

JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM

I. Other Presentations In Which Either The Date And /
Or Sponsoring Organization Is Missing

1. Risk Management/Investment Related Topics

v. "Corporate Real Estate", March 8-10,
1983

CORPORATE REAL ESTATE

March 10, 1983

I. The Real Estate Process Concept

- A. Real Estate Defined
- B. A Real Estate Project Defined
- C. Real Estate Business Defined
- D. The Contemporary Real Estate Process

II. Corporate Real Estate Syllogism

- A. Working Capital is More Important Than Fixed Capital
- B. Short Term Commitments More Flexible Than Long Term
- C. Risk is Variance Between Expectations and Realizations
- D. Variance on the Downside Should be Shifted to Others

Therefore:

- A. Substitute Purchasing Procedures for Real Estate;
- B. If You Must use Real Estate, Own a Small Core, Lease a second tier, and Rent Fungible Space
- C. Real Estate as Opposed to Production Capital Equipment is a Fungible Commodity
- D. As a Fungible Commodity it is Subject to Hedging, Options, Puts, and Calls

III. Measurement of Real Estate Performance is a Game of Sophistry and Creative Accounting

- A. Fair Market Value
Most Probable Price
Assessed Value - Cash Equivalency -
Going Concern Value
Exit Value
- B. Demise of the Market Approach to Value
Engineered Prices to Conceal Good Will, Convert Capital Loss to Future Ordinary Loss, Shift Tax Loss, Create Net Worth
- C. Confusion of Going Concern With Land and Buildings

IV. The Rise of The Ten Year Discounted Cash Flow

- A. Purchase of a Set of Financial Assumptions
- B. Confusion as to Accounting Format
- D. Control of Budget Variance as a Test of Malfeasance
- E. Appraisal Accounting Versus GAP Accounting

V. Real Estate Investment Strategy Checklist

- A. Exposure to Political Risk
 - 1. Land use law and administration
 - 2. Dependence on subsidy of your consumer
 - 3. Vulnerability to subsidy of your competition
- B. Exposure to Uncontrolled Market Demand
 - 1. Control of customer
 - 2. Reciprocity
 - 3. Inertia
 - 4. Channel demand by circumstance
 - 5. Channel demand through research
- C. Exposure to Loss of Management Expertise
 - 1. Dependency on a personality
 - 2. Dependency on high tech skills
 - 3. Dependency on source of market exposure
 - 4. Management contract services available
 - 5. Triple net leases for long term
- D. Degree of Financial Exposure
 - 1. Maximum exposure to loss
 - 2. Cash breakeven point
 - 3. Cash on cash threshold
 - 4. Overall rate of return threshold
- E. Exposure to Tax Factors
 - 1. Opportunities under federal tax laws
 - 2. Exposure to inflicting state laws
 - 3. Opportunities for sale of tax benefits
 - 4. Opportunities for exchange leverage
- F. Exposure to Asset Shrinkage
 - 1. Estate planning
 - 2. Corporate liquidations
 - 3. Futuristic obsolescence

VI. Creative Thinking Techniques

- A. Creative Problem Solving - Russell Ackoff
- B. The Complete Problem Solver - Wm Hayes
- C. Synectics - Tony Pose

