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

2. Appraisal Topics

p. "Real Estate Project Feasibility Analysis", no date

Index

Real Estate Project Feasibility Analysis

Outline

I. Introduction to Feasibility Analysis

A. Real estate is a dynamic space-time interface of land (public resource), people (cultural preference) and artifacts (improvements). These forces can be reduced to specific decision makers--a consumer, a producer and a political agency. The planner is an arbitrator.

B. The real estate investment decision-making process and the feasibility analysis process are no more than particular applications and elaborations of the scientific method as applied to real estate.

1. The scientific method (or decision-making process) implies:

a. Statement of the problem
b. Identification of alternatives
c. Evaluation of alternatives
(1) Data gathering
(2) Data analysis
d. Decision

2. The scientific method approach is basically the procedure involved in making any real estate investment decision, whether it be to buy, sell, lease, exchange option, build, demolish, rehab, or develop.

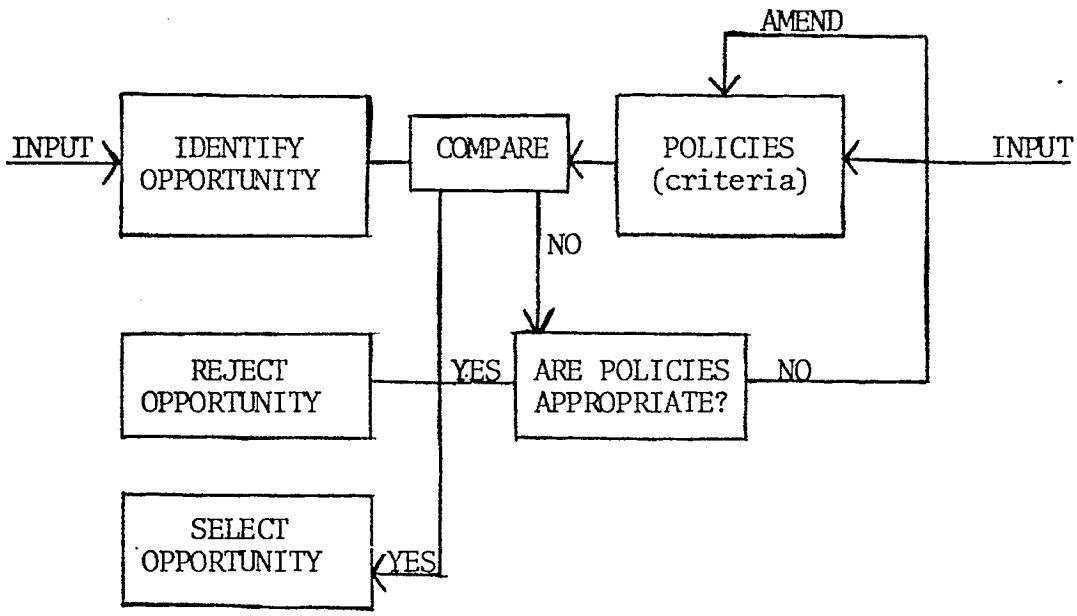
II. The Real Estate Investment Decision-Making Process

A. Ascertaining the scope of the problem

1. Identification of purpose or goal (decision criteria)
2. Identification of constraints

B. Identification of opportunities

1. Isolating uses, sites, and investment involvements
2. Delimiting scope of opportunities



3. Structuring major alternatives

C. Evaluation of alternatives

1. Information gathering on each alternative (land use feasibility, price and cost, income, financing methods and terms, taxation considerations, expenses, projected sale value)
2. Screening of alternatives
3. Preparation of component studies

   a. market analysis
   b. compatibility study
   c. financial modeling
      (1) cash flow analysis
      (2) generation of evaluation criteria (internal rate of return, payback, discounted cash flow, break-even occupancy, etc.)

4. Comparison of pay-offs with decision criteria

D. Decision or recommendation

III. The Feasibility Study--an end-product resulting from applying the real estate decision-making process to a particular real estate project or investment possibility.

A. Need

1. Site or improvement in search of a use
2. Use in search of site or certain improvements
3. Investor looking for means of involvement in either

B. "Feasibility", from an economic viewpoint, will thus be demonstrated when the real estate value of a particular project is at least equal to its cost (economic, social and political) as they relate to a particular client.

Thus:

$$\text{feasibility} \Rightarrow \begin{matrix}\text{utility} \\ \text{returns}\end{matrix} \geq \text{cost(s)} \quad \text{and} \geq \begin{matrix}\text{minimum return} \\ \text{specified by} \\ \text{client}\end{matrix}$$

C. Scope--feasibility studies are not limited in applicability to the economics of raw land development or new building construction.

D. Definition of "feasibility analysis"

1. "Feasibility analysis" is the quantitative and qualitative process of determining if there is a reasonable likelihood of satisfying explicit objectives of the potential investor(s) when a selective course of action is tested for fit to a context of specific constraints and limited resources.

2. Keys in definition

a. Client objectives are unique.
b. Subjective risk judgments must be made.
c. Virtual impossibility of "maximizing".
d. Special constrains must be recognized and analyzed.
e. Eternal existence of limited resources.

3. According to Graaskamp: "One must first understand the functions that an object is (or was) to serve, the constraints inherent in the material, and the variables that were in the control of the designer before one can judge the success of the ensemble."

   a. Objectives or functions must be defined in given priorities.
   b. Context is that part of the environment which will not change and to which one must adapt. (A firm objective is as much a constraints as unchangeable zoning.)
   c. Form is concerned with those elements of the environment which can be molded, adapted, or assembled to fit the critical requirements and objectives of the context.
   d. Success is evaluated by the fit of form to critical elements of context--an emsemble which first requires identification of the context or problem to be solved.
   e. Thus, "A real estate project is 'feasible' when the real estate analyst determines that there is a reasonable likelihood of satisfying explicit objectives when a selected course of action is tested for fit to a context of specific constraints and limited resources." --James. A. Graaskamp

4. In performing a feasibility analysis, the analyst is testing the marketing, legal, financial, physical, and social dimensions of a real estate project. Context defines the problem; form-giving is the proposed solution; and feasibility analysis seeks to identify and measure the decisive elements of fit between the two. Feasibility analysis of most projects is primarily a search for defeating misfits of a project plan.

5. The feasibility study is the job of many.

IV. Elements of Total Feasibility Analysis

A. Modern management theory treats any undertaking which is organized to accomplish a purpose as an enterprise. The functional steps in a systematic enterprise are:

   1. Goal setting (determining objectives).
   2. Forming policies.
   3. Searching for opportunities that are consistent with policies.

4. Selecting opportunities which are consistent with policies.
5. Designing systems for capturing selected opportunities.
6. Installing systems for capturing selected opportunities.
7. Operating the systems that have been installed.
8. Maintaining and continuously perfecting the operating systems.

