2.09)$$

$$= 863$$

$$Y' = a + bX_{\text{subject}}$$

$$b = \frac{\text{Sum } xy}{\text{Sum } x^2} = \frac{863}{993366} = .00087$$

$$a = (Y) - b(X) = \$2.09 - .00087(1533)$$

SALES PRICE/SUBJECT SITE

$$Y' = a + bX_{\text{subject}}$$

$$= -\$.76 + .00087(1190) = \$1.80$$

STANDARD DEVIATION

$$s_{xy} = \frac{\text{Sum } xy}{n-2}$$

$$= \$.15$$

APPENDIX II

Vacant Land Market Comparison
Office Use
Subject - Fauerbach Property

Weight Total Sub Total	Factor	CMI		VIP		Doty School		WPS-1		IBM		WPS-2		Subject	
		Wgt	Wgt*	Wgt	Wgt*	Wgt	Wgt*	Wgt	Wgt*	Wgt	Wgt*	Wgt	Wgt*	Wgt	Wgt*
30	Site														
10**	Intensity of Land Use	8	80	10	100	6	60	4	40	2	20	2	20	6	60
10**	Topography	10	100	8	80	6	60	4	40	1	10	4	40	6	60
10**	Views	8	80	6	60	4	40	8	80	4	40	4	40	6	60
25	Image														
10**	Lineal Ft Lake/Park	10	100	4	40	4	40	8	80	6	60	1	10	8	80
5	Lake Exposure	5	25	3	15	3	15	3	15	1	5	1	5	3	15
10**	Community Recognition	10	100	8	80	8	80	6	60	4	40	2	20	2	20
35	Linkages														
15**	Downtown	8	120	10	150	8	120	4	60	1	15	1	15	4	60
5	Auto Approach Zone	5	25	3	15	3	25	2	10	2	10	1	5	3	15
5	Ancillary Uses	3	15	5	25	3	15	3	15	1	5	2	10	1	5
5	Employee--Housing & Transportation	3	15	3	15	3	15	1	5	3	15	3	15	3	15
5	Protection from adverse Contiguous Uses	5	25	4	20	3	15	3	15	4	20	2	10	1	5
10	Construction Suitability														
5	Depth to Ground water/ Soils	5	25	5	25	3	15	1	5	1	5	2	10	3	15
5	Drainage	5	25	5	25	3	15	3	15	1	5	3	10	3	15
100	Totals	735		650		515		440		225		210		425	

* Weight x Scale
** 10 Point Scale

$$b = \frac{\sum xy}{\sum x^2} = .0249$$

$$a = Y - bX = -\$5.75$$

$$Y' = a + bX_{\text{subject}}$$

$$= -\$5.75 + .0249(425)$$

$$= \$4.83 \text{ per sq. ft. } \pm \$.08 \text{ (standard deviation)}$$

Howard Johnson - DT Madison
Schedule of Projected Income and Expenses
For the Years Commencing May 1, 1974-78

Exhibit 10

Period	1974-75	1975-76	1976-77	1977-78	1978-79
Occupancy (163 rooms)	68%	70%	71%	72%	73%
Revenue:					
Available Rooms	59,463	59,400	59,400	59,400	59,400
Occupied Rooms	40,463	41,580	42,174	42,768	43,362
Rate Average ¹	18.89	19.00	19.50	20.00	20.50
Room Revenue	764,450	790,020	822,390	855,360	888,920
Public Room Rental ²	7,116	7,200	7,200	7,200	7,200
Restaurant Rental ³	31,500	31,500	31,500	31,500	31,500
Telephone ⁴	(14,345)	(14,795)	(15,375)	(15,960)	(16,560)
Other Income ⁵	6,113	6,165	6,405	6,650	6,900
Room Service Commissions ⁶	1,635	1,850	1,920	1,995	2,070
Total Revenue	796,468	821,940	854,040	886,745	920,030
Operating Expenses:					
Payroll ⁷	166,180	164,390	170,808	177,349	184,006
Housekeeping ⁸	33,160	33,700	34,200	34,700	35,200
Adm. & Gen. ⁹	83,150	85,890	89,250	92,665	96,145
Adv. & Promotion ¹⁰	82,250	82,735	84,704	86,352	88,030
Utilities ¹¹	66,500	76,030	79,000	82,025	85,100
Repairs & Maintenance ¹²	16,550	13,500	13,500	13,500	13,500
Total Operating Expenses	447,790	456,245	471,462	486,591	501,981
House Profit	348,678	365,695	382,578	400,154	418,049
Misc. Interest Income	720	720	720	720	720
Gross Profit	349,398	366,415	383,298	400,874	418,769
Less: Insurance	10,314	9,926	9,926	9,926	9,926
Land Rental ¹³	7,680	7,680	7,680	7,680	7,680
Income to Furnishing ¹⁴	64,000	64,000	64,000	64,000	64,000
Income before RE Taxes and Debt Service to Land and Buildings	267,404	284,809	301,692	319,268	337,163