Figure 1
The Real Estate Process

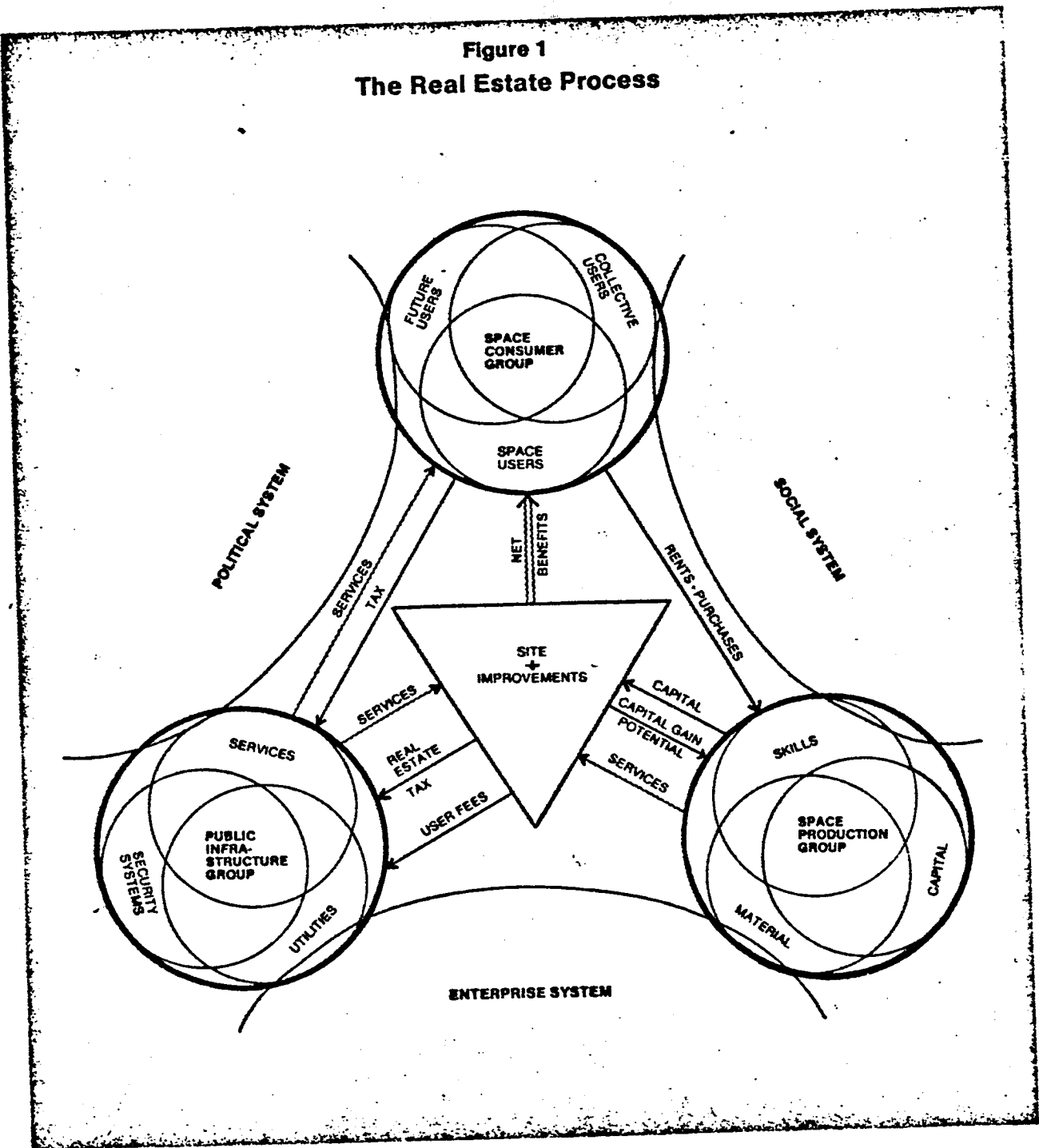


Figure 5
Analysis Process: The Search For a Site For a Use(s)

