

JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

VII. INDUSTRY EDUCATIONAL COURSES - LONG TERM

G. Australian Lecture Series

5. "Contemporary Appraisal Theory and the Income Approach", Third Module

THIRD MODULE

CONTEMPORARY APPRAISAL THEORY AND THE INCOME APPROACH

Presented By

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FIRST HOUR

I. The basic premises of the contemporary approach stem from the fundamental belief that pricing is a behavioral science, that analysis should be inductive rather than deductive wherever possible, and that appraised values are intended to serve as a benchmark for some decision process.

A. A price is a social transaction and the behavior of the parties and configuration of the transaction reflects a consensus at some point in time between external market forces sufficiently strong to impose on the outcome and internal forces on the supply side sufficiently strong to pursue their own self-perceived interests.

Notice that the above does not presume:

1. Both demand and supply forces to have alternatives of equal indifference.
2. Negotiation abilities of equal force, or
3. Cash maximization as their sole criteria - all of which characterize the traditional approach.

B. The contemporary view sees appraisal as a limited and fictional case of feasibility analysis which, in turn, is a limited case in problem solving which, in turn, is part of a larger planning framework.

C. Appraisal as a fictional feasibility study is a model of a decision process and, therefore, like all models is constrained by the following elements:

1. What is the nature of the question?
 2. What quantity and quality of data may be available?
 3. What theory or hypothesis may edit and focus the available data as a tentative answer to the question?
 4. What techniques and data management can be used reliably by the analysts?
 5. What techniques and data management have credibility with the ultimate decision maker hiring the analyst?
 6. What techniques and data management are cost effective in terms of the dollar consequences of the decision?
- D. Functions of appraisal differ dramatically and lead to multiple definitions of value.
1. Validation (mortgage loans)
 2. Benchmarking performance (pension funds)
 3. Confrontation (legal cases)
 4. Counseling (investment decisions)

- II. In that light, the sequence of steps required of the contemporary/appraisal process referred to by Wisconsin students as RATGRAM is as follows:
- A. What is the issue for which the appraisal is sought as a benchmark?
 - B. What are the attributes of the property in terms of alternative courses of action for their productive use?
 - C. Given the alternatives, what is the most probable use?

- D. Given the most probable use, who is the most probable buyer in terms of class, motivation profile, or market position? (See Exhibit 1.)
- E. Given the most probable use and most probable buyer assumptions, there are three approaches to predicting most probable price:
 - 1. Inference from past transactions involving properties of similar potential and buyers of similar motivation.
 - 2. Failing adequate transaction data, it is then acceptable to simulate the pricing methods of the most probable buyer.
 - 3. Failing to find either similar properties or articulate buyers, the appraiser is then permitted to use normative methods which indicate what might happen if buyer and seller were as smart as the appraiser.
- F. With an initial estimate of value, it may then be modified for external conditions unique to the parties, the place, or the time.
- G. The adjusted value must then be tested to demonstrate that results at that price would be consistent with the minimum goals of all major parties to the transaction.
- H. Since the appraiser is predicting price under conditions of uncertainty and many different market terms, the appraisal conclusion must be expressed as a central tendency within a transaction zone which is qualified by financial terms and/or critical assumptions about unknowable facts.
 - 1. Although the Institute uses fair market value and most probable price interchangeably, that is a travesty on the work of modern theorists and a deliberate attempt to confuse or negate the implied criticism of traditional ways by contemporary analysts.

Critical Issues That Define Appraisal Process

Function of the Appraisal	Property Rights	Relevant Definition of Value	Allocation of Productivity	Buyer Motivation Presumed
Tax assessment	Fee simple private rights unencumbered	Cash market present value (As opposed to most probable selling price)	Present value income attributable to land and structures only	Purchase of economic productivity
Mortgage loan (nonparticipating)	Encumbered fee simple private rights plus additional rights pledged	Regulations - market value Underwriting - solvency price or liquidating value	Fixed income pledged from all sources less costs of creative management	Share of economic productivity contributed by capital
Mortgage loan (participatory)	Encumbered title plus nonvested interest in selected future revenues	Present value of all future cash flows	Variable income pledged plus share of reversionary interest	Share of economic productivity contributed by capital plus share in selected management returns plus positioning against devaluation due to changing conditions
Sale of an investment	Encumbered title plus vested entitlements plus going concern profit center opportunities	Most probable price above minimum acceptable alternative opportunity	Returns from land, structures, personalty, and selected entitlements	Increase in spendable cash Increase in liquidity value of estate Positioning to maximize probability of survival of benefits despite changing conditions
Purchase of investments	Encumbered title plus positioning for access to entitlements	Most probable price within perceived peril point limit	Land, structure, personalty, and intangible assets less profit centers for management	Increase in spendable cash Increase in liquidity value of estate Positioning to maximize probability of survival of benefits despite changing conditions
Going concern purchase of a business	Encumbered title plus positioning for access to entitlements plus reduction in risk for business start-up plus control of monopolistic market position controls	Most probable sales price within perceived costs of creating an alternative	Land, structure, personalty, and intangible assets and good will plus artifactual profit centers for management	Increase in spendable cash Increase in liquidity value of estate Positioning to maximize probability of survival of benefits despite changing conditions

2. Contemporary theory recognizes explicitly the errors in forecasting, the role of financial terms, and the reality of bargaining position.

- I. These general precepts are then expanded into an appraisal report outline of the general type included in Exhibit 2.
- J. Upon review of the more detailed outline and the limited time that we have, I would like to demonstrate a manual market inference system, an automated market comparison system, an income simulation method, and a computer test model.

III. Three Basic Methods of Appraisal

As you know, Ratcliff concludes that most appraisals are concerned with prediction of a future event, a transaction price. Since an appraisal method is a forecasting tool, forecasting is best done with some past experience. Failing that, the best method is simulation of the real estate market process.

- A. Given reliable information on past market behavior, the preferred method of appraisal is to process the data, statistically if possible, to derive a prediction of future price behavior under given conditions and with means for estimating the reliability of the prediction.
 - 1. Statistical prediction if possible.
 - 2. Statistical rules for definition of a data set at the least.
- B. Should market data be unavailable or inconclusive, the appraiser is forced to resort to the second method of appraisal, namely the construction of a real estate market model of factors which reflect his understanding of how buyers and sellers might behave.
 - 1. The income approach and the cost approach are submodels of how an investor is supposed to behave.