B. The general theory of the management process for any enterprise can be converted to real estate semantics:

General Management	Real Estate
Values, objectives, policy.	Strategy plan
Search for opportunities	Market analysis
Selection of an opportunity.	Merchandising target with monopoly character
Program to capture opportunity. . . .	Legal-political constraints Ethical-aesthetic constraints Physical-technical constraints Financial constraints
Construction of program.	Project development
Operation of program.	Property management
Monitoring and feedback.	Real estate research

(Feasibility analysis encompasses all steps down to Project Development and may in fact extend through the early phases of Project Development.)

C. Model format for a feasibility study

1. There is no one format for a feasibility study. The basic elements or forces of context which make a feasibility problem manageable also lead to understanding of the proper report titles, as it is seldom that a complete feasibility analysis is prepared as a single report.

2. The component parts of a complete feasibility study would include:

   a. Strategy study--selection of objectives, tactics and decision criteria (client determined).
   b. Market analysis--economic base studies or related aggregate data review.
   c. Merchandising study--consumer survey, comparitive (competitive) property analysis, marketability evaluation, etc.
   d. Legal studies--opinion on potential legal constraints, model contracts or forms of organization, and political briefs.
   e. Compatibility studies--relationship of project to community planning, conservation standards, or other public policy.
   f. Engineering, land planning and architectural studies.
   g. Financial studies--economic modeling (simulation), capital budgets, present value and discounted cash flow forecasts, rate or return analysis, and financial packages.

D. Review of model format for a total feasibility study

V. Feasibility Analysis versus Appraisal

A. The preparation of a feasibility study and the preparation of an appraisal report involve many of the same operations, but the two differ greatly.

B. "What's its value?" v. "Will it fly?"

C. Distinguishing between the feasibility study and the appraisal

VI. Determining Objectives and Criteria of the Client

A. Determination of who the client really is.

1. Control person
2. Silent equal partner
3. Lending institution
4. Environmental protection group
5. Public
6. Consumer

B. Establishing the viewpoint of the client or readers who will be making a decision on the basis of the report.

1. Strategy of equity vs. debt financing
2. Strategy of owner vs. user vs. public interest
3. Value-objectives-criteria of viewpoint to be served
4. Degree of flexibility allowed in defining profitability
5. Desirability of supplementary reports

C. Discerning the basic issues of research methodology.

1. What really is the question?
2. What data is available which is relevant?
3. What data is available to focus data on the question?
4. How specifically will the data be communicated?
5. What are the abilities/capabilities of the analyst?
6. What's the cost benefit ratio between the method and the question?

D. A critical evaluation of the "true" client's investment decision outlook.

1. Structuring of a risk utility curve and the client's perception of his placement on that curve
2. The clients criteria for decision making
   a. Return time horizons
   b. Cash flow vs. net profit vs. tax loss vs. minimizing cash outlay
   c. Preferred extent of client investment involvement
   d. Optimism vs. pessimism vs. regret or maximax, maximin, or minimax or qualitative vs. quantitative
   e. Perferred method of personnel compensation
   f. Personal non-business objectives

VII. Primary of Foundation Studies--designed to answer two essential questions prior to in-depth project market research

A. Economic base studies--Is the economy of the area viable enough now or will be in the future to support the proposed notion?

1. The basic vs. non-basic theory focusing on the idea that a somewhat fixed ratio of basic to non-basic employment exists.

2. The foreign-trade multiplier approach which sophisticates the situation by introducing outside trade and its amplified input on basic industries.
3. Input-output analysis though the most thorough technique requires vast amounts of data to identify the relationship between all producing and all purchasing sections of an economy.

B. Compatibility Studies--Does or will the proposed activity harmonize architectually, aesthetically, socially or physically with the overlapping and sometimes conflicting attitudes and restrictions of what is loosely termed "society"?

1. Relation with existing or proposed land use
2. Stated land development regulations
   a. Zoning
   b. Subdivision regulations
   c. Developmental timetable
   d. Floating/zones, etc.
   e. Accessibility requirements
   f. Drainage/run-off ordinances
   g. Federal/state/local environment restrictions
3. Unstated development restrictions
   a. Neighborhood residents
   b. Public officials
   c. New concept bias

VIII. Merchandising Analysis

A. Market Segmentation and Identification

1. Real estate enterprise uses small micro markets, and the merchandising assumptions are the critical elements of feasibility.

2. First, name the typical revenue unit or method of measuring profit per sales unit:

   a. Per acre
   b. Per apartment
   c. Per event

3. Then, identify the customer units--who signs the check--the doctor or the clinic? The ticket buyer or the promoter? The salesman or the firm? The manager or the vice president?

4. Devices for generating a prospect list or spotting customers.

B. The Customer Profile and Consumer Survey

1. Scaling the market with a body count and opportunity gaps.

2. Classifying the body count by preferences.

3. Study of the competition to define the competitive standard and supply gaps.

4. Surveying the consumer to identify a competitive differential.

5. The objective is to define a product and price with monopoly characteristics in order to control variance in absorption rates.

6. Consumer Survey Questionnaire (Landmark Research).

7. Direct mail and phone call techniques.

C. Pre-Architectural Programming

1. The theme and market target.

2. Product size mix and price.

3. Product features by competitive standard and competitive edge.

4. Negative market factors to be neutralized by design.

5. Marketing-investment trade-offs.

IX. Elements of Financial Feasibility

A. Identification of selected profit centers.

B. Specification of the common denominator--a time line--schedule of outlays and receipts.

C. The capital budget (source & application).

1. Construction costs
2. Carrying costs

D. Operating budgets (source & application).

1. Pattern of sales revenues
2. Fixed management costs
3. General sales costs and investment

E. Financing plan.

1. Credit amounts and terms
2. Equity amounts and terms
3. Holding power

F. Profits classified as to type and tax.

1. Cash from operations
2. Cash from capital gains
3. Cash surplus from financing
4. Cash from tax savings on other income
5. Cash from reduction or shift of fixed outlays
6. Indirect non-cash benefits

G. Selected measures of profitability.

1. Definition of investment
2. Definition of profit

H. Selected measures of risk.

1. Payback periods
2. Capacity for variance
3. Variance control

X. Financial Analysis

A. Structuring the Financial Analysis

1. Comparison of critical income valuation assumptions for three viewpoints in real estate

2. Assumptions for a time line of analysis

3. Assumptions for profit centers

4. The back door approach as a preliminary analysis

5. The front door approach

B. Modeling Cash Flow Simulation

1. Systematic Estimation of Annual Income

2. Suggested outline of cash analysis for land development project

3. Review basic elements of mini-mod output

C. Measuring Rate of Return

1. "Going-in" equity or liquidating equity?

2. What to include in financial returns?

3. What is the reinvestment assumption?

a. Inwood discounting
b. The internal rate of return
c. The modified internal rate of return

4. Total dollars vs. rate - reader viewpoint

XI. Risk and Risk Evaluation

A. Modern management defines risk as the potential variance between expectations and realizations, i.e., between pro forma prospects and balance sheet and P & L statements.