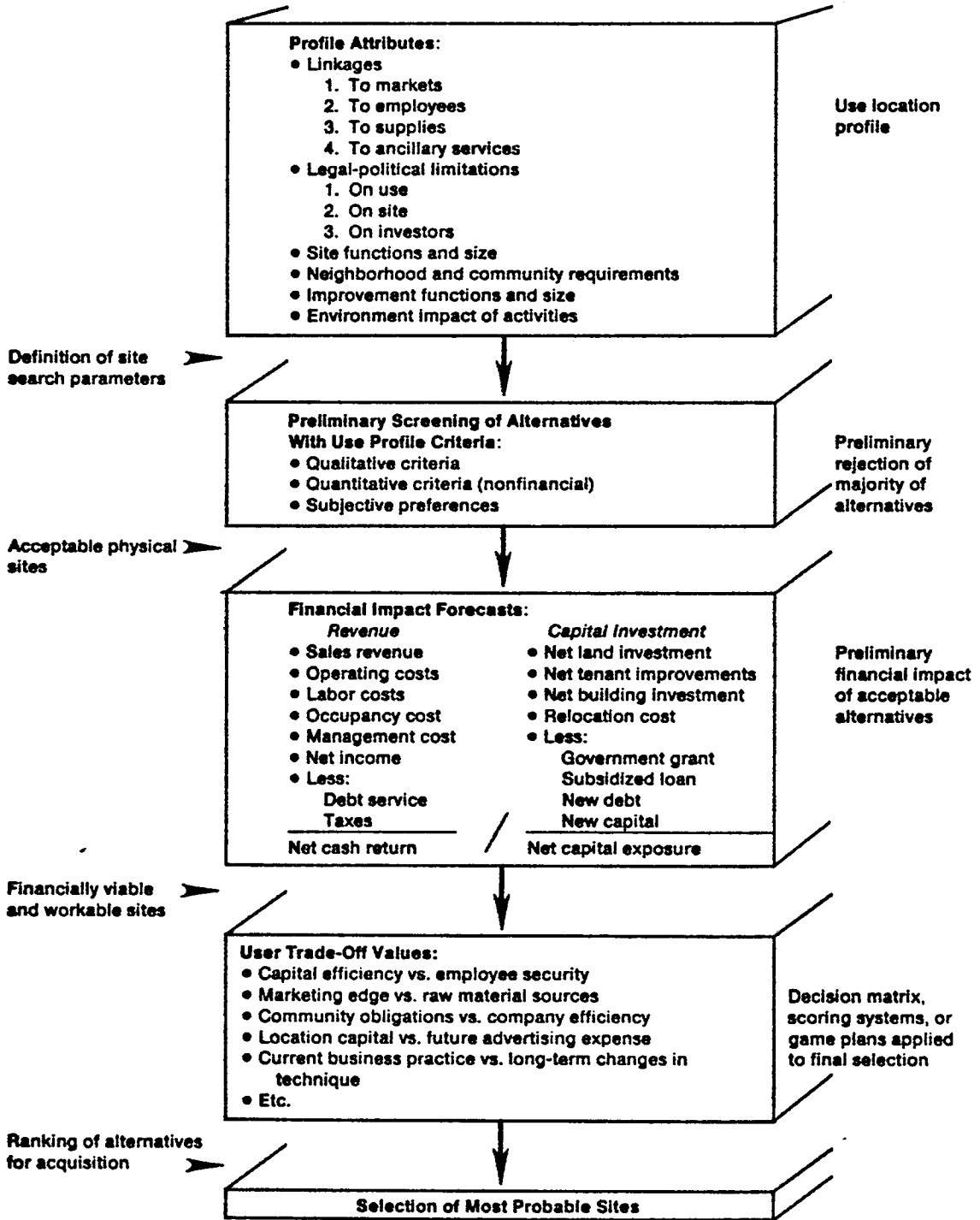


Figure 6
Analysis Process: In Search of a Use(s) For a Site

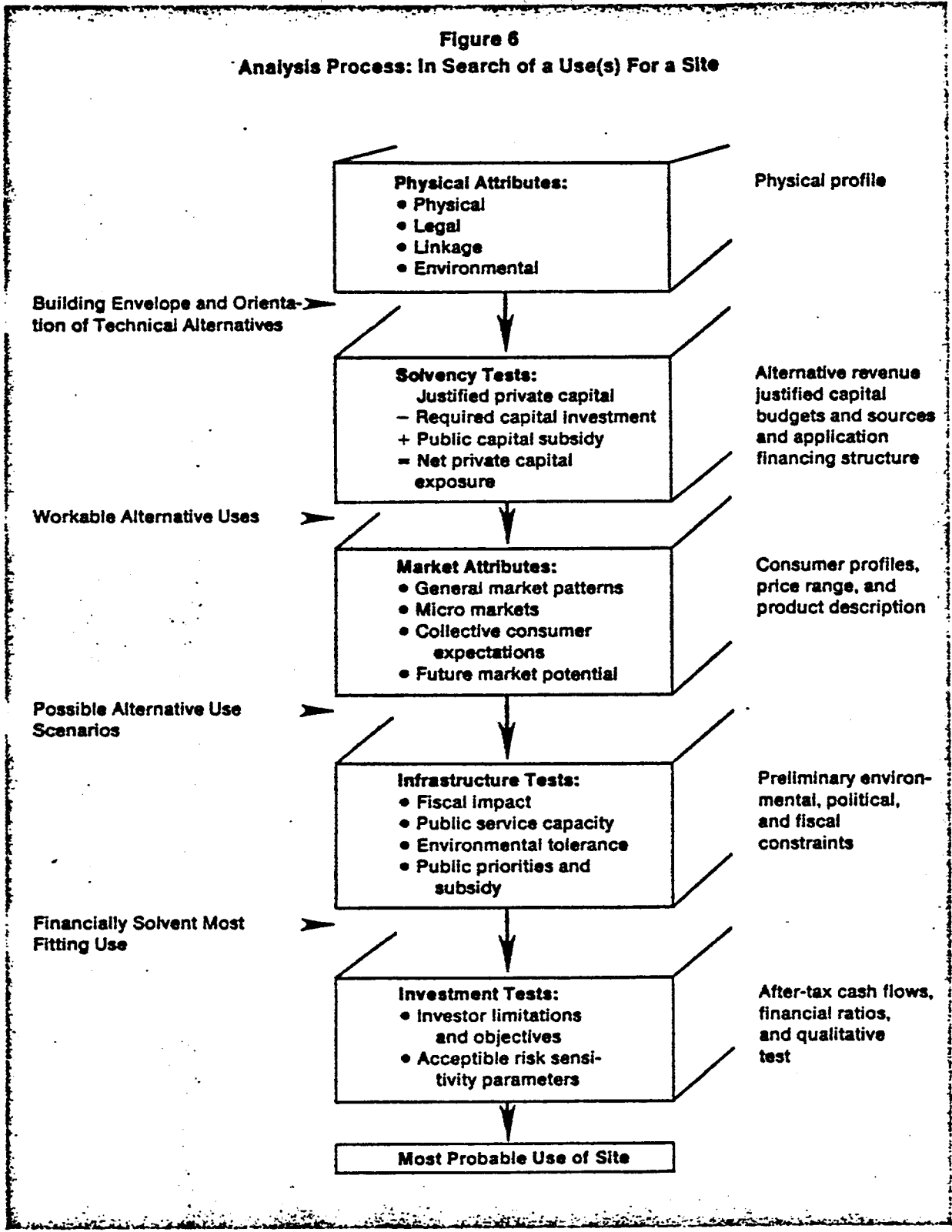


Figure 7