CONTEMPORARY REAL ESTATE APPRAISAL REPORT

Letter of Transmittal

1. Brief statement of appraisal issue
2. Definition of value applied
3. Value conclusion (qualified by financing, terms of sale, and range of probable transaction zone as appropriate)
4. Sensitivity of conclusion to critical assumptions
5. Property observations or recommendations
6. Incorporation by reference of limiting assumptions and conditions

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List of Exhibits

Digest of Facts, Assumptions, and Conclusions

1. Property type
2. Property location
3. Property ownership
4. Determinant physical attributes
5. Controlling legal-political attributes
6. Pivotal linkage attributes
7. Marketable dynamic attributes
8. Most probable use conclusion
9. Most probable buyer profile assumed
10. Initial probable price prediction and central tendency
11. Adjustment of preliminary value estimate for external factors or market position of parties
12. Testing of corrected probable price for consistency with most probable buyer objectives
13. Final value conclusion and range of error estimate as appropriate

I. Appraisal Problem Assignment

- A. Statement of issue or circumstances for which appraisal is intended to serve as a decision benchmark and date of valuation
- B. Special problems implicit in property type or issue that affect appraisal methodology and definition of value
- C. Special assumptions or instructions that are provided by others
- D. Definition of value, which is the objective of appraisal analysis and disciplines appraisal process
 1. Selected definition and source
 2. Implicit conditions of the definition
 3. Assumptions required by relevant legal rulings
- E. Definition of legal interests to be appraised
 1. Legal description and source
 2. Permits, political approvals, and other public use entitlements
 3. Fixtures or personalty to be included with sale
 4. Specific assets or liabilities excluded as inconsistent with issue or premise of appraisal

II. Property Analysis to Determine Alternative Uses**A. Site Analysis**

1. Physical (static) site attributes (size, shape, geology, slope, soil hydrology, etc.)
2. Special site improvements (wells, bulkheads, irrigation systems, parking surfaces with unique salvage or re-use characteristics, etc.)
3. Legal-political attributes (applicable federal, state and local zoning, covenants, easements, special assessments, or other land use codes and ordinances, etc.)
4. Linkages of site (key relationships to networks, populations, or activity centers that might generate need for subject property)
5. Dynamic attributes of site (perceptual responses of people to site in terms of anxiety, visibility, prestige, aesthetics, etc.)
6. Environmental attributes of site as related to off-site systems or impact areas.

B. Improvement Analysis.

1. Physical (static) attributes of improvements, cataloged by type, construction, layout, condition, structural flaws, etc.
2. Mechanical attributes (brief statement of heating, ventilating, air conditioning, electrical, plumbing, and fire or safety systems in terms of limitations on use or efficiency)
3. Special structural linkages to off-site elements (tunnels, bridges, adjoining structures, etc.)
4. Legal-political constraints on use of existing improvements (federal, state and local building codes, fire codes, conditional use procedures, neighborhood associations, and inspection liens of record for violations).
5. Dynamic attributes of existing improvements (impressions created by type, bulk, texture, previous uses, past history, or functional efficiency)
6. Current uses and tenancies of improvements, if any
7. Environmental impact attributes of improvements on environs

E. Identification of Alternative Use Scenarios for Subject Property

1. Marketing existing uses of property as is
2. Renovation of existing property and marketing improved space
3. Redirection of existing property to alternative tenancies and uses
4. Replacement of existing improvements or program with new uses

III. Selection of Most Probable Use**A. Comparative Analysis of Alternative Uses**

1. Testing and ranking alternative-use strategies for legal-political compatibility
2. Testing alternative-use scenarios for fit to physical property attributes within reasonable cost to cure
3. Selection of scenarios that justify market research

B. Analysis of Effective Demand for Selected Uses

1. Search for rents and income potentials of scenario space-time products
2. Screen and rank market targets
3. Apply income-justified residual investment approach to rank economic power of alternative market scenarios
4. Evaluate marginal revenue, marginal investment risk trade-offs

C. Summary Matrix for Selection of Most Probable Use Scenario

1. Physical fit
2. Legal-political risk
3. Strength of market demand
4. Adequacy of available financing
5. Revenue and cost assumptions risk

IV. Prediction of Price for Subject Property**A. Specification of Most Probable Buyer Type Implied by Most Probable Use**

1. Criteria motivations of alternative buyer types
2. Selection of most probable buyer type as basis for prediction of a sales transaction with logic for ranking of alternatives
3. Specification of essential site, improvement, financial, or key decision criteria of principal alternative buyer types

B. Explanation of Appraisal Methodology for Prediction of Probable Purchase Price

1. Preferred method: to infer buyer behavior from actual market transaction and market data available from sales by comparable buyers of acceptable alternative properties
2. In the absence of adequate market sales data, the alternative method selected for simulation of probable buyer decision process
3. If market influence of simulation is impossible, select normative model such as investment value, or cost to replace

C. Search for Comparable Market Sales Transactions

1. Unit of comparison
2. Method of comparison
3. Explanation of search parameters
4. Investigation of sale transaction circumstances
5. Evaluation for comparability
6. Definition of predominant terms of sale
7. Source of comparative adjustments

D. Determination of Suitability of Existing Market Data for Inference of Value for Subject Property

1. Where data is adequate, selection of market comparison method to estimate value
2. Where data is lacking or misleading, selection of alternative valuation method and reasoning
3. Conclusion leads to E or F

- E. Simulation of Probable Buyer Decision Process if Market Comparison Approach Is Inconclusive or Impossible
 - 1. Source and explanation of simulation model
 - 2. Schedules of simulation assumptions
 - 3. Range of alternative simulation value predictions (sensitivity analysis)
- (OR) F. Selection of Normative Model of Buyer Behavior
 - 1. Investment model
 - 2. Cost-to-replace model
 - 3. Nonquantitative decision models
- G. Computation of Most Probable Price and Standard Error of Prediction
- H. Correction of Preliminary Value Estimate for External Factors
 - 1. Identification of conditions relative to date of appraisal not present in market comparison assumptions
 - 2. Specification of political contingencies that might upset normal appraisal assumptions of substitution
 - 3. Identification of any violation of conditions in the definition of value by the appraisal methodology
 - 4. Indication of adjustment necessary to preliminary probable price estimate or
 - 5. Explicit statement that no adjustment is necessary
- I. Test of Most Probable Price or Value Conclusion by Means of:
 - 1. Comparison to values derived from selected alternative appraisal methodology
 - 2. Demonstration of achievement of objectives of most probable buyer minimum selection criteria
 - 3. Measurement of fit of financial cash requirements to market rents, lender ratios, or other relevant constraints
 - 4. Comparison to decision criteria appropriate to issue (financial ratios required by mortgage lender, comparative assessments of similar property for the tax appeal board, rates of return in alternative investments, construction prices for similar property, or whatever demonstrates consistency with statement of the issue)
- V. Appraisal Conclusion and Limiting Conditions
 - A. Definition of Value and Value Conclusion of the Report
 - B. Certification of Independent Appraisal Judgment
 - C. Statement of Limiting Conditions That Establish:
 - 1. Contributions of other professionals on which report relies
 - 2. Facts and forecasting under conditions of uncertainty
 - 3. Critical assumptions provided by the appraiser
 - 4. Assumptions provided by the client
 - 5. Controls on use of appraisal imposed by the appraiser

Appendices

Maps, data sets, only if referred to in the text. These data collections would slow down the reader if included as an exhibit and are secondary to the argument in the body of the report.