1. Dynamic risks can produce profit or loss and are best controlled by the finesse of management execution of a plan.

2. Static risks are those which can only cause a loss due to surprise upset of a plan.

3. Risk management has two objectives:

a. Conservation of existing enterprise assets despite surprise events
b. Realization of budgeted expectations despite surprise events

4. The process of risk management involves:

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

5. Alternative methods for surviving potential risk losses:

a. Eliminate risk exposure
b. Reduce frequency or severity of accident
c. Combine risks to increase predictability (reserves for expenses)
d. Shift risk by contract (subcontracts or escape clauses)
e. Shift risk by combination by contract (insurance)
f. Limit maximum loss (corporate shell or limited partnership)
g. Hedging

B. Risk Evaluation

1. Equity payback period

2. Default ratio or cash break-even point

3. Sensitivity point for cost over-run or under-absorption

4. Required market segment as percent of total market opportunity

XII. The Feasibility Report

EXHIBIT II-1

THE REAL ESTATE INVESTMENT DECISION-MAKING PROCESS

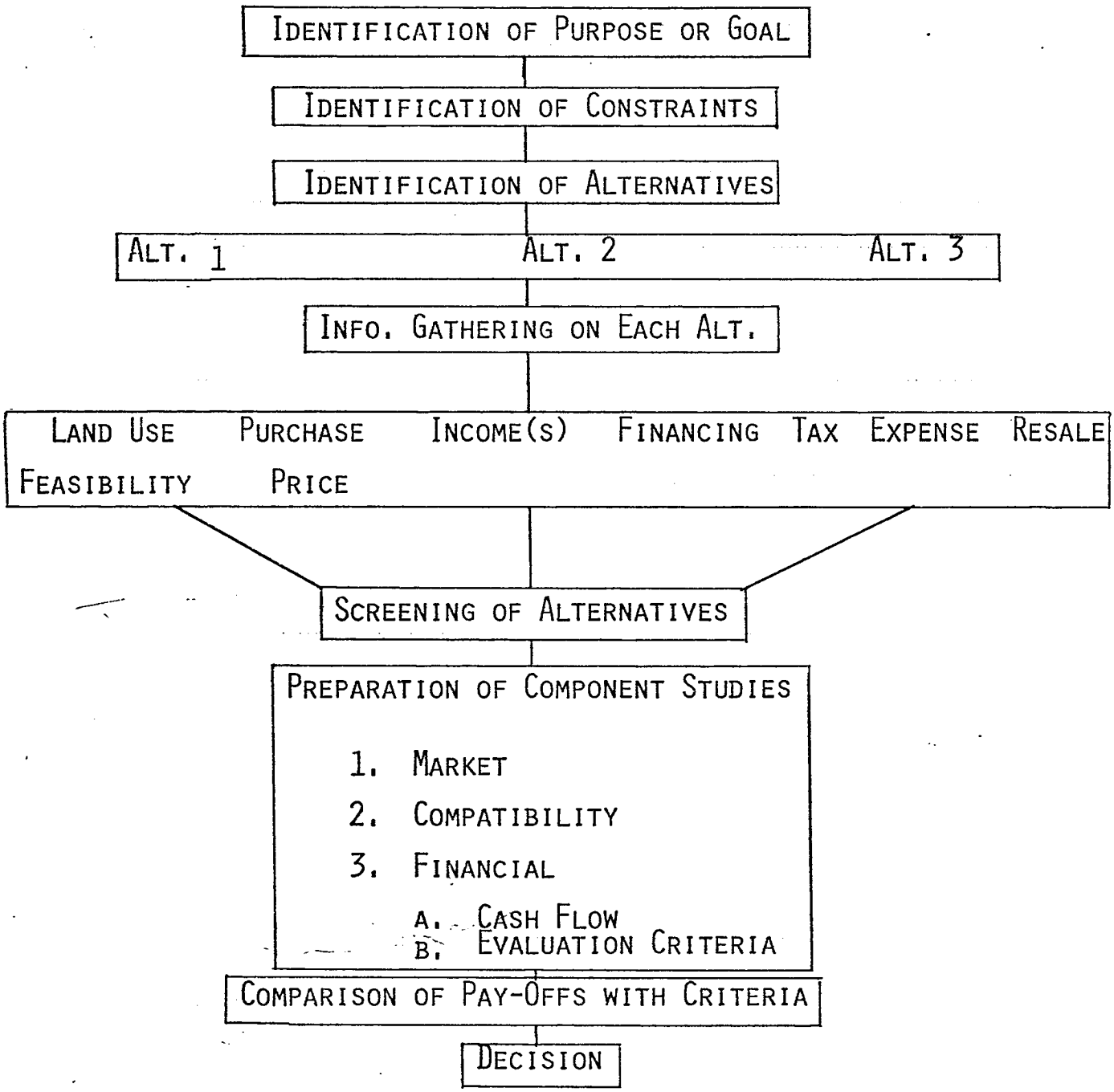


EXHIBIT II-2

Structure of a Real Estate

Cash Flow Analysis

Gross Rental Revenue	$ 180,000.00
Less; Vacancy Allowance	9,000.00
Effective Gross Rental	171,000.00
Less: Expense Flows	
Operating Expenses	63,000.00
Property Expenses	0.00
Real Estate Taxes	0.00
Insurance	0.00
Other Expenses	0.00
Cash Flow Before Debt Service	108,000.00
Less; Debt Service	
Interest Expense	67,292.06
Principal Repayment	5,123.98
Cash Flow Before Taxes	35,583.96
Less; Depreciation	90,000.00
Plus; Principal Repayment	5,123.98
Taxable Income (Loss)	- 49,292.06
Income Taxes	0.00
Tax Shelter	24,646.03
Cash Flow Before Taxes	35,583.96
Capital Recovery	0.00
Cash Flow After Taxes	$ 60,229.99

