JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM

G. Miscellaneous Company Lectures

5. Northwestern Mutual Insurance Co., No title
Focuses on contemporary appraisal and trends for the future, June 20, 1977

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I. Basic Definitions

A. Realestate = - Time - Energy Transfer

B. Discussion Makers - Consumers, Producers, Public Infrastructure

C. Cash Cycle Enterprise - Solvency is Equilibrium

D. Realestate is a Fungible Commodity

II. Concept of Highest and Best Use is Obsolete

A. Highest and Best Use - wealth maximization was a temporary historical accident

B. Realestate discussions must fit the "collective consumer" represented by political agencies as well as the individual consumer in the competitive market.

C. Appraisal Terminology handbook now states that wealth maximization must yield to community goals and plans.

D. 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.

III. Investment Criteria for the Next Decade

A. Space/Time and Money/Time Relationship Permits Realestate Investment Portfolios to Treat Realestate as a Commodity Market

1. A mortgage is a stradle position - thus a lender should be paid for his capital plus the value of the put option of the borrower.
2. 100% financing by means of a lease back, land contract, or mortgageing out is a short position for the money and a long position for the commodity.
3. Pension funds and life insurance companies should consider outright ownership or interest only land contracts with five to ten year maturity or delivery dates contingent on death of the present owner, a form of life insurance intended to provide liquidiyt. It could be solde to people whowere uninsurable or older people at a much lower cost than life insurance, and could be restricted to properties of a million dollars or more.

B. Portfolios are already reported in terms of the number of square feet, hotel rooms, bushel storage capacity, etc. so that large institutional investors are already treating realestate property types as a fungible commodity.

IV. The hierarchy of preferences of realestate portfolio investment selection.

A. Considerations:

1. Political exposure
2. Marketing monopoly (lock-in)
3. Management intensiveness
4. Financial characteristics
5. Decision points - cut and run with defined loss
6. Federal and state tax posture
7. Fit to estate building or distribution plan

B. Political exposure

1. Public land use controls
2. Political controls on prices or user effective demand
3. Political constraints on periferal operations

C. Market control

1. Direct control of ultimate user
2. Indirect control through reciprocity
3. Channeled demand because of terrain, utilities, or site linkages

4. Consumer research to establish market gaps

D. Management intensiveness

1. Sale less than long term triple net lease
2. Long term triple net less than multi tenant with escalators which in turn is less than gross residential leasing.
3. Alternative is spectrum of development starting with passive land positioning, packaging, site development, construction and marketing, and long term management.

E. Financila characteristics

1. Profit centers
2. Risk measures
3. Time line
4. Sources and rates of return

F. Decision points

1. Structuring the deal to provide for contingent commitments at a minimum of sund cost
2. Structuring the financial hedge
3. Procrastinating on decisions

G. Federal taxes

1. Short term viewpoint
2. Long term viewpoint

H. Fit to estate accumulations and distribution plan

1. Management continuity
2. Liquidity
3. Form of distribution
4. Investment flexibility
5. Form of ownership