2. After-tax investment models are another submodel of market behavior, but while these may measure demand from the buyer's viewpoint, it may not measure the minimum price expected by the seller who also has a tax model to consider. In using the second approach, the appraiser must be very careful to indicate price on the supply side representing minimum expectations (Vs) of the seller.
- C. Should there be no sales and no way to verify how buyers would review the specific property (utility case - rate base or kilowatt production?), then the appraiser falls back to normative methods.
1. Normative means what the buyer would do if he were as smart as the appraiser and motivated only by a desire to maximize wealth.
 2. The traditional income approach or the cost approach are normative models unless it can be proven buyers behave accordingly.
 3. After-tax cash flow models are normative models until it can be shown how these models value property.
- D. Highest and best use or most probable use in order to identify most probable user and buyer, requires analysis and explicit recognition of possible uses which are:
1. Legal/political acceptability
 2. Physical/technical feasibility
 3. Effective demand and marketability
 4. Financial viability
 5. Community compatibility
- (See Exhibit 5.)

IV. New Issues and New Appraisal Techniques

It is generally recognized that the real estate market is dependent upon substantial amounts of credit to support effective demand so that real estate prices and perhaps values vary with the terms and supply of credit generally available in the marketplace. Indeed the old timers have seen the definition of fair market value gradually move away from the firm premise of cash to the seller to a somewhat more subjective condition of terms generally available in the market.

- A. The pressure of double digit inflation is eroding many of the appraisers' favorite simplifications of the market model:
1. The long-term fixed interest mortgage, amortized from property productivity is gone.
 2. The simple division of income between the mortgage and the equity component is smothered in participating mortgages, limited partnerships, convertible mortgages and seller financing.
 3. As the government had removed general subsidies to real estate finance such as regulation Q, it has made greater use of specific interest subsidies to selected special groups.
 4. Real estate markets must be defined not only in terms of use, age, income, but also access to capital.
 5. Moreover, most properties exist in a 3-tier market, utility to house to activity, commodity and money speculation, and as part of a going concern.
 6. The 3-tier market can be further subdivided by the nature of permits or other entitlements that are site specific and define risk of a vested or non-vested opportunity.

- B. Volatile money market conditions and the widespread use of creative financing leave the appraiser in considerable difficulty in defining typical market terms, cash equivalent prices or the relationship of fair market value to transaction price. Does the client want fair market price, most probable price, going concern value, contributory value, investment value, or liquidating value in event of delinquency and foreclosure?
- C. The impact of these elements is significantly different for problems involving:
 - 1. Income investment properties
 - 2. Economic development properties
 - 3. Multi-family residential properties
 - 4. Single family residential properties
- D. The impact of financing in each situation requires that we go back to basics. The appraiser or his client must define:
 - 1. What is the function of the appraisal?
 - 2. Which rights are to be appraised? (Those that run with the establishment on the site, with the ownership position, or with fee simple title.)
 - 3. Which definition of value is appropriate?
 - 4. How is productivity allocated to the agents of production?
- E. Reference to Exhibit 2
- F. Reference to definition of fair market value in Exhibit 3 and compare to most probable price in Exhibit 4.

EXHIBIT 3

(* The most probable price - new edition, Institute)

FAIR MARKET VALUE - The highest price in terms of money which a property will bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus.

Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated.
2. Both parties are well informed or well advised, and each acting in what he considers his own best interest.
3. A reasonable time is allowed for exposure in the open market.
4. Payment is made in cash or its equivalent.
5. Financing, if any, is on terms generally available in the community at the specified date and typical for the property type in its locale.
6. The price represents a normal consideration for the property sold unaffected by special financing amounts and/or terms, services, fees, costs, or credits incurred in the transaction.

Source: P. 137, Real Estate Appraisal Terminology,
Editor Byrl Boyce.

- * Not to be confused with most probable price in contemporary appraisal, which does not reflect an assumption of a competitive market with alternative, which does not require ignoring of public bargaining position of the party, and which does not require cash to the seller if the market cannot have a transaction without seller financing.

EXHIBIT 4

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.

Source: P. 8, The Appraisal of 25 N. Pinckney, Editor James A. Graaskamp.

FEASIBILITY OF ALTERNATIVE USES

	<u>Scenario 1</u>	<u>Scenario 2</u>	<u>Scenario 3</u>	<u>Scenario 4</u>	<u>Scenario 5</u>	<u>Scenario 6</u>
<u>Feasibility Factor</u>	<u>Return to Former Use</u>	<u>Purchase by Welfare Agency</u>	<u>Conversion to Class B/C Office</u>	<u>Conversion to Apartments with Office on 1st Floor</u>	<u>Conversion to Apartments with Existing Bar</u>	<u>Demolition and Sale of Site</u>
Market Demand Risks	Demand very elastic relative to price unless room rates subsidized by welfare agencies	Welfare agencies lack capital resources to purchase and remodel facilities, given the absence of government funding	Office market becoming more price sensitive; would not accept neighborhood and lack of parking unless rents were lower than necessary to support remodeling	Strong demand for spacious two bedroom units in CBD area	Though there is a strong demand for affordable downtown housing, consumer survey shows tenant reluctance to live above noisy/potentially malodorous bar-restaurant	Soft market for vacant sites which cannot be assembled into larger plot-tage; parking revenues from 20 spaces inadequate to carry clearance costs
Legal/Political Acceptability	Inconsistent with long term City goals for Olin Place	Mixed acceptability as interim use as housing for transient males by some groups; favored by welfare advocates and disfavored by local residents	Neighborhood resistance to increased demand for street parking	Preferred use, given need for downtown housing and political statements by alderpersons for reduction of bar business in residential neighborhoods	Preferred use for housing is compromised by existing bar management agreement	Inconsistent with constituency favoring landmark designation
Technical Construction Problems and Capital Cost Risks	Failure to repair within one year may have jeopardized grandfathered non-conforming building conditions. Otherwise this use has lowest construction risks of Scenarios 1 through 5	Capital costs of renovation to state standards excessive for short term use	Variance needed for parking requirement of 1 stall per 300 SF to 1 stall per 2,500 SF of office space	Spacious apartments with views provide favorable rent/cost per SF ratio--housing code creates more remodeling risk than commercial code	Apartment mix cheapened by retaining existing bar operation--smaller units require more plumbing and bring less favorable rent/cost per SF ratio	None
Relative Investment Power Based Upon Revenue Generation Potential	\$192,765	\$120,380	\$80,331	\$103,220	(\$10,513)	\$13,778
Special Income Tax Advantages or Public Subsidies Available	None	None	Rehabilitation tax credit of 20% for older commercial building conversion plus possible industrial bond financing	Possible historic landmark status for 25% rehabilitation tax credit plus tax incremental financing (TIF) assistance	Possible historic landmark status for 25% rehabilitation tax credit. TIF less likely because increase in tax is smaller	None
Real Estate Tax Consequences to City	Modest increase in assessed value	Loss of \$194,300 tax base with tax-exempt agency as owner	Real estate tax base would be multiplied approximately 3 times the present assessment	Real estate tax base would be multiplied approximately 3 1/2 times the present assessment	Real estate tax base would be multiplied approximately 2 1/2 times the present assessment	Loss of approximately \$140,000 of tax base