EXHIBIT II-3

CASH FLOW ANALYSIS

YEAR	1975	1976	1977
INITIAL EQUITY INVESTMENT	$ 17750.00		
GROSS RENTAL REVENUE	$ 10500.00	$ 10500.00	$ 10500.00
LESS; VACANCY ALLOWANCE	$ 525.00	$ 525.00	$ 525.00
EFFECTIVE GROSS RENTAL	$ 9975.00	$ 9975.00	$ 9975.00
LESS;--EXPENSE FLOWS--			
-OPERATING EXPENSES	$ 525.00	$ 525.00	$ 525.00
-PROPERTY MGT. EXPENSES	$ 0.00	$ 0.00	$ 0.00
-REAL ESTATE TAXES	$ 1232.00	$ 1232.00	$ 1232.00
-INSURANCE	$ 150.00	$ 150.00	$ 150.00
-OTHER EXPENSES	$ 0.00	$ 0.00	$ 0.00
CASH FLOW BEFORE DEBT SERVICE	$ 8068.00	$ 8068.00	$ 8068.00
LESS;--DEBT SERVICE--			
-INTEREST EXPENSE	$ 4885.31	$ 4791.96	$ 4689.60
-PRINCIPAL REPAYMENT	$ 967.08	$ 1060.43	$ 1162.79
CASH FLOW BEFORE TAXES	$ 2215.61	$ 2215.61	$ 2215.61
LESS; DEPRECIATION	$ 1780.00	$ 1780.00	$ 1780.00
PLUS; PRINCIPAL REPAYMENT	$ 967.08	$ 1060.43	$ 1162.79
TAXABLE INCOME (LOSS)	$ 1402.69	$ 1496.04	$ 1598.40
INCOME TAXES	$ 490.94	$ 523.61	$ 559.44
TAX SHELTER	$ 0.00	$ 0.00	$ 0.00
CASH FLOW BEFORE TAXES	$ 2215.61	$ 2215.61	$ 2215.61
CAPITAL RECOVERY	$ 0.00	$ 0.00	$ 0.00
CASH FLOW AFTER TAXES	$ 1724.67	$ 1692.00	$ 1656.17

EXHIBIT II-4

EVALUATION DATA

****

DISCOUNTED CASH FLOW	$ 21006.06	
PRESENT VALUE OF ENTIRE PROJECT, RECOGNIZING TIME VALUE OF MONEY		
NET PRESENT VALUE	$ 3256.06	
MAXIMUM ADDITIONAL EQUITY THAT COULD BE PAID FOR THE OPPORTUNITY OF MAKING THE INVESTMENT		
INTERNAL RATE OF RETURN	11.40	PERCENT
PERCENTAGE AT WHICH INITIAL EQUITY INVESTMENT WOULD GROW AT A COMPOUND RATE FOR PROJECT TERM		
COMPUTED COST OF CAPITAL	9.42	PERCENT
MINIMUM AFTER-TAX RATE OF RETURN THAT MUST BE EARNED ON PROJECT		
PAYBACK PERIOD	13	YEARS
NUMBER OF YEARS REQUIRED TO RECOUP INITIAL EQUITY INVESTMENT		
BREAKEVEN OCCUPANCY	73.90	PERCENT
PERCENTAGE OCCUPANCY REQUIRED TO MEET THE CASH EXPENSES OF THE PROJECT		
BREAKEVEN RENT LEVEL	$ 646.62	
AVERAGE MONTHLY RENT THAT MUST BE EARNED OVER PROJECT TERM TO MEET EXPENSES AND FINANCING COSTS		
R.O.T. VALUE	$ 70350.00	
ROUGH ESTIMATE OF TOTAL VALUE OF PROJECT BASED ON CAPITALIZED VALUE OF NET ANNUAL INCOMES		

EXHIBIT III-1

FEASIBILITY RESEARCH GROUP

Accountability

Accountability rests with the individual (s) firm (s) or sources as indicated below:

1. Statement of Objectives by _____
2. Satisfaction Criteria by _____
3. Alternative Research by _____
4. Market Research by _____
5. Market Analysis by _____
6. Space User Profile by _____
7. Consumer Preference Survey by _____
8. Market Forecast by _____
9. Absorption Rate Forecast by _____
10. Land Development Cost Estimate by _____
11. Building Improvement (s) Cost Estimate by _____
12. Indirect Cost Estimate by _____
13. Producer Cash Flow Forecast by _____
14. Tax Liability Projection by _____
15. Investor Cash Flow Forecast by _____
16. Environmental Impact by _____
17. School District Impact by _____
18. Municipal Government Impact by _____
19. Financing and Refinancing Impact by _____
20. _____

EXHIBIT IV-1

MODEL FORMAT FOR A TOTAL FEASIBILITY STUDY

--Letter of Transmittal
--Table of Contents

I. Introduction

A. Purpose
B. Description of Site or Use
C. Critical Assumptions and Limitations
D. Acknowledgments

II. Statement of Objectives & Constraints

A. Decision Criteria
B. Alternatives Considered
C. Alternative Selected

III. Market Analysis

A. Economic Base Study

1. Aggregate data review

a. Population
b. Income
c. Employment

2. Review of Governmental Economic and Political Policies Affecting Project

3. Industry & Popular Trends Relevant to Client

B. Merchandising Analysis

1. Consumer Surveys

a. Space needs
b. Product & price specifications
c. Effective demand

2. Competitive Property Analysis

a. Success/Failure Characteristics
b. Special Micro-market Needs
c. Preferred Merchandising Methods

