

JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

VII. INDUSTRY EDUCATIONAL COURSES - LONG TERM

F. U.W. Extension And Executive Development

10. Miscellaneous Undated Lectures Sponsored by
U.W. Extension

- b. "Professional Concepts and Personnel",
Presented at the Second, Third and
Fourth Annual Corporate Real Estate
Management Programs, Wisconsin Center
Building, Madison: Only Fourth Lecture
included; same as Second and Third

Same as Second and Third Programs

FOURTH ANNUAL CORPORATE REAL ESTATE MANAGEMENT PROGRAM

University of Wisconsin Extension
Wisconsin Center Building
Madison, Wisconsin

Professional Concepts & Personnel
James A. Graaskamp
Chairman, Real Estate & Urban Economics

I. Real Estate at the University of Wisconsin

- A. School of Business offers a full program in real estate with a five man department.
- B. Real estate is a multi-disciplinary discipline and faculty reflect this diversity:
 - 1. One ex-developer
 - 2. One architect/city planner
 - 3. One lawyer
 - 4. One traditional land economist
 - 5. One land and recreational econometrician
- C. In addition students must take the non-business electives in:
 - 1. Civil engineering
 - 2. Air photo and remote sensing
 - 3. Landscape and environmental design
 - 4. Urban and regional planning
 - 5. Political science
 - 6. Law school
- D. Graduate student research for corporations has included:
 - 1. Land development analysis for Kimberly Clark
 - 2. Land inventory analysis for Consolidated Paper
 - 3. Surplus plant disposition analysis
 - 4. Real estate tax appeal preparation
 - 5. Computer systems for real estate management
- E. A student at Wisconsin can receive a BS in Construction Administration, a BBA with a real estate major, an MBA in General Management with real estate emphasis, an MS in Real Estate Investment Analysis, or a Ph.D. in Real Estate & Urban Land Economics:
- F. Our Construction Administration majors and MS students are particularly well trained and immediately productive for positions in corporate real estate and many have gone that route, almost entirely by accident since corporate personnel offices don't know they exist.
- G. An interesting myth is a theory in corporate real estate management that one must steal an appraiser or broker from another firm who is experienced.

- H. An alternative myth is that it is easier to train anybody within the corporation to be a corporate real estate officer by sending him to a few institutes to learn while he earns.

II. Some basic definitions

- A. Real estate is artificially delineated space with a dimension in time and a fixed reference point on the earth's surface
- B. The real estate process is the interface of land as a public utility, a social activity with space need, and improvements representing capital and services. Improvements evolve to delineate space and reduce the irritation between natural man and natural landscape.
- C. The real estate business is the conversion of space-time requirements to money-time by providing money and services. It is a service industry which uses some very big hardware.
- D. There are no irrevocable rights inherent land; only its cash equivalent is private property.
- E. A successful solution to a real estate problem must be judged by the fit or degree of misfit that is achieved between the form of the solution and the context in which it operates - as an ensemble of precise and correct definition of the problem and efficient and rational packaging of a solution.
- F. A feasible solution is defined by yours truly as follows:

"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."

G. Elements of a total feasibility analysis

- 1. Strategic objectives and tactics (policies)
 - 2. Market trends and opportunity areas
 - 3. Merchandising targets with monopoly characteristics
 - 4. Legal-political constraints
 - 5. Ethical-esthetic constraints
 - 6. Physical-technical constraints
 - 7. Financial constraints
- H. The basic elements also name the professional reports which might be sought:
 - 1. Strategy study: selection of objectives, tactics, and decision criteria
 - 2. Market analysis: economic base studies or other related aggregate data review
 - 3. Merchandising studies: consumer surveys, competitive property analysis, marketability evaluation, etc.
 - 4. Legal studies: opinion on potential legal constraints, model contracts or forms of organization, and political briefs.

5. Computability studies of project to community planning, conservation standards, or other public policies.
6. Engineering, land planning, and architectural studies
7. Financial studies: economic modeling, capital budgets, present value and discounted cash flow forecasts, rate of return analysis, financial packages.

III. The availability of outside expertise for corporate real estate.

- A. Many functions of corporate real estate management are not required with sufficient frequency to justify in-house capability. The real estate manager should be an expert on experts.
 1. Advisory real estate organizations
 2. Professional associations with advisory panels
 3. Individuals with professional designations
- B. Real estate advisory organizations tend to be of three types:
 1. Economic consultants - applied land economics
 2. Planners with orientation on design of land use compatible with natural resource
 3. Technical consultants for engineering, traffic, architecture, finance, construction, etc.
- C. Beware of firms such as architects who now do economic studies or economic consultants who have captive construction services. Their expansion of services is a sales device to increase the number of profit centers available from a single client.
 1. Beware of extra services under AIA contract
 2. Contracts for specific services of an individual
 3. Negotiate and define issues and methods
 4. Define hourly billing rates against an upset price
 5. Define contract checkpoints which establish percent of completion for contract termination
- D. Many professional organizations offer outstanding panels of experts who will critique your project both at the preliminary and final planning stages. No need to reinvent the wheel.
 1. ULI-the Urban Land Institute
1200 18th Street, N.W.,
Washington, D.C. 20036
 2. BOMA - Building Owners and Managers Association International
224 S. Michigan
Chicago, Ill. 60604
 3. ICSC - International Council of Shopping Centers
445 Park Avenue,
New York, N.Y. 10022
- E. Professional designations are extremely difficult to evaluate because the National Association of Realtors (NAR) has pursued an education program with a merit badge syndrome. Disregard all of them with the possible exception of those that follow, ranked in order

of my personal observations. (Each group publishes a directory available free from their association offices.)