- V. Traditional techniques of market comparison and capitalized income lack reliable data or fail to represent market behavior, leading to greater reliance on discounted cash flows for large income properties.
- A. Sales prices are engineered by accountants to some degree to shift asset values among various classifications for land, structure, personalty, intangibles, capital gains and losses and ordinary gains and losses, making market comparison anything but objective (not to mention adjustments for non-market financing discussed in second day).
 - B. Similarly, the income approach has great difficulty in applying the truism that income value is the present value of income plus the present value of reversion.
 - 1. There is the problem of defining net operating income in terms of what is attributable to the real estate (aside from financing effect on cash throw off).
 - 2. There is the problem of defining the net reversion to equity in an uncertain future (aside from financing effect on mortgage balance).
 - 3. There is the problem of selecting a conversion process which reduces income cash flows and reversionary cash flows to a single present value.
 - C. Neither revenue, nor expenses, nor debt service are constant over time anymore, so that NOI/OAR is no longer a useful valuation model. Instead rents, vacancies, expenses, and financing must be staged using a spread sheet for both income and the reversion. Lenders may share in appreciation and owner and lender may share the risk of variable interest and the first principal payment.
 - D. The problem of defining real property as tangible or intangible.
 - 1. Property refers to things and objects capable of ownership.

2. Real property refers to the legal rights, interests, and benefits inherent in the ownership of real estate.
 3. What is inherent?
 4. Is the residual claim the right to receive cash flow from income property subject to any prior claims?
 5. How is cash flow allocated among land, labor, capital, and management...and public licenses?
- E. The definition of economic rent attributable to the real estate:
1. Is income attributable to entitlements that go with fee simple title to the land and are point specific or to transportable permits?
 - a. For example--does liquor license go with the building? Is permit to build or maintain a dam assignable? Does right to management fee and brokerage fee go with general partnership or property?
 2. Is the real estate income from retailing of space or from wholesaling of space?
 - a. Parking ramp lease versus parking space by the hour, observation deck versus ticket, condominium conversion fee versus apartment project investment.
 3. Is the income for extraordinary services or intangible assets rather than customary?
 - a. Maid service versus janitorial, shopping center premium for proximity or for joint merchandising and risk management.
 4. Ancillary to rather than integral with the project.
 - a. Can services be acquired off premises such as janitorial or utilities?

5. IRS classification as 1250 property (real) or 1231 property (personalty) and Section 453, 453A and B, or Section 38 (tangible) or Section 45 (intangible).
 6. Is income attributable to governmental agencies in exchange for contractual entitlements of control or use to the public interest for the term of the contract?
- E. Problem of defining or forecasting a reversion:
1. Pricing real estate for utilitarian purpose, to buy access to service sales, or speculate in long term demand/supply commodity relationships or long term commodity/money ratios.
 2. Can the appraiser prove presence of necessary conditions for appreciation and amount of depreciation?
 - a. Rising net income
 - b. Falling interest rates
 - c. Falling investor expectations
 3. When is appreciation speculative, non-vested, and excluded from fair market value?
 4. Can the appraiser simulate alternative speculative gains for most probable price?
 5. When a premium is paid anticipating syndication of condominium conversion, should there be an adjustment for purchase of a business opportunity? Does fair market value include management fees for conversion?
- F. Referring back to functions and the accounting/appraisal interface, consider that accounting theory distinguishes values according to the following in order to fit the function of the accounting task:
1. Exit value assuming completion of normal business cycle in an orderly fashion (benchmarking).

2. Exit value assuming abrupt liquidation (construction loan validation).
3. Replacement value with asset of current technology.
4. Reproduction value of asset at original state of technology.
5. Market value in an organized market for tangible goods.
6. Current value as original cost indexed for dollar devaluation.
7. Discounted value of future receipts at interest factor.
8. Value of asset not yet charged to consumption or production.

- VI. Case Study of an appraisal of a 50-year old high rise office building in the CBD with vacancy problems, utility problems, and management problems. (See Exhibits 6 through 21.)
- A. Revenues reflected loss of a major tenant (State of Wisconsin), lack of demand for retail space on the first floor, a soft market for B-class space, and a reluctance of management and tenants to use pass-throughs for operating costs.
 - B. It was necessary to do a spread sheet indicating a gradual reduction of vacancy loss, a gradual updating of existing leases with pass-through clauses, and investment in critical energy conservation.
 - C. Resale price is tied to projected net income and gross with a debt cover ratio and a cash-on-cash yield. Loan-to-value ratio is irrelevant. (See The Appraisal Journal, January 1981, "DCR/RE Cap Rate Tables for Today's Financing," p. 15.)