Process for Investor Selection of Real Estate

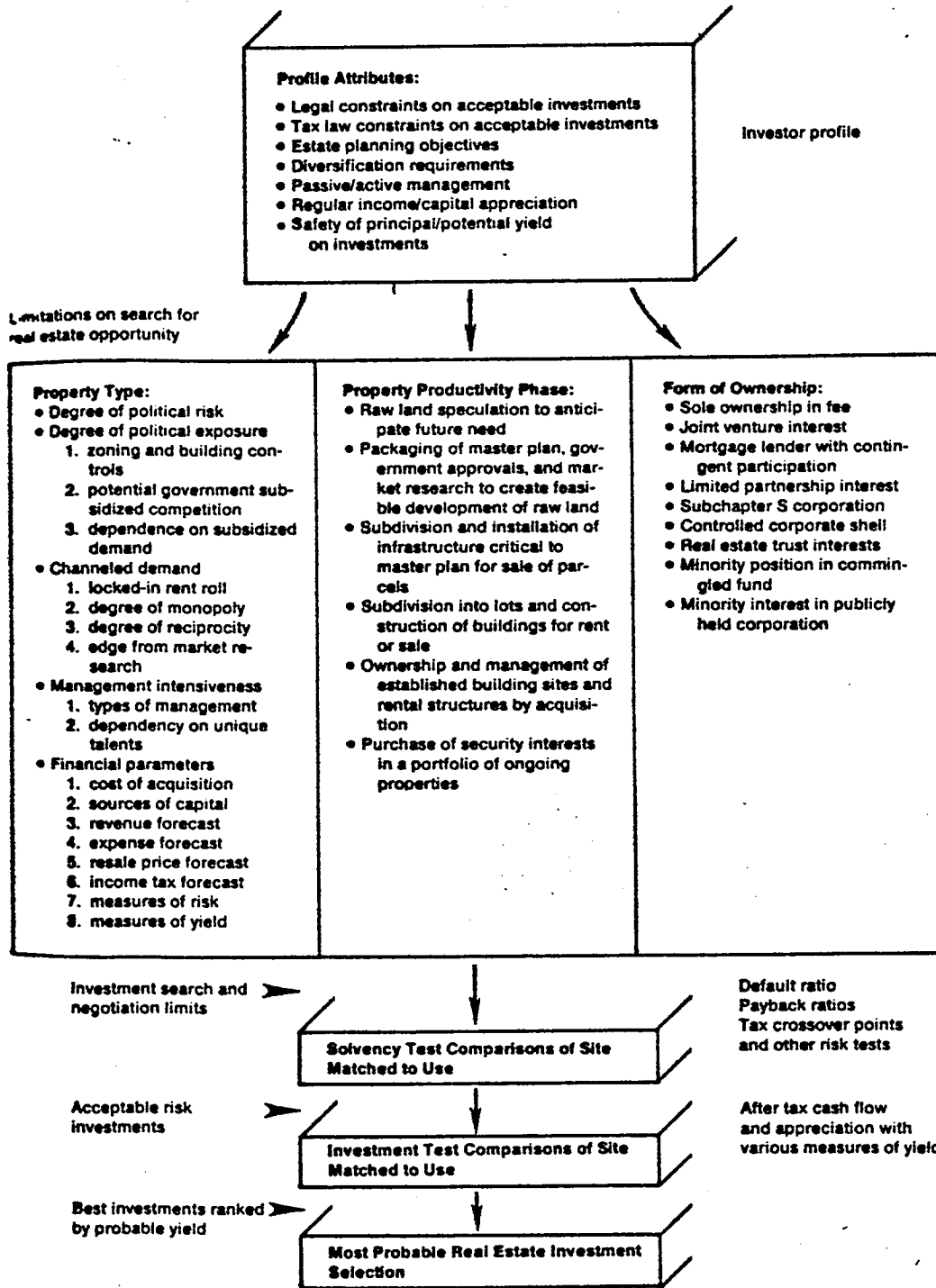


Figure 8
Loan to Cost Ratio Approach
(Frontdoor Approach)