NOTE: PERCENTAGES MUST BE ENTERED AS A DECIMAL EQUIVALENT (11.75% = .1175)

Exhibit 10

PROJECT IDENTIFICATION

Maximum 70 characters per line

100 -----
101 -----
102 -----
MARRISON, WIS - MAY, 1974

TYPE OF ANALYSIS

	Code	Value
Investment Market Value:		
Based on specific after-tax yield	A	After-tax yield
Based on specific before-tax yield	B	Before-tax yield
Project Feasibility:	I	Market value or cost

Code	Value
AD	.314
	Second Run
	.20

RESALE VALUE

Alternatives	Code	Value
Reversionary	RV	\$ Amount
Mortgage Balance	MB	Additional \$ (±) if any
Appreciation/Depreciation	AD	\$ or % (neg = depr.)

Code	Value	Resale Year (1 to 25 yrs.)	Sales Commission (% or \$)
AD	0	6	.02

NET INCOME

Last value entered is assumed for balance of project life.

1	2	3	4	5
267404	284809	301692	319268	337163
6	7	8	9	10
11	12	13	14	15
16	17	18	19	20
21	22	23	24	25

Exhibit 10

FINANCING

Mortgage Code:

Standard Mortgage:

1 - Mortgage value is a \$ amount or a % of IMV. (Enter \$ or % in Mortgage Amount Column).

The following two options cannot be used simultaneously:

2 - Mortgage value is the difference between IMV and the sum of known amounts for equity cash and other mortgages. (Enter the \$ amount for cash equity in the Mortgage Amount column).

3 - Mortgage amount is the difference between a total mortgage ratio and the sum of other mortgages of known amounts. (Enter the total mortgage ratio (%) in the Mortgage Amount column).

NOTE: Place a minus sign (-) in front of the Mortgage Code for any mortgage (except those for refinancing) that should not be included in the calculation of the original equity cash i.e. a future mortgage for capital improvement.

Refinancing:

4 - Refinancing value is the balance remaining on the loans to be refinanced plus or minus a \$ amount. (Enter the additional \$ amount in the Mortgage Amount column).

5 - Refinancing value is a specific \$ amount. (Enter the \$ amount in the Mortgage Amount column).

In using Mortgage Codes 4 and 5, loans to be refinanced are indicated by entering their number (the number that corresponds to their line position relative to the other loans) immediately after refinancing Mortgage Code number --- i.e. if using refinancing code #4 to refinance loans #1,2,4 and 5 enter 41245 in the Mortgage Code column. If the resulting refinancing value is greater or less than loans balances being refinanced, that difference automatically becomes an adjustment against equity and is reflected in both the before-tax and after-tax cashflows.

Term and Annual Constant:

For each mortgage either the Term or the Annual Constant must be provided except in the case of balloon or interest only mortgages for which both must be provided. Enter a zero for the Term or the Annual Constant, whichever is unknown.

	Mortgage Code	Mortgage Amount(\$ or %)	Interest Rate	Term (Months)	Annual Constant	Start Month (1 is std., no neg.)
122	1	.75	.105	240	0	1
123			.095			
124						
125						
126						
127						
128						
129						
130						
131						

OWNERSHIP FORM

Ownership code:

Corp. Non-Corp.