EXHIBIT 6
CASE STUDY - EXHIBITS 6-21 - SEMINAR

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23 Calculation of Most Probable Price Using Mean Price Per Point Equation Method.	11

EXHIBIT 6 (Continued)

SCALE FOR SCORING COMPARABLES ON IMPORTANT INVESTOR CONSIDERATIONS
FOR OFFICE/RETAIL SPACE IN MADISON C-4 ZONE

Parking 25%	5 = Ample private parking on site or available on contract within the same block. 3 = Limited parking on premises 0 = Little or no surface parking on premises.
Location 20%	5 = In the blocks of East and West Mifflin St. or North and South Carroll St., across from the Capitol Square 3 = In the blocks of North and South Pinckney St., across from the Capitol Square, or in the 100 block of West Washington, or adjacent to General Executive Facilities. 1 = Off of the Capitol Square
First Floor Retail Lease in Place at Time of Purchase 15%	5 = Strong lease in place. 3 = Strong lease in place for part of first floor. 0 = Lease expires in less than 6 months or vacant.
Need for Renovation of Office Space at Time of Purchase 15%	5 = No renovation required. 3 = Modest renovation required. 1 = Intensive renovation required.
Visual Quality of Office Entrance 10%	5 = Excellent design and location. 3 = Indifferent design and/or location. 1 = Poorly defined and/or adjacent to incompatible uses.
Vacancies in Existing Office Space at Time of Purchase 15%	5 = Less than 10% of net rentable area (NRA). 3 = More than 10% of NRA. 0 = Vacant

WEIGHTED MATRIX FOR COMPARABLE PROPERTIES

FEATURE/ WEIGHT	Rating/Weighted Rating							Subject
	#1 30 W. Hifflin	#2 50 E. Hifflin	#3 16 N. Carroll	#4 123 W. Washington	#5 102 N. Hamilton	#6 212 E. Washington	110 E. Main	
Parking 25%	5/1.25	3/.75	0/0	0/0	3/.75	3/.75	3/.75	
Location 20%	5/1.00	5/1.00	5/1.00	3/.60	1/.20	3/.60	3/.60	
First Floor Retail Lease In Place 15%	5/.75	5/.75	0/0	3/.45	3/.45	0/0	1/.15	
Need for Renovation 15%	5/.75	1/.15	3/.45	5/.75	1/.15	1/.15	3/.45	
Visual Quality of Office Entrance 10%	5/.50	3/.30	3/.30	5/.50	3/.30	3/.30	1/.10	
Vacancies In Existing Office Space 15%	5/.75	0/0	5/.75	5/.75	0/0	0/0	1/.15	
Total Weighted Score	5.00	2.95	2.50	3.05	1.85	1.80	2.20	
Selling Price	\$2,555,500	\$850,000	\$615,270	\$2,896,000	\$330,000	\$472,000	X	
Total Net Rentable Area (NRA)	65,000 sq. ft.	38,500 sq. ft.	35,725 sq. ft.	138,000 sq. ft.	28,000 sq. ft.	38,000 sq. ft.	74,000 sq. ft.	
Price Per Square Foot (NRA)	\$39.30	\$22.10	\$17.20	\$21.00	\$11.80	\$12.40		
Price Per Square Foot of NRA <u>Total Weighted Score</u>	7.86	7.49	6.88	6.89	6.38	6.89		

EXHIBIT 7

EXHIBIT 8

CALCULATION OF MOST PROBABLE PRICE USING
MEAN PRICE PER POINT EQUATION METHOD
(With Standardized Weighted Point Scores)

Comparable Property	Selling Price per NRA	Weighted Point Score	Price per NRA Weighted Point Score (x)
1	\$39.30	5.00	7.86
2	22.10	3.45	7.49
3	17.20	2.50	6.88
4	21.00	3.05	6.89
5	11.80	1.85	6.38
6	12.40	1.80	6.89
TOTAL			42.39

$$\text{Central Tendency (Mean = } \bar{x}) = \frac{\sum x}{n} = \frac{42.39}{6} = 7.07$$

$$\text{Dispersion (Standard deviation = s)} = \sqrt{\frac{\sum (x-\bar{x})^2}{n-1}} = \sqrt{\frac{1.38}{5}} = .525$$

where:

x	\bar{x}	$(x-\bar{x})$	$(x-\bar{x})^2$	n	n-1
7.86	7.07	.79	.62	6	5
7.49	7.07	.42	.18		
6.88	7.07	-.19	.04		
6.89	7.07	-.18	.03		
6.38	7.07	-.69	.48		
6.89	7.07	-.18	.03		
			1.38		

Value Range: $\bar{x} \pm s = 7.07 \pm .53$

Estimate of Value of Subject Property =

NRA of subject * Weighted point score of subject *
(74,000 S.F.) (2.2)

[Sample mean of price per NRA per total
weighted score \pm (Dispersion \pm t value)]
[7.07 \pm (.53 * t value)]

	Confidence Level	
	68% (t = 1.000)	@ n-1 = 5; 90% (t = 2.015)
High Estimate: ¹	\$1,240,000	\$1,320,000
Central Tendency:	1,150,000	1,150,000
Low Estimate:	1,060,000	980,000

¹All value estimates are rounded.

Schedule of Rental Revenues¹ for the Period of April 30, 1980 Through April 29, 1985

Occupancy as of <u>April 30, 1980</u>	Space Sq. Ft.	Annual Rent per Sq. Ft. ²	Lease Terms as of 4/30/80 ³	Annualized Gross Rental Revenues				
				<u>4/30/80-</u> <u>4/29/81</u>	<u>4/30/81-</u> <u>4/29/82</u>	<u>4/30/82-</u> <u>4/29/83</u>	<u>4/30/83-</u> <u>4/29/84</u>	<u>4/30/84-</u> <u>4/29/85</u>
<u>Lower Level & Roof</u>								
B Level Vault-Vacant	700	3.00	--	\$ 2,100	\$ 2,100	\$ 2,270	\$ 2,270	\$ 2,450
B Level-Showroom & Office	4000	3.00	--	12,000	12,000	12,960	12,960	14,000
A Level-Storage	400	4.00	6/30/80	1,600	2,400	2,600	2,800	3,000
Honeywell Phone Box	--	--	--	600	600	600	650	650
Total-Lower Level	<u>5100</u>			<u>\$16,300</u>	<u>\$17,100</u>	<u>\$18,430</u>	<u>\$18,680</u>	<u>\$20,100</u>
<u>First Floor</u>								
Chez Vous-112	454	4.80	10/1/76 - 9/30/81	\$ 2,180	\$ 2,290	\$ 2,360	\$ 2,360	\$ 2,360
Chez Vous-114	1000	4.80	10/1/76 - 9/30/81	4,810	5,030	5,200	5,200	5,200
North Entry	2000	9.00	--	18,000	19,500	21,000	22,500	24,000
South Entry-Leaf & Ladle ⁴	3500	9.00	1/1/80 - 12/30/84	31,500	33,130	33,950	36,670	39,600
Total-First Floor	<u>6954</u>			<u>\$56,490</u>	<u>\$59,950</u>	<u>\$62,510</u>	<u>\$66,730</u>	<u>\$71,160</u>
<u>Second Floor</u>								
201 Vacant	150	6.50	--	\$ 970	\$ 970	\$ 1,050	\$ 1,050	\$ 1,140
202 State ⁵	600	6.70	7/1/79 - 6/30/80	4,020	4,320	4,320	4,670	4,670
203-4 Vacant ⁵	543	6.20	9/1/78 - 8/31/79	3,370	3,640	3,640	3,640	3,930
205-6 State	506	7.00	3/1/78 - 5/31/80	3,540	3,820	3,820	4,120	4,120
207-8 Homecrafts	386	7.20	1/1/79 - 12/31/81	2,780	2,850	3,000	3,000	3,080
209-10 State ⁵	451	6.25	11/1/79 - 5/31/80	2,820	3,040	3,040	3,280	3,280
211 Dr. Reyez	219	7.00	--	1,600	1,730	1,730	1,870	1,870
212-14 Dr. Wierwill	700	6.50	4/1/78 - 3/31/81	4,570	4,900	4,900	4,900	5,210
215 Vacant	415	6.75	7/1/78 - 6/30/79	2,800	3,020	3,020	3,270	3,270
216 UPI	500	7.50	5/1/80 - 4/30/81	3,750	4,050	4,050	4,370	4,370
218-19 Rape Crisis Center	816	7.00	1/1/80 - 12/31/81	5,840	6,120	6,260	6,530	6,690
220-21 State ⁵	1400	6.25	12/1/79 - 5/31/80	8,750	9,450	9,450	10,200	10,200
Total-Second Floor	<u>6686</u>			<u>\$44,810</u>	<u>\$47,910</u>	<u>\$48,280</u>	<u>\$50,900</u>	<u>\$51,830</u>