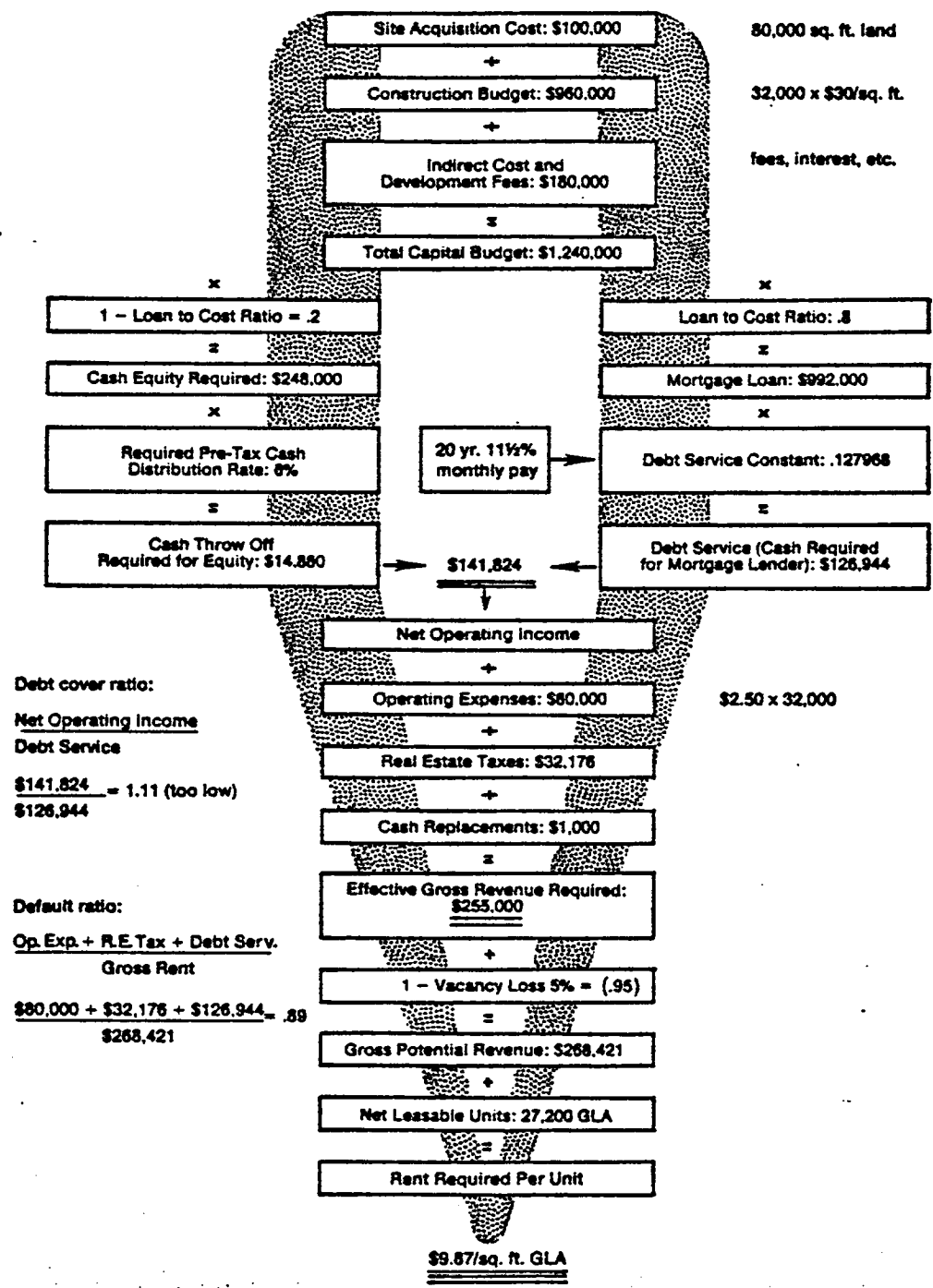
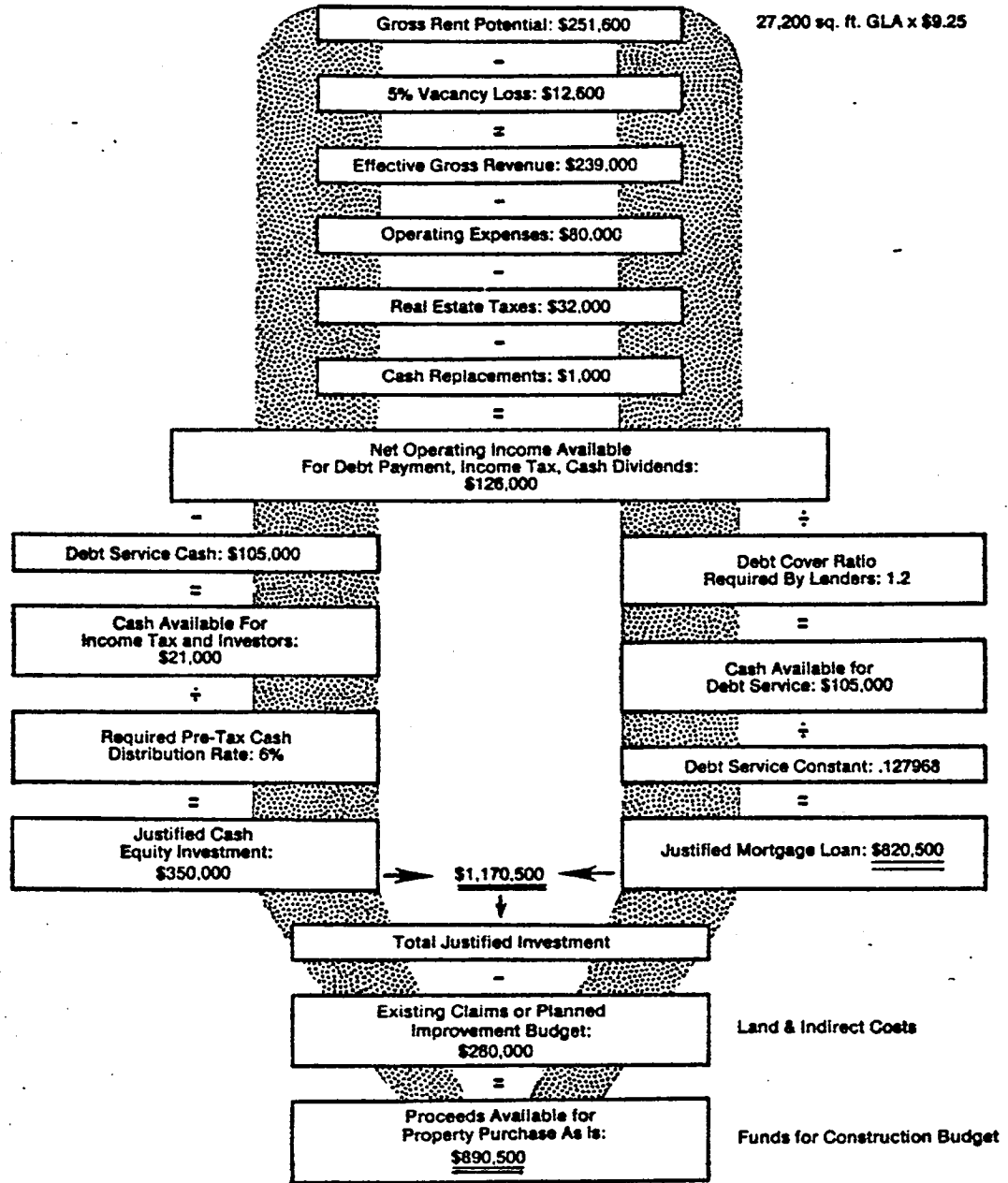
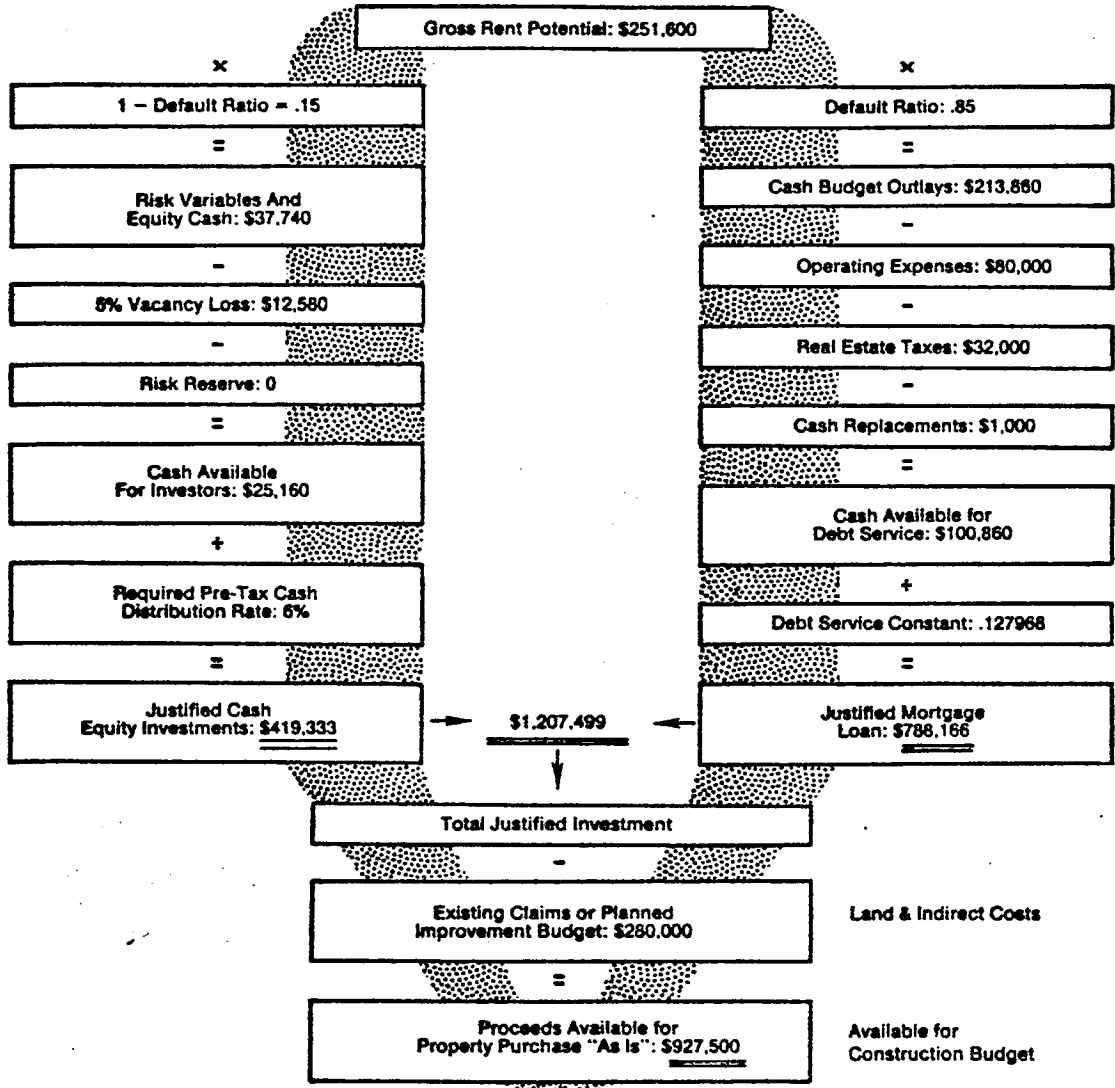