IV. Compatibility Studies

A. Legal-Political Consideration

1. Regulatory constraints on parties at interest
2. Regulatory controls on site and space development
3. Trends

B. Esthetic-Ethical Considerations

1. Relationship to Community
2. Obligations to Users

C. Physical-Technical Considerations

1. Space User Requirements
2. Site Attributes
3. Engineering Needs
4. Design

V. Financial Analysis

A. Timing of Financial Assumptions

B. Budget Requirements

1. Capital
2. Operating

C. Sources of Funds

1. Capital
2. Operating (revenues)

D. Cash-Flow Forecasts

E. Financial Evaluation

VI. Feasibility Recommendation

EXHIBIT V-1

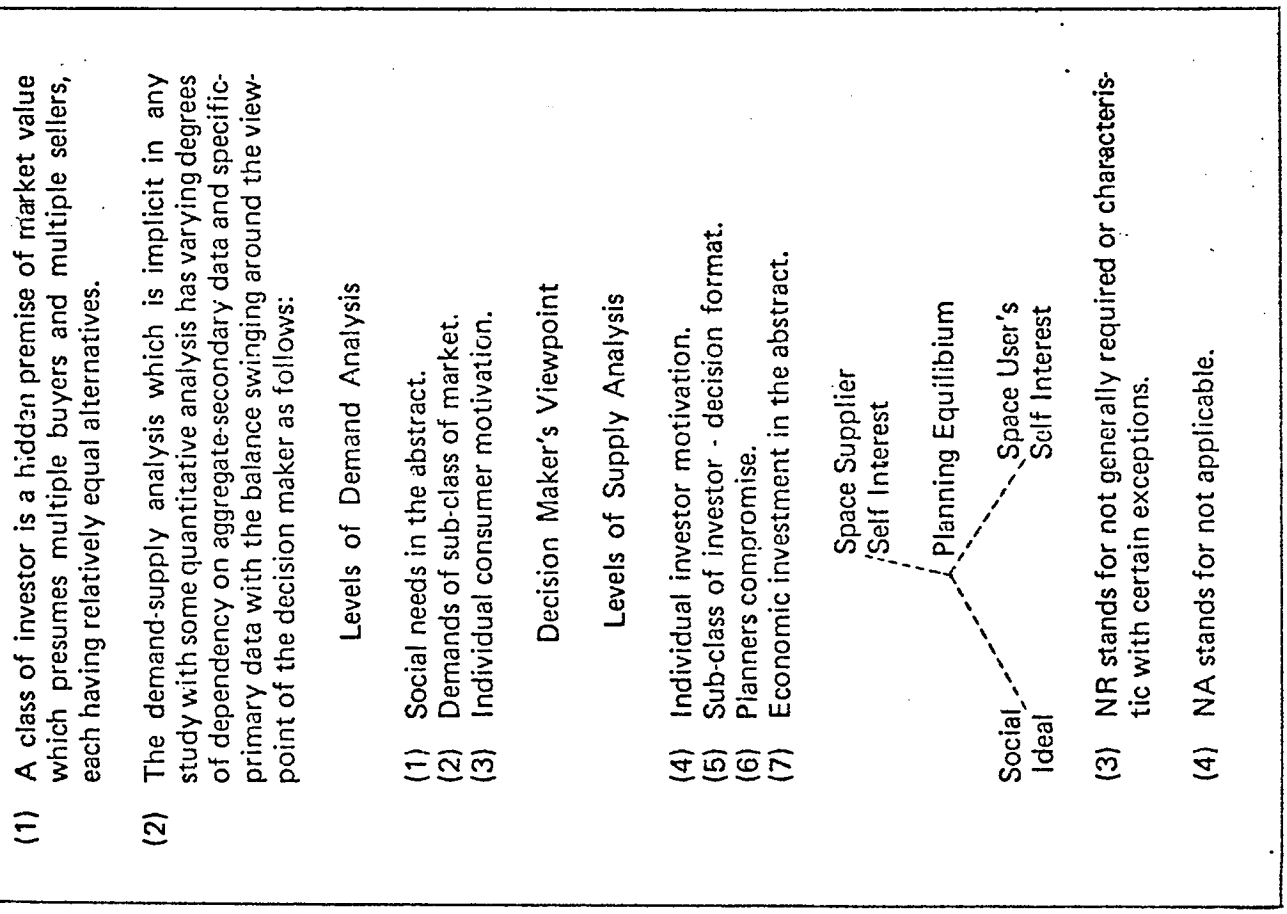
CLASSIFICATION OF REAL ESTATE STUDIES BY VIEWPOINT AND PREMISES

	NATURE OF VIEWPOINT ASSUMED (1)	LEVEL OF DEMAND SUPPLY ANALYSIS (2)	USE OF PRE-EXISTING DEVELOPMENT CONCEPT	FOCUS ON SPECIFIC PARCEL OF PROPERTY	DECISION MAKER VALUES, OBJECTIVES, & CRITERIA	ESTIMATION OF VALUE	CALCULATION OF RATE OF RETURN ON EQUITY INVESTMENT	CONSIDERS NON-FINANCIAL FACTORS	PROGRAMMATIC CONTENT AND RECOMMENDATION	CALCULATION OF ABSORPTION RATE	ECONOMIC PREMISE OF HIGHEST AND BEST USE
FEASIBILITY STUDY	Specific Client	3-4	Yes	Yes	Client Determined	NR (3)	Yes	Yes	Yes	Yes	NR
APPRAISAL	Class of Investor	2-5	Yes	Yes	Presumed	Yes	NR	NR	No	NR	Yes
REUSE APPRAISAL	Class of Developer	2-5	Yes	Yes	Presumed	Yes	No	No	Yes	Yes	Yes
HIGHEST & BEST USE STUDY	Class of Investor	2-5	No	Yes	Presumed	NR	Yes	No	NR	No	Yes
LAND UTILIZATION OR STRATEGY STUDY	Specific Client	3-5	NR	NR	Client Determined	No	No	No	NR	No	No
LAND USE STUDY	Community as a Whole	1-6	No	No	Previously Specified	No	No	Yes	No	NR	NA
MARKET STUDY	Class of Investor	2-5	No	No	Presumed	No	No	No	No	No	NA
MARKETABILITY STUDY	Specific Client	2-3	Yes	Yes	Client Determined	No	No	Yes	Yes	Yes	NR
COST-BENEFIT STUDY	Community Segments	1-6-7	Yes	NR	Previously Specified	Yes	No	Yes	No	Yes	NR
COMPATIBILITY STUDY	Community Segments	NA(4)	Yes	Yes	Observer Standards	No	No	Yes	Yes	NR	NR
ECONOMIC BASE STUDY	Community as a Whole	6-7	NA	No	NA	No	NA	Yes	No	No	NA

NOTES TO ILLUSTRATION

(1) A class of investor is a hidden premise of market value which presumes multiple buyers and multiple sellers, each having relatively equal alternatives.

(2) The demand-supply analysis which is implicit in any study with some quantitative analysis has varying degrees of dependency on aggregate-secondary data and specific-primary data with the balance swinging around the viewpoint of the decision maker as follows:



(3) NR stands for not generally required or characteristic with certain exceptions.

(4) NA stands for not applicable.

Source: A Guide to Feasibilility Analysis, James Graaskamp, 1970.

Exhibit V-2

	APPRAISAL	FEASIBILITY ANALYSIS
ROOTS		
INVESTIGATOR		
OBJECTIVE OF MEASUREMENT		
TIME HORIZON		
MUTUAL EXCLUSIVENESS OF FINDING		
INVESTOR INFLUENCE		

EXHIBIT VIII-1

202A Breese Terrace, Madison, Wisconsin 53705 · 608 238-6873

November 10, 1971

Landmark Research Inc.

Thomas L. Turk
James A. Graaskamp

Dear Resident:

One of our clients is considering the development of several recreational "second home" projects in the form of condominium units set among recreational complexes which include golfing, marina, and winter sport facilities. A key element of each plan is a resort-inn with complete facilities, which would make available grounds maintenance, maid service, catering, and year round indoor sports facilities to condominium owners.

These resort-inns are already established summer resorts and popular off-season centers for business meetings and seminars. The key question is whether families are thinking about the four-season recreational pattern that is developing in Wisconsin and whether sophisticated family planners are thinking in terms of purchase of a recreational home in their favorite summer vacation area.

Wisconsin may be thought of as the place for inexpensive summer vacations while winter outings are in the South. However, investment in a second home would suggest year round use and enjoyment and a mix of seasonal activities. To survey attitudes about vacations, Wisconsin recreation centers and condominiums we have constructed a mailing list of selected people of means, who have demonstrated sophisticated tastes in recreation. Would you please answer the following brief questions? There is no way to identify a response and this letter is not a sales promotion.

Professor James A. Graaskamp

1. Does your family generally vacation each year in Wisconsin?

No ↓

Yes → For each season circle the number of weeks during which you vacation and indicate the most preferred location.