EXHIBIT 9

Schedule of Rental Revenues¹ for the Period of April 30, 1980 Through April 29, 1985

Occupancy as of April 30, 1980	Space Sq. Ft.	Annual Rent per Sq. Ft. ²	Lease Terms as of 4/30/80 ³	Annualized Gross Rental Revenues				
				4/30/80- 4/29/81	4/30/81- 4/29/82	4/30/82- 4/29/83	4/30/83- 4/29/84	4/30/84- 4/29/85
Third Floor								
301 Vacant	150	5.75	--	\$ 860	\$ 860	\$ 930	\$ 930	\$ 1,000
302-3 State ⁵	1179	5.75	--	6,780	7,320	7,320	7,900	7,900
304 State ⁵	230	6.70	--	1,540	1,660	1,660	1,800	1,800
305-B State ⁵	942	6.70	--	6,300	6,800	6,800	7,360	7,360
309 The Journal Co.	232	7.20	9/1/79 - 8/31/80	1,810	1,880	1,970	2,030	2,120
310-11 State ⁵	456	6.70	--	3,050	3,300	3,300	3,560	3,560
312 Vacant	234	5.75	--	1,340	1,450	1,450	1,570	1,570
313-14 Dr. R. Meng	482	7.20	6/1/79 - 5/31/80	3,490	3,730	3,750	4,000	4,030
315 Vacant	731	6.70	10/1/79 - 9/30/80	5,000	5,000	5,310	5,480	5,630
316-19 Wisc. Builders Assoc.	1091	7.00	1/1/80 - 12/31/80	7,810	8,180	8,360	8,730	8,940
320-24 Vacant	1363	7.00	--	9,540	10,300	10,300	11,130	11,130
Total-Third Floor	7090			\$47,520	\$50,560	\$51,150	\$54,490	\$55,040
Fourth Floor								
401 Vacant	150	6.40	--	\$ 960	\$ 960	\$ 1,040	\$ 1,040	\$ 1,120
402 Furst, Carlson Inc.	648	6.40	5/1/79 - 4/30/80	4,350	4,370	4,700	4,730	5,090
403-11 State	2147	6.75	1/1/80 - 12/31/81	14,500	14,880	15,670	16,100	16,960
412 Vacant	202	6.40	--	1,290	1,290	1,400	1,400	1,500
413-14 Wisconsin Alliance of Cities	679	6.80	--	4,980	5,020	5,420	5,420	5,850
415 State ⁵	259	7.00	3/1/79 - 2/28/81	1,830	1,940	1,970	2,100	2,130
416-19 State ⁵	1370	6.00	vacated 6/30/80	8,220	8,880	8,880	9,590	9,590
420-20a State ⁵	560	6.70	vacated 6/30/80	3,750	3,750	4,050	4,050	4,370
421-22 State	300	6.70	vacated 6/30/80	2,010	2,010	2,170	2,170	2,340
423-24 Ed Konkol	340	6.60	9/1/79 - 8/31/80	2,240	2,240	2,420	2,420	2,620
Total-Fourth Floor	8655			\$44,130	\$45,340	\$47,720	\$49,020	\$51,570

EXHIBIT 9 (Continued)

Schedule of Rental Revenues¹ for the Period of April 30, 1980 Through April 29, 1985

Occupancy as of April 30, 1980	Space Sq. Ft.	Annual Rent per Sq. Ft. ²	Lease Terms as of 4/30/80 ³	Annualized Gross Rental Revenues				
				4/30/80- 4/29/81	4/30/81- 4/29/82	4/30/82- 4/29/83	4/30/83- 4/29/84	4/30/84- 4/29/85
<u>Fifth Floor</u>								
501 E. C. Barton	150	7.60	--	\$ 1,240	\$ 1,270	\$ 1,270	\$ 1,380	\$ 1,380
502 Vacant	842	7.50	--	6,310	6,820	6,820	7,360	7,360
503-5 Vacant	810	7.50	--	6,070	6,070	6,440	6,800	6,800
506-19 State	3922	6.25	11/1/79 - 10/31/83	24,500	24,500	24,500	30,590	31,770
520 State-Bd. of Aging	555	6.70	7/1/79 - 6/30/81	3,950	4,000	4,270	4,330	4,940
521-22 Dr. Coryell	339	7.20	7/1/79 - 6/30/80	2,440	2,690	2,740	2,920	2,950
523-24 Green Bay Press Gazette	337	7.60	9/1/79 - 8/31/82	2,560	2,690	2,760	2,760	2,760
Total-Fifth Floor	6955			\$47,070	\$48,040	\$48,800	\$56,140	\$57,960
<u>Sixth Floor</u>								
601 Vacant	150	6.70	--	\$ 1,000	\$ 1,000	\$ 1,080	\$ 1,080	\$ 1,170
602-4 State ⁵	1473	6.00	vacated 6/30/80	8,840	9,540	9,540	10,300	10,300
605 Vacant	204	6.40	--	1,300	1,300	1,410	1,410	1,520
			to 6/30/80					
606-10 State	1000	6.70	then no. - mo.	7,370	7,500	7,500	8,100	8,100
611 The EvJue Foundation	286	7.00	vacated 11/30/80	2,000	2,000	2,160	2,160	2,330
612-14 State	647	7.50	11/1/79 - 10/31/83	4,850	4,850	4,850	5,080	5,240
615 Tenney Bldg.	344	7.00	--	2,400	2,400	2,600	2,600	2,800
616 John Barsness	850	6.00	3/1/79 - 2/28/81	5,170	5,520	5,590	5,950	6,020
617 Bill Ward	250	6.70	vacated 5/31/80	1,940	2,120	2,120	2,300	2,300
618-19 State	494	8.00	vacated 5/31/79	3,950	3,950	4,270	4,270	4,610
620-24 Vacant	1262	6.70	--	8,450	9,130	9,130	9,860	9,860
Total-Sixth Floor	6960			\$47,270	\$49,310	\$50,250	\$53,110	\$54,250
<u>Seventh Floor</u>								
701 Lawton & Cates	150	5.75	6/1/79 - 5/31/83	\$ 930	\$ 970	\$ 1,100	\$ 1,050	\$ 1,090
702-19 Lawton & Cates	5417	5.75	6/1/79 - 5/31/83	33,600	35,100	36,450	37,850	39,160
720-24 Vacant	1106	7.00	--	7,740	7,740	8,360	8,360	9,030
Total-Seventh Floor	6673			\$42,270	\$43,810	\$45,910	\$47,260	\$49,280

