JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM

F. Miscellaneous Professional Associations

18. "New Directions", sponsored by the Corporate Real Estate Management Group, September 23, 1981; Covers investment, law, valuation, corporate and long term locational factors

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NEW DIRECTIONS

Corporate Real Estate Management Seminar
Wednesday, September 23, 1981

I. Strategic perceptions of real estate investment

   A. Utilitarian contribution to the activity housed
   B. Captive customer for professional services
   C. Commodity speculation - hardware and money - the classic straddle position
   D. Arbitrage vehicle (syndications, condominiums, cash flow timing)

II. Real estate dynamics leads to change in perception of real estate law

   A. Real estate has artifically delineated space with fourth dimension in time
   B. Real estate business converts money time to space time and vice versa
   C. Ownership is the degree to which you can convert cash flow to your benefit
   D. Solvency is the critical issue - not value
   E. Objective of public policy is simultaneous solvency of the consumer, the producer, and the public infrastructure groups
   F. The consumer group includes those who rent or buy, collective consumers operating in political process, and future users
   G. Producer group trending toward private/public consortiums to allocate risk between technician and politician
   H. Public infrastructure is being destroyed by over consumption (see New York Times article)
   I. Courts are beginning to take a look at Hadachek Brick Case where pay back was more equitable than future value - who pays and who benefits is the measure of equity

III. Valuation issues for the 1980's

   A. On October 6, 1979, the market comparison approach and the fair market value concept for income properties died after a serious illness
      1. Cash to the seller is unrealistic
      2. Prices of income properties are engineered to fit corporate tax and stock market needs
      3. Overall rates are useless and childish appraisal techniques, as are loan-to-value ratios
      4. Appraisers are incapable of distinguishing between income attributable to real estate (land and building) and income attributable to management, going concern, or entitlements
      5. Appraisers seldom examine sales for comparability in terms of strategic motivation and the relationship of gross price to net cost
   B. The cost approach is irrelevant except for insurance purposes as business operates on marginal costs, marginal revenue, degree of elasticity in prices, portfolio averages and strategies other than utilitarian standards.
   C. The income approach requires careful delineation of income attributable to land and building. For example:
      1. Is the value attached to fee simple title or entitlements; are the entitlements realty or personalty - in the land or in contracts? (shopping center agreements)

2. Is the space income from wholesaling or retailing space units? (ramp versus stall)
3. Is income for a function which is ancillary to real estate or integral to real estate? (sale of electricity)
4. How have the parties chosen to define personalty and realty? How does IRS define realty, personalty and intangible assets?
5. Are the services customary or incremental? (janitorial versus made service)
6. Is the income from government payments in exchange for control of rents, tenant eligibility, land use etc.?

D. Appraisal is having a variety of problems with which the professional societies are apparently unable to cope. Not once in recent years has any of the appraisal organizations issued a White Paper on how to handle a particular problem, such as:
1. Development of alternative scenarios to demonstrate most probable use (highest and best use is passe)
2. Definition of value (fair market, probable price, or probable transaction price)
3. Cash flow projection methodologies
4. Future sale price projection methodologies (three sources of gain - only one is legitimate appraisal assumption)
5. Appropriate use of cash equivalencies
6. Appropriate use of statistic pricing models

IV. New directions for corporate real estate

A. Better perception of real estate contribution to net income
B. Better perception of net opportunity cost
C. Need for balance (bank building example)
D. More careful definition of value as a bench mark for decisions
E. Use of real estate minicomputers to evaluate, structure and monitor real estate
F. Real estate as a profit center to justify capital commitments, correctly measure profits of operating divisions, as a factor in executive compensation
G. As a factor of increasing concern for SECC regulation
H. As an alternative source for internal finance

V. Long-term industrial location factors

A. Dispersal away from corrupt urban centers to avoid participating in refinancing of urban infrastructure, public transit and municipal pensions
B. Gradual abandonment of high rise office buildings in favor of energy efficient, capital efficient low rise and semi-earth structures
C. Recognition that lack of water, infrastructure, and labor in the South will make the North economically more efficient than the South despite energy cost advantages
D. Corporations will be restructured to create alternative equities - hardware for depreciation shelter investors, software for those who want to invest in innovation, and people for those who want a leverage off working capital turnover