- | | | |
|---|---|---|
| 1 | 5 | Operating losses applied to other investments. |
| 2 | 6 | Operating losses carried back/carried forward. |
| 3 | 7 | Taxable income offset by losses from other investments. |
| 4 | | Corporation set up solely for this investment. |

	Ownership Code	Federal tax rate (.48 is std. for corp.)	State tax rate	State capital gains rate
110	5	.35	0	0

DEPRECIABLE CAPITAL ASSETS

Excess Depreciation Recapture Code:

- 1 - No recapture
- 2 - FHA 221 (d) (3) or 236 before 1975 (After 20 months declines 1% per month)
- 3 - All other residential rentals (After 100 months declines 1% per month)
- 4 - All non-residential - 100% recapture

Land Value:

Use only when land value is known and asset amounts are entered as a % of total depreciable value. Land value is automatically subtracted from total project cost or value before Asset Value % is applied.

	Excess Depreciation Recapture Code	Land Value (\$) (0 if not known)
111	4	0

Depreciation Method:

- | | |
|-------------------|----------|
| 1 - Straight line | 4 - 200% |
| 2 - 125% | 5 - SOYD |
| 3 - 150% | |

	Asset Value (\$ or %)	Depreciation Method	Life (yrs.)	Salvage Value (\$ or %)	Starting Month (1 is std., no neg.)
112	.90	1	35	.20	1
113					
114					
115					
116					
117					
118					
119					
120					
121					

READY
RUN INV

Exhibit 10

INV 15:02CST 10/27/75

WHAT IS YOUR DATA FILE NAME?MAX1

INV : \$ 1877227
AFTER TAX YIELD(IRR) : 22.47%
BEFORE TAX YIELD(IRR): 31.40%
DO YOU WANT DETAIL (0=NO,1=YES)?1

INVESTMENT MARKET VALUE ANALYSIS 15:03CST 10/27/75

HOWARD JOHNSON MOTOR INN
JOHNSON AND MARION STREET
MADISON, WIS.-----MAY,1974

AFTER TAX YIELD(IRR) : 22.47%
BEFORE TAX YIELD(IRR): 31.40%

INVESTMENT MARKET VALUE: \$ 1877227

FINANCING:

MORTGAGES:

1. 1ST MONTH 9.500% 20 YRS 0 MONS \$ 1407920

EQUITY CASH: \$ 469307

RESALE OF INVESTMENT IN 5 YEARS:

ESTIMATED RESALE PRICE \$ 1877227

LESS: MORTGAGE BAL. 1256790
SALES COMMISSION 37545

CASH REVERSION BEFORE TAXES \$ 582892

LESS: CAPITAL GAINS TAX(SID.) 42236
TAX ON RECAPTURED DEPR. 0
TAX PREFERENCE TAX 0

CASH REVERSION AFTER TAXES \$ 540656

YR	NET INCOME	MORTGAGE INTEREST	BOOK DEPR.	TAXABLE INCOME	INCOME TAX	CASH FLOW BEFORE TAX	CASH FLOW AFTER TAX
1	267404	132691	48271	86442	30254	109921	79667
2	284809	130231	48271	106307	37207	127326	90119
3	301692	127526	48271	125895	44063	144209	100146
4	319268	124553	48271	146444	51255	161785	110530
5	337163	121284	48271	167608	58662	179680	121018

MAX1 15:02CST 10/27/75

100 HOWARD JOHNSON MOTOR INN
101 JOHNSON AND MARION STREET
102 MADISON, WIS.-----MAY,1974
103 B,.314
104 AD,0,5,.02
105 267404,284809,301692,319268,337163
110 5,.35,0,0
111 4,0
112 .90,1,35,.20,1
122 1,.75,.095,240,0,1

READY
RUN IMV

Exhibit 10

IMV 15:12CST 10/27/75

WHAT IS YOUR DATA FILE NAME?MAX2

IMV : \$ 1918142
AFTER TAX YIELD(IRR) : 14.80%
BEFORE TAX YIELD(IRR): 20.00%
DO YOU WANT DETAIL (0=NO,1=YES)?1

INVESTMENT MARKET VALUE ANALYSIS 15:12CST 10/27/75

HOWARD JOHNSON MOTOR INN
JOHNSON AND MARION STREET
MADISON, WIS.-----MAY,1974

AFTER TAX YIELD(IRR) : 14.80%
BEFORE TAX YIELD(IRR): 20.00%

INVESTMENT MARKET VALUE: \$ 1918142

FINANCING:

MORTGAGES:

1. 1ST MONTH 9.500% 20 YRS 0 MONS \$ 1438606

EQUITY CASH: \$ 479536

RESALE OF INVESTMENT IN 5 YEARS:

ESTIMATED RESALE PRICE	\$ 1918142
LESS: MORTGAGE BAL.	1284178
SALES COMMISSION	38363
CASH REVERSION BEFORE TAXES	\$ 595601
LESS: CAPITAL GAINS TAX(STD.)	43157
TAX ON RECAPTURED DEPR.	0
TAX PREFERENCE TAX	1150
CASH REVERSION AFTER TAXES	\$ 551294

YR	NET INCOME	MORTGAGE INTEREST	BOOK DEPR.	TAXABLE INCOME	INCOME TAX	CASH FLOW BEFORE TAX	CASH FLOW AFTER TAX
1	213903	135583	49323	28997	10148	52987	42839
2	231308	133069	49323	48916	17120	70392	53272
3	248191	130305	49323	58563	23997	87275	63278
4	265767	127267	49323	89177	31211	104851	73640
5	283662	123928	49323	110411	38643	122746	84103

MAX2 15:12CST 10/27/75

100 HOWARD JOHNSON MOTOR INN
101 JOHNSON AND MARION STREET
102 MADISON, WIS.-----MAY,1974
103 B,.20
104 AD,0,5,.02
105 213903,231308,248191,265767,283662
110 5,.35,0,0
111 4,0
112 .90,1,35,.20,1
122 1,.75,.005,240,0,1

JOHN H. NABORS, JR.

Exhibit II

SENSITIVITY TABLE

150,000 SQ FT BUILDING - 6.333 AC SITE

CONSTRUCTION COST OF \$ 30 PER SQ FT

FIXED PARAMETERS		PAGE	3 OF 4
SITE :	275265 SQUARE FEET	DATE	9-23-1974
BUILDING :	150000 SQUARE FEET	BLDG	6001
EFFICIENCY:	85.00 PCT OF GROSS		
LOAN RATIO:	80.00 PCT OF \$ 7070397		
EQUITY :	\$ 1414179		
FINANCING :	30 YEARS 9.50 PCT		
REVENUE :	\$ 3.50 PER SQ FT		
VACANCY :	10.00 PCT OF LEASEABLE		
OTR INCOME:	\$ 0 ANNUALLY	RUN	1
EXPENSES :	\$ 2.50 PER SQ FT		
CONSTRUCTION AND LAND COST	7070397		
CONSTRUCTION INTERIM RATE	12.000 PCT		
CONSTRUCTION PERIOD	13 MONTHS		
LAND INTERIM RATE IS	12.00 PCT		

EFFECT OF UNIT CHANGES IN FIXED PARAMETERS

PARAMETER CHANGE	INCREASE IN CASH FLOW	EFFECT ON CONSTRUCTION
DECREASE CONSTRUCTION COST \$ 100,000	\$ 12015	\$ -119078
DECREASE CONSTRUCTION \$ 1.00 PER SQ FT	18023	-178617
INCREASE CONSTRUCTION PERIOD 1 MONTH	-6542	64836
DECREASE CONST AND LAND INTERIM 1 PCT	4805	-47625
INCREASE BUILDING EFFICIENCY 1 PCT	7725	
INCREASE RENTAL RATE \$.10 PER SQ FT	11475	
DECREASE VACANCY RATE 1PCT	10938	
DECREASE OPERATING RATE \$.10 PER SQ FT	12750	
DECREASE PERMANENT RATE .25PCT	12340	
DECREASE PERMANENT LOAN TERM BY 1 YEAR	-3541	
DECREASE PERMANENT LOAN TERM BY 5 YEARS	-22294	
DECREASE THE LOAN RATIO BY 5 PERCENT	35674	