Figure 9
Debt Cover Ratio Approach
(A Backdoor Approach)
Lender's Point of View



\$890,500 ÷ 32,000 sq. ft. = \$27.80/sq. ft. justified building budget

Figure 10
Default Ratio Approach
(Another Backdoor Approach)
Developer's Point of View



\$37/sq. ft. of gross area for justified building budget

Figure 11

Example of Computer Forecasting of Suburban Office Investment Cash Flows†

Pro Forma

Investment Analysis of Suburban Office

REPORT SECTION 1

*GROSS RENT	\$ 267206.	*RATE OF GROWTH OF GROSS RENT	0.0375
*EXPENSES	\$ 80259.	*RATE OF GROWTH OF EXPENSES	0.0428
*R E TAXES	\$ 31198.	*RATE OF GROWTH OF R E TAXES	0.2950
*INCOME TAX RATE	0.3000	PROJECT VALUE GROWTH TYPE	2.0000
*VACANCY RATE	0.0500	WORKING CAPITAL LOAN RATE	\$ 30000.
EQUITY DISCOUNT	0.1300	EXTRAORDINARY EXPENSES	0.0600
RESALE COST	0.0500	REINVESTMENT RATE	0.0500
WKG CAPITAL RS	\$ 15000.	CAPITAL RESER INTEREST RATE	1
INVESTOR TAX CLASS	0	OWNERSHIP FORM	1
INITIAL COST	\$ 1240000.	INITIAL EQUITY REQUIRED	\$ 296000.

ALL * VALUES ARE AVERAGE AMOUNTS FOR HOLDING PERIOD OF 5 YRS.