	Circle						Most Preferred Location
Winter	1	2	3	4	5	6+	_____
Spring	1	2	3	4	5	6+	_____
Summer	1	2	3	4	5	6+	_____
Fall	1	2	3	4	5	6+	_____

2. Do you presently own a summer home or cabin site?

No ↓

Yes → County _____ State _____
Would you trade your present summer home or cabin site for a recreation condominium to avoid maintenance work or the bother of building your own vacation home? Yes No Maybe

3. Would you prefer a secluded informal "get away from it all" weekend retreat to a better equipped more active social center? Yes No

4. Would you ever consider purchase of a carefree condominium in the heart of a recreational complex?

Yes ↓

No → What is your main reason? _____
_____
If No, stop here and return the questionnaire. Thank you.

5. If you would consider purchase of a carefree recreational home or weekend retreat, which of the following locations would you most prefer and least prefer? Check only one in each column:

	Most Preferred Location	Most Disliked Location
1. Lake Geneva	( )	( )
2. Green Lake	( )	( )
3. Lake Winnebago	( )	( )
4. Lake Minocqua-Tomahawk	( )	( )
5. Sturgeon Bay-Door County	( )	( )
6. Telemark-Hayward County	( )	( )
7. Spring Green-Iowa County	( )	( )
8. Other (please specify) _____		

The best use of a recreational home is possible if the family enjoys a variety of activities during the off seasons, that is, during parts of the year other than the summer months of June, July, and August.

6. One type of relaxation at the recreation home might be outdoor activities such as: (check preferences)

( ) Tennis
( ) Sail boating
( ) Power boating
( ) Fall and spring golfing
( ) Fall and spring lake fishing
( ) Fall and spring fishing in stocked ponds
( ) Winter skiing on beginner and intermediate slopes
( ) Snowmobiling on an extensive trail system
( ) Ice boating
( ) Ice skating on an outdoor rink
( ) Skeet shooting
( ) Trail system for walking
( ) Trail system for biking

7. Indoor recreation facilities for the seasonal homeowner might include: (check preferences)

( ) Ice skating on an indoor rink
( ) Indoor tennis court
( ) Indoor swimming
( ) Sauna and whirlpool bath
( ) Handball and paddle ball courts
( ) Pool tables
( ) Card rooms with bar service
( ) Indoor golf driving range

8. Have you ever visited a recreational condominium in the United States?

No ↓

Yes → Which one? _____
Yes → What impressed you most? _____

9. Do you now own or were you a former owner of a condominium?

No ↓

Yes → Would you buy one again: Yes No
No → Why not? _____

10. Since not everyone wants to use or to pay maintenance for all facilities, would you prefer: (check one preference)

( ) To reduce costs of maintaining facilities to a minimum by sharing major facilities such as a golf course or indoor tennis court with guests of the nearby exclusive resort inn, each user paying a low green fee or similar user charge only if, and when he uses it.

( ) To maximize convenience of user by reserving major facilities exclusively for condominium owners only but only the user would be assessed for maintenance cost by means of annual subscriptions or memberships.

( ) To compromise between low cost of first plan or high cost of exclusive facilities, maintenance charges could be shared with resort inn and all members of the condominium group, with condominium owners given preference for prime time in the evening and weekend afternoons with a reservation system.

( ) Your ideas _____

11. If you were to consider purchase of a condominium, within a recreational complex, what type of unit would you prefer? (check one)

( ) Single family detached unit
( ) Small clustered groups of two-four units (the Quadraminium)
( ) Larger clusters of low rise townhouses in 8-20 units
( ) High rise apartment style unit secluded from resort inn
( ) High rise apartment style unit (8 stories) with all weather connection to resort-inn
( ) Have another idea? Please describe _____

_____

12. What features of a site do you think are most important for a condominium? (check one for each of the features below)

	Very Important	Desirable	Not Necessary
View of the lake	( )	( )	( )
View of the countryside	( )	( )	( )
Seclusion from traffic noise	( )	( )	( )
View of boat channel or lagoon	( )	( )	( )
Seclusion from strollers	( )	( )	( )
Isolation from lots of people	( )	( )	( )
Walking distance to shops	( )	( )	( )
Walking distance to social centers at resort-inn	( )	( )	( )
Boat tie-up at back door	( )	( )	( )
Private garden area	( )	( )	( )
Lighted and paved walking trails	( )	( )	( )
Heavy woods	( )	( )	( )
Extensive lawns	( )	( )	( )
No steps or stairways between car & home entrance	( )	( )	( )

13. Since everyones preference must yield to their budget, what price range do you feel would be justified for a condominium as sketched by this questionnaire? Indicate what use of the condominium you would have in mind?

[ ] Family seasonal
[ ] Legal residence

( ) $20,000-24,999
( ) 25,000-29,999
( ) 30,000-34,999
( ) 35,000-39,999
( ) $40,000-44,999
( ) 45,000-49,999
( ) Could pay more for right house

14. What type of building features would you prefer in the layout of the condominium unit? (choose only one of each of the following sets of alternatives)

( ) Two bedrooms with larger living area or/
( ) Three bedrooms

( ) Three bedrooms, or/
( ) Four bedrooms, or/
( ) Large master bedroom and two 4-bed bunk rooms

( ) Two-story living room with inside balcony, or/
( ) Living room with beamed cathedral ceiling

( ) Full dining room, or
( ) Dining "L" plus family-sized kitchen

( ) Sundeck balcony for living room or/
( ) Outdoor patio at ground level

( ) Walk-in closets in each room or/
( ) Large work room plus laundry room in each unit & standard closets

( ) One car garage attached to unit or/
( ) Two car garage in group parking complex, or/
( ) Carport and lower price

( ) Central air conditioning or/
( ) Woodburning masonry fireplace or/
( ) Gas-log fireplace and window air conditioning unit

( ) Contemporary natural decor with wood and rock materials, or/
( ) Maintenance-free modern masonry and aluminum exteriors, or/
( ) Well styled colonial detailing

( ) Extensive outside landscaping, or/
( ) More floor space in each room

15. Please indicate the number of adults and children who presently live in your household?

Adults (number)_____ Children: Under 6_____
6-12 _____
Age of head of household_____ 13-17 _____
Occupation_____ 18 & over_____
Hometown _____

Number of dogs and cats _____

16. Your comments and suggestions _____

_____

_____

Thank you.

EXHIBIT X-1

COMPARISON OF CRITICAL VALUATION ASSUMPTIONS FOR THREE PRESENT VALUE VIEWPOINTS IN REAL ESTATE

Prepared for Discussion at Feasibility Seminar

Traditional Income Appraisal	Ellwood Valuation	Modern Capital Theory
1. Instant investment	1. Instant investment	1. Discontinuous series of outlays
2. Productivity limited to net income from parcel before debt and income tax.	2. Productivity limited to parcel after debt but before income tax.	2. Productivity is net change in spendable cash from all sources after debt and income tax traced to real estate.
3. Continuous income function	3. Continuous income function	3. Discontinuous series of tax classified receipts.
4. Recapture from income	4. Recapture from income & resale	4. Payback of equity from spendable cash and debt from net revenue & resale.
5. Projected for full useful life of improvements	5. Projected for normal turnover period 5-10 years of typical investor	5. Projected for elapsed time of outlays and receipts for specific investor time line horizon.
6. Arbitrary discount factor	6. Weighted average Inwood discounting	6. Selected present value discounting based on characteristics of investor and property revenue pattern.