EQUIVALENT EFFECTS TO YIELD
A \$ 10000 INCREASE IN ANNUAL CASH FLOW

DECREASE CONSTRUCTION COST BY	\$.55 PER SQ FT
DECREASE CONSTRUCTION PERIOD BY	1.5 MONTHS
DECREASE INTERIM INTEREST BY	2.08 PCT
INCREASE BUILDING EFFICIENCY BY	1.29 PCT
INCREASE RENT RATE BY	\$.09 PER SQ FT
DECREASE VACANCY BY	.92 PCT
DECREASE EXPENSE RATE BY	\$.08 PER SQ FT
DECREASE PERMANENT RATE BY	.20 PCT
INCREASE PERMANENT LOAN TERM BY	2.2 YEARS
DECREASE LOAN RATIO BY	1.4 PERCENT

CASH FLOW PRO FORMA USING PARAMETER NORMS

150,000 SQ FT BUILDING - 6.333 AC SITE

CONSTRUCTION COST OF \$ 30 PER SQ FT

DATE: 8/28/1974

BLDG: 6001

RUN: 1

GROSS SQUARE FEET IN BUILDING:	150000
BUILDING EFFICIENCY :	85 PCT
NET LEASEABLE SQUARE FOOTAGE :	127500
LAND AND CONSTRUCTION COST : \$	7070897
LOAN TO COST RATIO :	80.0 PCT
ORIGINAL LOAN AMOUNT : \$	5656718
EQUITY REQUIREMENT : \$	1414179
PERMANENT INTEREST RATE :	9.50 PCT
TERM OF LOAN	30 YEARS
ANNUAL DEBT SERVICE : \$	570777

ANNUAL DOLLARS

GROSS INCOME : 127500 SQ FT AT \$ 8.50	1083750
LESS: VACANCY ALLOWANCE OF 10.00 PCT	108375

GROSS EFFECTIVE INCOME	975375
OPERATING EXPENSES: 127500 SQ FT AT \$ 2.50	318750

NET OPERATING INCOME	656625
DEBT SERVICE (10.09 PCT CONSTANT)	570777

PRO FORMA CASH FLOW	85848

RETURN ON EQUITY 6.07 PERCENT

Landmark
Research
Inc.

Thomas L. Turk
James A. Graaskamp

November 20, 1976

Mr. O. F. Voelker, SRA
771 E. Iowa Ave.
St. Paul, Minn. 55106

Dear Mr. Voelker:

We would very much enjoy working out a seminar with you for April or May in 1977. Friday would be the best day for me as I could reach town on Thursday evening and return home on Saturday so that my student assistants would miss only one day of school.

Looking at my calendar of present commitments, and the University Exam schedule, I would suggest Friday, April 29, May 6 or May 13th. Call me at 608/262-6378 on weekdays or 608/238-8452 on evenings and weekends to discuss the subject matter that would serve your purposes best.

I would be happy to teach seminars on contemporary appraisal technique, best use analysis, or contemporary real estate financial analysis.

My fee for a full day seminar is \$1,000. That would include all of my travel expenses, preparation of classroom materials and 100 sets of mimeographs. There would probably be 30 - 40 pages of mimeographing per student.

Your letter is dated October 15, but I just received it this week. I hope that the U.S. mail or the University of Wisconsin mail service has not inconvenienced you.

Thank you very much for the opportunity to be of service.

Sincerely,

James A. Graaskamp CRE, SREA
Urban Land Economist



Minnesota Department of Transportation

Transportation Building, St. Paul, MN 55155

Phone 612-296-3221

January 24, 1977

Mr. James A. Graaskamp, CRE, SREA
Landmark Research Inc.
202A Breese Terrace
Madison, Wisconsin 53705

Dear Mr. Graaskamp:

This will confirm our invitation to present a one day seminar for our department on Friday, May 6. We understand that your fee for this is \$1,000.00 for the full day and it includes all of your travel expenses, the preparation of classroom material, and 100 sets of mimeographs. Our training officer, Mr. Gunnar Pederson, will make arrangements for a contract with you for this service.

Our plans are to have this seminar as a part of an annual conference that is sponsored by the Valuation Unit of the section of Right of Way Operations and the Bureau of Public Appraisers, an employee organization of appraisers in public service. Its held at the Arden Hills Training Center, a state owned facility, located in Arden Hills, a suburb of St. Paul.