REPORT SECTION 2

COMPONENT SUMMARY						
TITLE	PCT. DEPR	BEGIN USE	USEFUL LIFE	DEPR METHOD	COST	SCH
SITE	0.00	1	0.	0	\$100000.	0
CONSTRUCTION	1.00	1	50.	4	\$960000.	0
SOFT COSTS	1.00	1	10.	2	\$180000.	0

MORTGAGE SUMMARY						
TITLE	INTR RATE	BEGIN YR.	END YR.	TERM	ORIG BALC	PCT VALUE
CONST. MORTGAGE	0.1500	1	1	1	\$960000.	0.774
PERMANENT MORTGAGE	0.1150	2	21	20	\$852243.	0.685

REPORT SECTION 3

CASH FLOW ANALYSIS

	1980	1981	1982	1983	1984
1 GROSS RENT	251600.	251600.	264180.	277389.	291258.
2 LESS VACANCY	12580.	12580.	13209.	13869.	14563.
3 LESS REAL ESTATE TAXES	18000.	32000.	33920.	35955.	38113.
4 LESS EXPENSES	84000.	80000.	81200.	82424.	83672.
5 NET INCOME	139020.	147020.	155851.	165140.	174911.
6 LESS DEPRECIATION	46800.	45936.	45098.	44285.	43496.
7 LESS INTEREST PMTS	144000.	108836.	107256.	105485.	103500.
8 TAXABLE INCOME	-51780.	-7752.	3497.	15370.	27914.
9 PLUS DEPRECIATION	46800.	45936.	45098.	44285.	43496.
10 LESS PRINCIPAL PMTS	0.	13024.	14604.	16375.	18360.
11 CASH THROW-OFF	-4980.	25160.	33991.	43280.	53051.
12 LESS INCOME TAXES	0.	0.	1049.	4811.	8374.
13 LESS RESERVES	0.	803.	859.	773.	0.
14 CASH FROM OPERATIONS	0.	10899.	32283.	37896.	44678.
15 WORKING CAPITAL LOAN	0.	0.	0.	0.	0.
16 DISTRIBUTABLE CASH AFTER TAX	0.	10899.	32283.	37896.	44678.
17 TAX SAVINGS ON OTHER INCOME	15534.	2325.	0.	0.	0.
18 SPENDABLE CASH AFTER TAXES	15534.	19225.	32283.	37896.	44678.

MARKET VALUE & REVERSION

CASH FLOW ANALYSIS

	1980	1981	1982	1983	1984
19 END OF YEAR MARKET VALUE	1390200.	1470200.	1558510.	1651404.	1749108.
20 LESS RESALE COST	89510.	73510.	77926.	82570.	87455.
21 LESS LOAN BALANCES	960000.	939218.	924615.	908240.	889680.
22 PLUS CUM. CASH RESERVES	10770.	11812.	13061.	14488.	15212.
23 BEFORE TAX NET WORTH	371480.	469283.	569031.	675061.	786982.
24 CAPITAL GAIN (IF SOLD)	117890.	231090.	352185.	477634.	607650.
25 CAPITAL GAINS TAX	14147.	27731.	42262.	57318.	72918.
26 MINIMUM PREF. TAX	0.	0.	0.	0.	0.
27 INCOME TAX ON EXCESS DEP.	2880.	5501.	7870.	9996.	11885.
28 TOTAL TAX ON SALE	17027.	33232.	50132.	67312.	84803.
29 AFTER TAX NET WORTH	354433.	436052.	518899.	607769.	702180.

REPORT SECTION 4

BEFORE TAX RATIO ANALYSIS

CASH FLOW ANALYSIS

	1980	1981	1982	1983	1984
30 RETURN ON NET WORTH B/4 TAX	0.2582	0.3102	0.2850	0.2624	0.2443
31 CHANGE IN NET WORTH B/4 TAX	76460.	97823.	99748.	106050.	111901.
32 ORIG EQUITY CASH RTNB/4 TAX	-0.0169	0.0653	0.1152	0.1487	0.1798
33 ORIG EQUITY PAYBACK B/4 TAX	0.0000	0.0573	0.1667	0.2952	0.4466
34 B/4 TAX PRESENT VALUE	1264318.	1336057.	1365464.	1431682.	1473578.

AFTER TAX RATIO ANALYSIS

CASH FLOW ANALYSIS

	1980	1981	1982	1983	1984
35 RETURN ON NET WORTH AFR TAX	0.2541	0.2845	0.2640	0.2443	0.2288
36 CHANGE IN NET WORTH AFR TAX	58433.	81619.	82847.	88871.	94410.
37 ORIG EQUITY CASH RTN AFR TAX	0.0527	0.0652	0.1094	0.1265	0.1514
38 ORIG EQUITY PAYBACK AFR TAX	0.0527	0.1178	0.2273	0.3557	0.5072
39 AFTER TAX PRESENT VALUE	1267405.	1322536.	1363042.	1399418.	1432025.