1. SREA-Senior Real Estate Analyst - highest ranking in Society of Real Estate Appraisers, 7 South Dearborn Street, Chicago, Illinois 60603. (There are less than six hundred and each must be requalified every five years.)
 2. CRE-Counselor in Real Estate-American Society of Real Estate Counselors, 155 East Superior, Chicago, Illinois 60611. (Less than five hundred members; membership by invitation; membership recognizes successful developers or individuals who achieve national recognition for advising clients as contrasted to simply appraising property.)
 3. MAI-Member of Appraisal Institute-American Institute of Real Estate Appraisers, 155 E. Superior St., Chicago, Ill. 60611. (Many lenders ignore certified designation with a number below eight hundred or so; designation is comparable to the SRPA designation of the Society of Real Estate Appraisers.)
 4. CRI-Commercial Realtor Institute, a division of NAR, is noteworthy as it shows a willingness to master a number of tough courses, well taught, which crunch numbers in some detail.
 5. CPM-Certified Property Manager, is a designation of the Property Management Institute, a division of NAR. It operates an excellent educational system and sets qualifications which weed out the sometime property manager. Professors are not allowed unless they take all exams and meet all requirements, so it must be good.
- F. In selecting a real estate professional, be sure he is equipped to answer your questions. The appraisers "fair market value" does not answer the question of what you should pay for it and possibly, not what you should ask for it.
1. Weight age, designation, certificate number, and recommendation
 2. Pay a worthwhile fee. The good ones are expensive because they're in demand. Be loyal if you want consistently objective results.

IV. Critiquing the Appraisal Report

- A. Understand your own need for an appraisal - Does it set an asking price, purchase price, mortgage loan, insurance, or asset allocation, as a result of merger or other accounting problems.
- B. Define the audience for the report, you, IRS, lender, judge, your critics, SEC. Then have your attorney define which approach to value that particular audience prefers. (for example SEC has appraisal specifications; see "What the Real Estate Appraiser Should Know About Real Estate Securities". Fred Chippendale. Monograph available from Real Estate Appraisers Institute.)
- C. It is then possible to choose appraisers who tend to specialize in that methodology and have the data banks to do it.
 1. For example American Appraisal Company has the manpower and the reference material to value a large variety of physical assets

acquired by merger and to convince the IRS of the thoroughness of the analysis.

2. For a residential appraisal don't pay \$35 to any broker. Pay \$75-\$100 to the firm that specializes with an automatic data bank for the mortgage lenders or check with the mortgage guarantors to see whom they use in a city where you have considerable management transfers etc.
- D. Instruct your appraiser as to the definition of value to be used and understand its editorial implications.
1. Society of Real Estate Appraiser: "The price which a property will bring in a competitive market under all conditions requisite to a fair sale, which would result from negotiations between a buyer and a seller, each acting prudently, with knowledge, and without undue stimulus." (SREA, Real Estate Appraisal Principles and Terminology [Chicago, 1960], p.85).
 2. American Institute of Real Estate Appraisers: "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." (AIREA, Appraisal Terminology and Handbook, 5th Edition [Chicago, 1967], p.131).
 3. "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." (Richard U. Ratcliff).
- E. Three approaches to value can be included or excluded as appropriate
1. Market comparison approaches today include:
 - a. conventional comparisons
 - b. attribute comparisons
 - c. linear regression of price to attribute transformation
 - d. multiple regression sales comparison
 2. The income approach to value could be:
 - a. net income multiplier or cap rate
 - b. the Ellwood capitilization rate and resale assumption curve
 - c. discounted pre-tax cash flows
 - d. after-tax cash flow valuation of equity and mortgage by computer
 3. The cost approach could use:
 - a. advisory service manual
 - b. contractors estimate
 - c. functional unit average price (per bed, per person, per seat)
 - d. observed depreciation including functional and economic obsolescence
 - e. depreciation from market comparison of sales to cost to replace
 - f. depreciation by determination of capitilized income value compared to cost to replace

- F. The really sophisticated appraisers who feel a professional obligation to use the best techniques rather than acceptable techniques have computer terminal capabilities on services like GE Mark III time sharing or on Tymshare Inc.
 - 1. Distinguish between models for capital budgeting with rate of return analysis and appraisal models
 - 2. Distinguish between using models to establish value or to test value conclusions of others (ie. tax assessers)
- G Limiting conditions and assumptions of the appraisal report which makes it a fictional scenario for investment.
 - 1. implicit assumptions
 - 2. explicit waivers for soils, engineering, zoning, etc.
- H. Synthesis of conclusions
 - 1. weighted averaging
 - 2. evaluation or rejection on basis of reliability of data
 - 3. selecting probable method to be used by probable buyer