EXHIBIT 9 (Continued)

Schedule of Rental Revenues¹ for the Period of April 30, 1980 Through April 29, 1985

Occupancy as of April 30, 1980	Space Sq. Ft.	Annual Rent per Sq. Ft. ²	Lease Terms, as of 4/30/80 ³	Annualized Gross Rental Revenues				
				4/30/80- 4/29/81	4/30/81- 4/29/82	4/30/82- 4/29/83	4/30/83- 4/29/84	4/30/84- 4/29/85
Eighth Floor								
801 Wisconsin Radio News	150	7.00	to 6/30/80	\$ 1,050	\$ 1,050	\$ 1,130	\$ 1,130	\$ 1,220
802-5 State	1536	7.55	to 10/31/83	11,600	11,600	11,600	12,060	12,520
806-7 Dr. Mannis	470	7.50	9/1/79 - 8/31/80	3,040	4,000	4,000	4,210	4,320
808-22 State	4580	6.00	7/1/79 - 6/30/80	27,480	36,620	37,100	37,100	39,580
823-24 Dr. Boyle	319	7.60	9/1/79 - 8/31/80	2,780	2,880	3,040	3,120	3,120
Total-Eighth Floor	7075			\$48,750	\$56,150	\$56,870	\$57,620	\$60,760
Ninth Floor								
901 Hillman & Robertson	150	8.00	1/1/80 - 12/31/80	\$ 1,230	\$ 1,300	\$ 1,340	\$ 1,400	\$ 1,400
902 Wisc. Ins. Alliance	864	7.00	6/1/79 - 5/31/80	6,400	6,480	6,910	7,000	7,000
903-6 Mulcahy & Wherry	980	8.00	1/1/79 - 12/31/81	8,070	8,530	8,750	9,210	9,210
907 Robert Weiling	225	8.00	4/1/80 - 3/31/81	1,810	1,960	1,980	2,110	2,110
909-10 Larry Hall	700	6.00	6/1/79 - 5/31/80	4,520	4,550	4,870	4,900	4,900
911 Dr. Schmitz	248	7.75	1/1/79 - 12/31/80	1,920	1,970	2,060	2,140	2,230
912-19 Devine Insurance	2580	7.00	4/1/80 - 3/31/83	18,060	18,060	18,180	19,350	19,350
921 State	575	7.00	vacated 7/1/80	4,020	4,350	4,350	4,700	4,700
922-23 Judicial Commission	355	6.50	5/1/79 - 4/30/81	2,300	2,500	2,500	2,700	2,700
924-25 Dr. Rundell	339	7.20	6/1/79 - 5/31/80	2,650	2,680	2,860	2,880	2,880
Total-Ninth Floor	7016			\$50,980	\$52,380	\$53,800	\$56,390	\$56,480
Tenth Floor								
1001 Victor Lind	150	6.80	11/1/79 - 10/31/80	\$ 1,050	\$ 1,200	\$ 1,250	\$ 1,300	\$ 1,350
1002 Wisc. Assoc. of Indep. Colleges	864	6.50	1/1/80 - 12/31/80	5,760	6,050	6,190	6,480	6,650
1003-4 Wisc. Cannors & Freezers	756	8.00	5/1/79 - 4/30/80	6,050	6,050	6,530	6,530	7,050
1005-B Noelter Co.	911	6.80	12/1/79 - 11/30/80	6,370	6,650	6,880	7,200	7,400
1009-10 Vacant	455	6.50	--	2,950	3,190	3,190	3,450	3,450
1011-13 Dr. Doll	727	6.65	6/1/79 - 5/31/80	5,230	5,270	5,640	5,670	6,100
1014 Vacant	229	6.25	--	1,430	1,430	1,540	1,540	1,670
1015-18 State	1616	7.50	11/1/79 - 10/31/83	12,120	12,120	12,120	12,600	13,090
1019-21 Vacant	680	6.70	vacated 2/29/80	5,380	5,440	5,870	5,910	6,350
1022 Herb Walsh	171	8.00	12/1/79 - 11/30/80	1,420	1,490	1,490	1,540	1,600
1023-24 Dane Co. Advocate for Battered Women	331	7.20	8/1/79 - 7/31/80	2,610	2,640	2,840	2,900	3,070
Total-Tenth Floor	6890			\$50,370	\$51,570	\$53,540	\$55,120	\$57,780
Annual Totals for	74,054 sq. ft.			\$493,960	\$522,120	\$537,260	\$565,460	\$586,210

EXHIBIT 9 (Continued)

Notes to Schedule of Rental Revenues for the
Period of April 30, 1980 Through April 29, 1985