CASH FLOW ANALYSIS

	1980	1981	1982	1983	1984
40 NET INCOME-MARKET VALUE RTO	0.1000	0.1000	0.1000	0.1000	0.1000
41 LENDER BONUS INTEREST RATE	0.0000	0.0000	0.0000	0.0000	0.0000
42 DEFAULT RATIO	0.9696	0.8500	0.8213	0.7940	0.7679

REPORT SECTION 5

SENSITIVITY ANALYSIS

ANALYSIS YEAR IS 2 - 1981

DEFAULT RATE - NEEDED -	0.8500	0.8500	0.8500	0.8500
DEFAULT RATE - ACTUAL -	0.9696	0.8500	0.8213	0.7940
DIFFER -	-0.1186	0.0000	0.0287	0.0560

TO CHANGE THE DEFAULT RATE .01
CHANGE ANY ONE OF THE FOLLOWING

CASH OUTLAYS

		1980	1981	1982	1983
REAL ESTATE TAXES	BY	-0.1573	0.0786	0.0779	0.0771
TOTAL EXPENSES	BY	-0.0300	0.0419	0.0432	0.0444
FIXED EXPENSES	BY	-0.0466	0.0419	0.0432	0.0444
VARIABLE EXPENSES	BY	0.0000	0.0000	0.0000	0.0000
TOTAL INTEREST PMTS.	BY	-0.0175	0.0231	0.0246	0.0263
TOTAL PRINCIPAL PMTS.	BY	0.0000	0.1932	0.1809	0.1694
WORKING CAPITAL LOAN	BY	0.0000	0.0000	0.0000	0.0000
GROSS INCOME	BY	0.0097	-0.0065	-0.0062	-0.0079
FIXED INCOME	BY	0.0097	-0.0065	-0.0062	-0.0079
VARIABLE INCOME	BY	0.0000	0.0000	0.0000	0.0000

COMPONENTS

		1980	1981	1982	1983
INITIAL INVESTMENT	BY	-0.1573	0.0786	0.0779	0.0771
SITE	BY	-1.9499	0.9750	0.9658	0.9566
CONSTRUCTION	BY	-0.2031	0.1016	0.1006	0.0997
SOFT COSTS	BY	-1.0633	0.5416	0.5365	0.5315

MORTGAGES

		1980	1981	1982	1983
CONST. MORTGAGE	BY	-0.0175	0.0000	0.0000	0.0000
PERMANENT MORTGAGE	BY	0.0000	0.0206	0.0217	0.0228

This example is based on earlier Figures 8-18.

The computer output is a portion of report sections available from an educational program at the University of Wisconsin called MR CAP. MR CAP is a basic class test in most real estate courses at the University of Wisconsin in Madison and is available on many other campuses as well. MR CAP is the property of its author, Assistant Professor Michael L. Robbins, and sample output here is reproduced with his permission.

Data input file required of analyst for the five reports which follow:

1.SUBURBAN OFFICE, ULI EXAMPLE	200.1 SITE	301.180000.15.0.1
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35.85.08.2.03.13.0	302.1.1.0.0	303.1.0.0.0.15
48.251800.0.05.*	302.2. CONSTRUCTION	302.2. PERMANENT MORTGAGE
85.05.*	301.2.980000.1.4	301.2.85.115.0.20
78.18000.32000 06.*	302.2.1.80.0	302.2.12.2.21.0
80.54000.80000 02.*	302.3. SOFT COSTS	303.2.0.0.0.0
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MANAGEMENT OF CORPORATE REAL ESTATE - COURSE II

Program Agenda

Tuesday, March 8, 1983

7:00 pm Reception - Lowell Hall, 610 Langdon St., Madison

Wednesday, March 9, 1983

7:30 am Breakfast - Wisconsin Center, 702 Langdon St., Madison

8-8:30 am Managing the Real Estate Department

Dr. Garfield R. Stock
Department of Business and Management
University of Wisconsin-Extension, Madison, WI

8:30-12:00 noon Site Selection

Edward W. Lewis, Moderator
Motorola, Inc.
Schaumburg, IL

12:00-1:00 pm LUNCH

1:00-2:30 pm Lease Vs. Buy

Steven T. Wahn
General Electric Realty
Schenectady, NY

3:00-5:00 pm Negotiations

Joe Healey
Standard Oil of Indiana
Chicago, IL

6:00-7:00 pm "Dutch Treat" Reception at Lowell Hall, 610 Langdon St.

7:00 pm Banquet - Lowell Hall, 610 Langdon St, Madison

Banquet Speaker - The State of the Economy

Dr. Donald A. Nichols
UW-Department of Economics
Madison, WI

MANAGEMENT OF CORPORATE REAL ESTATE - COURSE II
Program Agenda (cont'd)

13

Thursday, March 10, 1983

8:00 - 10:00 am

Creativity in Corporate Real Estate *

Dr. James Graaskamp, Professor
UW-School of Business
Madison, WI

10:15-12:00 noon

The Use of Outside Professionals

(Developer Services)

Kent Hallawell, Moderator
Cabot, Cabot & Forbes Co.
Boston, MA

(Assessment Management Services)

John R. Leggat
Security Pacific Financial Services
New York, NY

(Broker Services)

James T. Barry
James T. Barry, Inc.
Milwaukee, WI

12:00 - 1:00 pm

LUNCH

1:00 - 2:00 pm

Industrial Development Revenue Bond Financing

Stephen E. Jacobs and
Dawn Hyde - Dain Bosworth, Inc.
Minneapolis, MN

2:15 - 3:30 pm

The Real Estate Department as a Profit Center

Jay Driller
International Paper Realty Corporation
New York, NY

3:30 - 4:30 pm

International Real Estate

Steven T. Wahn
General Electric Realty
Schenectady, NY