EXHIBIT X-2

SYSTEMATIC ESTIMATION OF FORECAST ANNUAL INCOME FOR AN INCOME-PRODUCTNG PROPERTY

PART I. ANNUAL RETURNS TO INVESTOR

BASIC APPRAISAL A LA SRA 201

A. ESTIMATE POTENTIAL GROSS CASH INCOME: CASH INCOME FROM SPACE SALES

B. DEDUCTIONS FROM POTENTIAL GROSS
   1. NORHAL VACANCY
   2. SEASONAL INCOME LOSS
   3. COLLECTION LOSSES
   4. FRANCHISE FEES, DEPOSITS RETURNED, ETC.

C. ADD "OTHER" INCOME FROM SERVICE SALES

D. DERIVE EFFECTIVE GROSS INCOME

E. DEDUCT OPERATING EXPENSES (ON EXPECTED CASH OUTLAY WITHOUT ACCRUAL RESERVES)
   1. FIXED EXPENSES
   2. VARIABLE EXPENSES
   3. REPAIRS AND MAINTENANCE
   4. REPLACEMENTS

F. DERIVE NET OPERATING INCOME

MORTGAGE EQUITY APPROACH

G. DEDUCT ANNUAL DEBT SERVICE
   1. CONTRACT INTEREST
   2. SUPPLEMENTARY VARIABLE INTEREST
   3. PRINCIPAL AMORTIZATION

H. DERIVE CASH THROW--OFF

I. ADD BACK PRINCIPAL PAYMENTS AND REPLACEMENTS

J. DEDUCT TAX DEPRECIATION ALLOWANCE

PART I OF IMV INVESTMENT VALUE APPROACH

K. DERIVE TAXABLE INCOME

L. DETERMINE MARGINAL INCOME TAX ON REAL ESTATE INCOME

M. DEDUCT INCOME TAX FROM CASH-THROW OFF (H)

N. DERIVE AFTER-TAX CASH FLOW

O. ADD TAX SAVINGS ON OTHER INCOME (IF K IS NEGATIVE)

P. ADD SURPLUS FROM REFINANCING

Q. DERIVE SPENDABLE AFTER-TAX CASH

PART II. RESALE RETURNS TO INVESTOR (OVER)

J. Graaskamp

PART II. RESALE RETURNS TO INVESTOR

A. ESTIMATED RESALE PRICE (EOY)

B. DEDUCT BROKER'S COMMISSION AND OTHER TRANSACTION COSTS

C. DERIVE EFFECTIVE GROSS PROCEEDS FROM SALE

D. DEDUCT ALL CREDIT CLAIMS (EOY) OUTSTANDING
   1. SHORT AND LONG TERM NOTE BALANCES DUE
   2. PREPAYMENT PENALTIES
   3. DEDUCT EQUITY SHARES TO NON-OWNER INTEREST

E. DERIVE PRE-TAX REVERSION TO EQUITY

F. DEDUCT TAX CLAIMS ON OWNERSHIP INTEREST
   1. DEDUCT CAPITAL GAINS TAX
   2. DEDUCT INCOME TAX ON DISALLOWED ACCELERATED DEPRECIATION
   3. DEDUCT SURTAX ON TAXABLE PREFERENTIAL INCOME

G. DERIVE AFTER TAX RESALE PROCEEDS TO INVESTOR

EXHIBIT X-3

SUGGESTED OUTLINE OF CASH ANALYSIS FOR LAND DEVELOPMENT PROJECT

DEVELOPMENT PERIOD	1	2	3
PRODUCTION STARTS			
PRODUCTION COMPLETIONS			
1. BEGINNING INVENTORY			
2. SALES IN UNITS			
UNITS SOLD FOR CASH			
PRICE PER UNIT			
REVENUE FROM CASH SALES			
UNITS SOLD ON LAND CONTRACTS			
DOWN PAYMENT RECEIVED			
ACCOUNTS RECEIVABLE ADDED			
3. SALES COSTS			
COMMISSIONS PAID			
CLOSING COSTS			
4. RUNOFF OF LAND CONTRACT SALES			
INTEREST			
PRINCIPAL			
PERIOD END ACCOUNTS RECEIVABLE			
5. NET CASH GENERATED FROM SALES			
6. OPERATING COSTS			
CARRYING COSTS--RAW LAND			
CARRYING COSTS--INVENTORY			
REAL ESTATE TAX--RAW LAND			
REAL ESTATE TAX--INVENTORY			
MANAGEMENT + ADMINIST. COSTS			
7. NEW ALLOCATED CAPITAL OUTLAYS			
8. NEW GENERAL CAPITAL OUTLAYS			
9. PROJECT DEBT STRUCTURE			
TOTAL INITIAL CASH			
DEBT BALANCE END OF PERIOD			
TOTAL PRINCIPAL PAYMENTS			
TOTAL INTEREST PAID ON PROJ.			
INTEREST ADDED TO LOAN BAL.			
10. NET CASH FROM DEBT INCURRED			
11. CASH AVAILABLE BEFORE TAXES			

COMPONENTS	PCT. DEPR	BEGIN USE	USEFUL LIFE	DEPR METHOD	COST
LAND	.00	1	.	0	$ 40000.
BUILDING	1.00	1	35.	3	$ 165300.
PARKING	.50	1	10.	3	$ 7200.
FURNISHINGS	1.00	1	7.	1	$ 13200.
ELEVATOR	.80	1	12.	3	$ 12500.
TRANSACTION COST	1.00	1	35.	3	$ 1800.
7TH YR REFURBISH	1.00	8	7.	1	$ 10000.
TOTAL INITIAL INVESTMENT					$ 240000.

GROSS RENT	$ 46080.	RATE OF GROWTH OF GROSS RENT	.0200
EXPENSES	$ 8400.	RATE OF GROWTH OF EXPENSES	.0200
R E TAXES	$ 9000.	RATE OF GROWTH OF R E TAXES	.0500
INCOME TAX RATE	.3000	RATE OF GROWTH OF PROJECT VALUE	.0100
VACANCY RATE	.0500	WORKING CAPITAL LOAN RATE	.0900
EQUITY DISCOUNT RATE	.1800	EXTRAORDINARY EXPENSES	$ 7625.
STAGING YR(0),FACTOR	.00	COST OF EQUITY CAPITAL	.1200

	1	2	3	4	5	6	7	8	9	10
CASH EQUITY REQUIRED	45000.	45000.	45000.	45000.	45000.	50000.	50000.	50000.	50000.	50000.