We expect attendance at the conference of approximately 100 persons. The persons attending include staff members of the Department of Transportation who are engaged in real estate appraising, right of way negotiations, relocation assistance programs, and eminent domain work. Other persons to be invited include members of our legal and accounting staff, and some of the fee appraisers who regularly do work for us. Most of our staff members have had the basic courses in real estate appraising offered by the American Institute of Real Estate Appraisers, and many of them have had advanced courses. We have several staff members who hold the designations of MAI, SRPA, and SRA. All of our staff has had a number of years experience in this field and I think you will find them genuinely interested in appraisal topics.

Some of the objectives of this seminar are as follows:

To refresh our application of basic principles to everyday appraisal problems.

Mr. James A. Graaskamp
January 24, 1977
Page 2

To improve our ability to accurately estimate highest and best use.

To improve our ability to communicate and convince others of the accuracy of our real estate appraisals.

To provide advanced training in the appraisal of large commercial and industrial properties.

To expand our area of service to all divisions of the Department of Transportation.

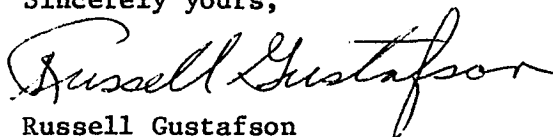
One of the new areas we would like to explore is the feasibility analysis as related to transportation improvements. This would apply to the preparation of Environmental Impact Statements. We would be interested in contemporary appraisal techniques that you mentioned in your letter to Mr. Voelker.

I am enclosing a set of our appraisal specification and some samples of appraisal problems we have encountered recently that will give you some idea about our work.

I hope this material will give you some information so that you can plan the seminar for us. If there are any further questions be sure you let me know.

We will be in touch with you and look forward to working with you on this seminar.

Sincerely yours,

A handwritten signature in cursive script that reads "Russell Gustafson". The signature is written in dark ink and is positioned above the printed name.

Russell Gustafson
MAI, SRPA
Manager of Valuation Unit



Minnesota Department of Transportation

Transportation Building, St. Paul, MN 55155

Phone 612-296-3221

March 10, 1977

Mr. James A. Graaskamp, CRE, SREA
Landmark Research Inc.
202A Breese Terrace
Madison, Wisconsin 53705

Dear Mr. Graaskamp:

We are completing plans for our annual Real Estate Appraisal Conference. Since I talked to you we have decided we will have a session of general topics for our staff on Wednesday, May 4, which follows a schedule we have had for several years.

The program on May 4 will cover such things as coordination between our department and the Design Sections, discussions on environmental regulations that effect our construction projects and a discussion of the energy crisis in relation to real estate development.

The Bureau of Public Appraisers will have a social meeting and dinner on Wednesday evening. It will be held at

Paul's Place Inn
2965 Snelling Avenue, North
St. Paul, Minnesota
Telephone - 633-6333

This is a Motel on Snelling Avenue, North, not far from the Arden Hills Training Center. If it would be convenient for you, you could join the group for this dinner and get acquainted with some of our staff in an informal way on Wednesday evening. We do not intend to obligate you in any way for this event.

I would like to prepare publicity on our seminar to be ready for mailing by the end of this month. Could you give me an outline of what some of the major topics may be so that I can publicize them in our program? I would also like to have some background material on yourself that I can include in our announcements.



Mr. James A. Graaskamp
March 10, 1977
Page 2

If there are any further questions about the seminar please let me know.
I will look forward to hearing from you.

Sincerely,

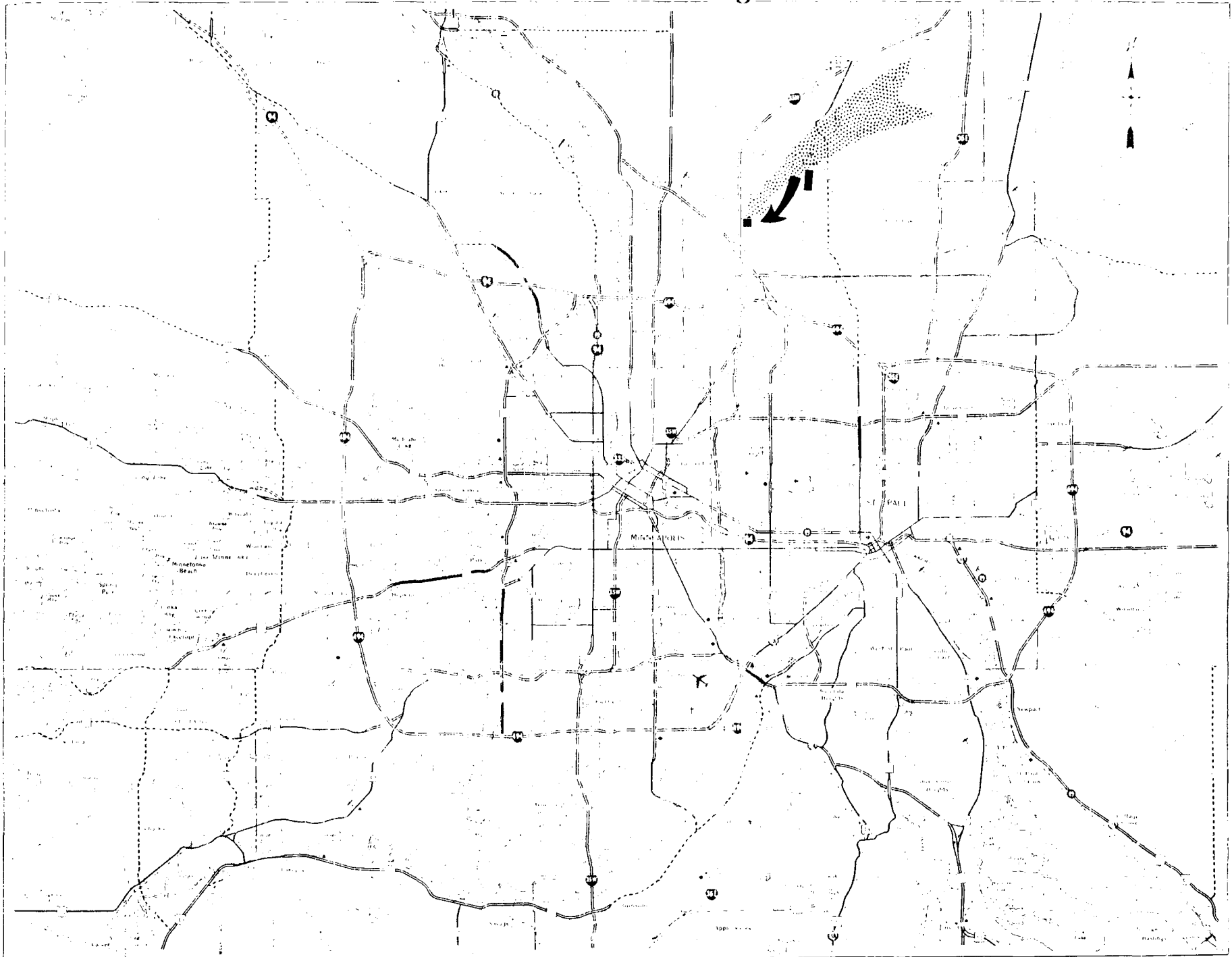
A handwritten signature in cursive script that reads "Russell Gustafson". The signature is written in dark ink and is positioned above the printed name and title.

Russell Gustafson, MAI, SRPA
Manager of the Valuation Unit

cc: O. F. Voelker, President
Bureau of Public Appraisers

M.H.D. - C.D. Training Center

TWIN CITIES AREA



3/13/77

Program Outline
Contemporary Real Estate Appraisal Methods
Prepared for:

Minnesota Department of Transportation
Annual Real Estate Appraisal Conference

~~Wednesday, May 4, 1977~~
~~Thursday, May 5, 1977~~

of

I. Current Redefinition Fundamental Real Estate And Appraisal Concepts

- A. Keystone concepts to the real estate process .
- B. Keystone financial ^{and risk} concepts related to appraisal valuation
- C. Keystone legal concepts related to appraisal
- D. Recent redefinition of highest and best use by appraisal professional groups.
- E. Relationship between feasibility and appraisal analysis.
- F. Summary of the Ratcliff position on appraisal methods
- G. Fair market value and concept of most probable sales price