FINANCING PLAN

FIRST ASSUMED MORTG. $ 180000. MONTHLY PAYMENT $ 1477. INTEREST RATE .0775 STARTS 1 ENDS 5 BONUS INTEREST .0000 OF GROSS RENT

	1	2	3	4	5	6	7	8	9	10
PRINCIPAL	3919.	4234.	4574.	4942.	5339.	.	.	.	.	.
INTEREST	13812.	13497.	13157.	12790.	12393.	.	.	.	.	.
BALANCE	176080.	171845.	167270.	162328.	156989.	.	.	.	.	.

SELLERS 2ND MORTG $ 15000. MONTHLY PAYMENT $ 185. INTEREST RATE .0850 STARTS 1 ENDS 5 BONUS INTEREST .0000 OF GROSS RENT

	1	2	3	4	5	6	7	8	9	10
PRINCIPAL	994.	1082.	1178.	1282.	1396.	.	.	.	.	.
INTEREST	1236.	1148.	1053.	948.	835.	.	.	.	.	.
BALANCE	14005.	12922.	11743.	10460.	9064.	.	.	.	.	.

REFINANCED FIRST $ 190000. MONTHLY PAYMENT $ 1589. INTEREST RATE .0800 STARTS 6 ENDS 10 BONUS INTEREST .0400 OF GROSS RENT

	1	2	3	4	5	6	7	8	9	10
PRINCIPAL	.	.	.	.	.	4016.	4349.	4710.	5101.	5524.
INTEREST	.	.	.	.	.	15054.	14721.	14360.	13969.	13546.
BALANCE	.	.	.	.	.	185983.	181634.	176924.	171822.	166297.

REFURBISH CHATTEL $ 10000. MONTHLY PAYMENT $ 150. INTEREST RATE .0900 STARTS 8 ENDS 10 BONUS INTEREST .0000 OF GROSS RENT

	1	2	3	4	5	6	7	8	9	10
PRINCIPAL	.	.	.	.	.	.	.	938.	1026.	1122.
INTEREST	.	.	.	.	.	.	.	861.	773.	677.
BALANCE	.	.	.	.	.	.	.	9061.	8035.	6913.

	1	2	3	4	5	6	7	8	9	10
GROSS RENT	46080.	47001.	47923.	48844.	49766.	50688.	51609.	52531.	53452.	54374.
LESS VACANCY ALLOWANCE	2304.	2350.	2396.	2442.	2488.	2534.	2580.	2626.	2672.	2718.
EFFECTIVE GROSS INCOME	43776.	44651.	45527.	46402.	47278.	48153.	49029.	49904.	50780.	51655.
LESS REAL ESTATE TAXES	9000.	9450.	9900.	10350.	10800.	11250.	11700.	12150.	12600.	13050.
LESS EXPENSES	16025.	8568.	8736.	8904.	9072.	9240.	9408.	9576.	9744.	9912.
NET INCOME	18751.	26633.	26891.	27148.	27406.	27663.	27921.	28178.	28436.	28693.
LESS DEPRECIATION	11469.	10537.	9640.	8775.	7940.	6762.	5942.	7729.	7144.	6571.
LESS INTEREST	15049.	14646.	14210.	13739.	13229.	17082.	16785.	17323.	16881.	16398.
TAXABLE INCOME	-7768.	1449.	3039.	4633.	6236.	3818.	5192.	3125.	4410.	5723.
PLUS DEPRECIATION	11469.	10537.	9640.	8775.	7940.	6762.	5942.	7729.	7144.	6571.
LESS PRINCIPAL PAYMENTS	4914.	5317.	5753.	6224.	6735.	4016.	4349.	5648.	6127.	6647.
CASH THROW-OFF	-1213.	6669.	6926.	7184.	7441.	30510.	6785.	15206.	5427.	5647.
LESS TAXES	.	434.	911.	1390.	1870.	1145.	1557.	937.	1323.	1716.
CASH FROM OPERATIONS	-1213.	6234.	6014.	5794.	5570.	29365.	5227.	14268.	4104.	3930.
WORKING CAPITAL LOAN(CUM BALANCE)	1213.	.	.	.	.	.	.	.	.	.
SPENDABLE CASH AFTER TAXES	.	4911.	6014.	5794.	5570.	29365.	5227.	4268.	4104.	3930.
TAX SAVINGS ON OTHER INCOME	2330.	.	.	.	.	.	.	.	.	.
MARKET VALUE	242400.	244800.	247200.	249600.	252000.	254400.	256800.	269200.	271600.	274000.
BALANCE OF LOANS	191298.	184767.	179014.	172789.	166054.	185983.	181634.	185985.	179858.	173211.
NET WORTH OF PROPERTY	51101.	60032.	68185.	76810.	85945.	68416.	75165.	83214.	91741.	100788.
CAPITAL GAIN	10253.	20506.	30759.	41013.	51266.	61519.	71773.	83455.	95329.	106757.
CAPITAL GAINS TAX	1537.	3075.	4613.	6151.	7689.	9227.	10765.	12518.	14299.	16013.
INCOME TAX ON EXCESS DEPRECIATION	1084.	1890.	2426.	2702.	2729.	2401.	1828.	1362.	663.	.
PERCENT INITIAL EQUITY PAYBACK AFTER TAX	.0517	.1609	.2946	.4233	.5471	1.0797	1.1843	1.2696	1.3517	1.4303
NET INCOME-MARKET VALUE RATIO	.0773	.1087	.1087	.1087	.1087	.1087	.1087	.1046	.1046	.1047
RETURN ON NET WORTH BEFORE TAXES	.1086	.3052	.2511	.2318	.2158	.1510	.1978	.3093	.1676	.1601
RETURN ON NET WORTH AFTER TAXES	.1290	.2372	.2196	.2061	.1933	.1406	.1939	.1762	.1665	.1553
CASH RETURN ON ORIG CASH EQUITY BEF TAX	-.0269	.1482	.1539	.1596	.1653	.6102	.1357	.3041	.1085	.1129
CASH RETURN ON ORIG CASH EQUITY AFT TAX	.0517	.1091	.1336	.1287	.1237	.5873	.1045	.0853	.0820	.0786
DEFAULT RATIO	.9763	.8339	.8054	.8029	.8004	.8204	.8185	.8508	.8484	.8461
LENDER BONUS INTEREST RATE	.0000	.0000	.0000	.0000	.0000	.0122	.0110	.0115	.0114	.0120
PRESENT VALUE OF PROJECT BEFORE TAXES	238306.	242903.	245505.	247329.	248531.	247609.	247992.	255579.	255349.	255001.
PRESENT VALUE OF PROJECT AFTER TAXES	238058.	240050.	241378.	242202.	242600.	241500.	241748.	246686.	246477.	246115.
								.1762	.1706	.1672	.1639