8:30-10:15
10:15-10:30 Coffee Break

II. General Contemporary Appraisal Report Format

- A. General outline of report structure
- B. Adaptability of report format to courtroom appraisal
- C. Adaptability to federal highway forms (see attached report outline)

2:30 LUNCH

1:00-3:00 ~~III~~ Property Analysis to Determine Most ^{Probable} ~~Fitting~~ Use

- A. Physical attribute definition
- B. Legal constraint identification and definition
- C. Linkage attributes and evaluation
- D. Dynamic attributes identification and evaluation
- E. Selection of alternative use strategies (scenarios)
- F. Testing and ranking of use strategies for effective demand
- G. Testing alternative use strategies for political compatability
- H. Testing alternative use strategies for basic technical feasibility without abnormal cost to cure
- I. Ranking of feasible uses for economic viability
- J. Selection of most probable or fitting use

3:30
2-21-15
0.15-3:30
COKE BREAK

IV. Concept of Most Probable Buyer

- A. Most probable use suggests most probable buyer type (market segment)
- B. Comparison of most probable buyer with fair market value concept assumptions
- C. Profiling ~~investor~~ buyer selection criteria
- D. Comparable properties reflect comparable buyers more than physical similarity
- E. Primary reliance on inference from actual sales
- F. Secondary reliance on simulation of buyer logic
- G. Definition of transaction zone around most probable price
- H. Fair market value - central tendency of transaction zone

V. Selected Case Examples For Appraisal or Courtroom Presentation

- A. Market comparison with simple linear regression
- B. Testing Investment returns of a market appraisal conclusion



Minnesota Department of Transportation

Transportation Building, St. Paul, MN 55155

March 24, 1977

Phone 612-296-3221

Dr. James A. Graaskamp, CRE, SREA
Landmark Research Inc.
202A Breese Terrace
Madison, Wisconsin 53705

Dear Dr. Graaskamp:

Thanks for your prompt reply to my letter. We are pleased with your program outline for the seminar. I am hopeful that it will help to stimulate all of us in our job as Real Estate Appraisers.

I will send you a copy of the program as soon as we have it prepared. It does look like a very full day. Since our staff from the out-state locations will be in the day before, I think we will try to plan to start at 8:00 A.M. and this will move the entire schedule up by one half hour, and finish by 4:00 P.M.

I will try to make an accurate count of how many people we will have by Monday, April 25 so that I can let you know how many kits of material we will need. The classroom will be set up classroom style with tables for working area for each student. The Training Center does have visual aid equipment if you should have need for it.

We're looking forward to a good session.

Sincerely,

Russell Gustafson, MAI, SRPA
Manager of the Valuation Unit



Minnesota Department of Transportation

Transportation Building, St. Paul, MN 55155

April 14, 1977

Phone 612-296-3221

Mr. James A. Graaskamp, CRE, SREA
Landmark Research Inc.
202A Breese Terrace
Madison, Wisconsin 53705

Dear Mr. Graaskamp:

We are enclosing an agreement in connection with the Real Estate Appraisal Conference. In my letter of January 24, we agreed that your fee for the full day seminar would be \$1,000.00 and that it includes all of your travel expenses and the preparation of classroom materials and 100 sets of mimeographs.

This conference is being jointly sponsored by the Department of Transportation and the Bureau of Public Appraisers and they will share the cost equally with each to pay \$500.00. The agreement we are enclosing is for the Department of Transportation's share of the contract and hence its in the amount of \$500.00. Mr. O. F. Voelker, President of the Bureau of Public Appraisers will authorize the payment of the other \$500.00 to you and is aware of this arrangement.

Would you please sign all five copies of the contract in the space marked with the red X on the back of the contract. Would you also enter your social security number or the federal identification number for your firm in the space marked with the red X near the top of the first page. Would you please return all five copies to us when this is completed. The Department of Transportation will make payment when you have submitted your invoice as soon as the seminar is completed.

If there are any questions about the contract be sure and let me know.

Sincerely,

Russell Gustafson, MAI, SRPA
Manager of Valuation Unit

O. F. Voelker, President
Bureau of Public Appraisers