- ¹The annualized gross rental revenue for the period from April 30, 1980 through April 29, 1981 is consistent with the actual lease terms, if at market rents, as of April 30, 1980. Increases in rents are assumed to take place according to lease terms and conditions; an increase of 8 percent is used at lease renewal dates. This factor was taken from a survey of office rent increases in Class B buildings on and near the Capitol Square in Madison and is the current rate used by the Tenney Building manager.
- ²The annual rental market rate is given as of April 30, 1980. Only one tenant in Rooms 909-10 is considered to be below market rent at \$4.73/square foot; therefore the rent for this space is calculated at a market rate of \$6.00/square foot. Market rents are also imputed to spaces used by the building owner.
- ³Of the 87 rental space units in the Tenney Building as of April 30, 1980, there are 62 leases in place, but 54 of those terminate between 1980 and 1982. Only eight have leases that extend beyond April 30, 1982.
- ⁴The Leaf and Ladle Restaurant began its lease of 3500 sq. ft. of the first floor retail space on January 1, 1980. The restaurant had closed its door by October 1, 1980, and the remodeled space is once again on the market. The rental rate of \$9.00 with an annual escalator of 8% per year commencing in the second year is considered comparable for the area. A most probable investor might consider an escalator based upon a percentage of gross sales to encourage rental of this space if restaurant use is most likely; the projected revenues probably would not increase as rapidly as forecast.
- ⁵The state has given notice that it will vacate these spaces by June 30, 1980.

Schedule of Vacancies by Floor and by Lease Terms for
the Period of April 30, 1980 Through April 29, 1985

	Space Sq. Ft. ²	% Vacant	Annual Rental Rate Per. Sq. Ft.	# of Months Vacant	Projection Period				
					4/30/80- 4/29/81	4/30/81- 4/29/82	4/30/82- 4/29/83	4/30/83- 4/29/84	4/30/84- 4/29/85
Lower Level & Roof ¹									
B level - Vault	700	100	3.00	12	\$ 2,100				
	700	100	3.00	12		\$ 2,100			
	700	100	3.25	12			\$ 2,270		
	700	50	3.25	6				\$ 1,140	
	700	50	3.50	6					\$ 1,140
B Level									
Showroom and Office	4,000	100	3.00	12	12,000				
	4,000	100	3.00	6		6,000			
	4,000	50	3.25	6			3,250		
	4,000	50	3.25	6				3,250	
	4,000	50	3.50	3					1,750
A Level - Storage	400	100	7.00	6				1,400	
	400	100	7.50	9					2,250
Total - Lower Level					\$14,100	\$ 8,100	\$ 5,520	\$ 5,790	\$ 5,140
First Floor									
112 East Main	454	100	5.20	8		\$ 1,570			
	454	100	5.20	12			\$ 2,360		
	454	100	5.20	4				\$ 780	
114 East Main	1,000	100	5.20	8		3,480			
	1,000	50	5.20	12			2,600		
	1,000	50	5.20	4				860	
Leaf & Ladle	3,500	100	9.00	7	18,370				
	3,500	100	9.50	3		8,310			
	3,500	100	10.50	3				9,190	
	3,500	100	11.30	3					\$ 9,890
North Entry	2,000	100	9.00	9	13,500				
Total - First Floor					\$31,870	\$13,360	\$ 4,960	\$10,830	\$ 9,890

Schedule of Vacancies by Floor and by Lease Terms for
the Period of April 30, 1980 Through April 29, 1985

	Space Sq. Ft. ²	% Vacant	Annual Rental Rate Per Sq. Ft.	# of Months Vacant	Projection Period				
					4/30/80- 4/29/81	4/30/81- 4/29/82	4/30/82- 4/29/83	4/30/83- 4/29/84	4/30/84- 4/29/85
<u>Second Floor</u> ³									
201	150	100	6.50	12	\$ 900				
	150	100	6.50	12		\$ 900			
	150	100	7.00	12			\$ 1,050		
	150	100	7.00	12				\$ 1,050	
	150	100	7.60	12					\$ 1,140
202	600	100	6.70	6	2,010				
	600	50	7.20	12		2,160			
	600	50	7.20	12			2,160		
	600	50	7.80	6				1,170	
	600	50	7.80	3					580
203-4	543	100	6.20	12	3,370				
	543	50	6.70	12		1,820			
	543	50	6.70	12			1,820		
	543	50	6.70	9				1,360	
205-6	506	100	7.00	6	1,770				
	506	50	7.50	12		1,900			
	506	50	7.50	12			1,900		
	506	50	8.15	9				1,550	
	506	50	8.15	6					1,030
209-10	451	100	6.25	6	1,410				
	451	50	6.75	12		1,520			
	451	50	6.75	12			1,520		
	451	50	7.30	9				1,230	
215	415	100	6.75	12	2,800				
	415	100	7.30	6		1,510			
	415	100	7.30	3			760		
218-19	816	100	8.00	8				4,370	
	816	100	8.20	12					6,690
220-21	1,400	100	6.25	6	4,370				
	1,400	50	6.75	12		4,720			
	1,400	50	6.75	6			2,360		
	1,400	50	7.30	6				2,560	
Total - Second Floor					\$16,630	\$14,530	\$11,570	\$13,290	\$ 9,440

EXHIBIT 10 (Continued)

Schedule of Vacancies by Floor and by Lease Terms for
the Period of April 30, 1980 Through April 29, 1985

	Space Sq. Ft. ²	% Vacant	Annual Rental Rate Per Sq. Ft.	# of Months Vacant	Projection Period				
					4/30/80- 4/29/81	4/30/81- 4/29/82	4/30/82- 4/29/83	4/30/83- 4/29/84	4/30/84- 4/29/85
<u>Third Floor</u> ³									
301	150	100	5.75	12	\$ 860				
	150	100	5.75	12		\$ 860			
	150	100	6.20	12			\$ 930		
	150	100	6.20	12				\$ 930	
	150	100	6.70	12					\$ 1,000
302-3	1,179	100	5.75	6	3,390				
	1,179	50	6.20	12		3,650			
	1,179	50	6.20	12			3,650		
	1,179	50	6.70	6				3,950	
304	230	100	6.70	6	770				
	230	100	7.20	12		1,660			
	230	100	7.80	6					900
305-8	942	100	6.70	6	3,150				
	942	50	7.20	12		3,390			
	942	50	7.20	12			3,390		
	942	50	7.80	3					1,830
310-11	456	100	6.70	6	1,530				
	456	50	7.20	12		1,640			
	456	50	7.20	12			1,640		
312	234	100	5.75	12	1,340				
	234	100	6.20	12		1,450			
	234	100	6.20	12			1,450		
	234	100	6.70	12				1,570	
	234	100	6.70	12					1,570
315	731	100	6.70	4	1,610				
320-24	1,363	100	7.00	12	9,540				
	1,363	100	7.60	6		5,150			
Total - Third Floor					\$22,190	\$17,800	\$11,060	\$ 6,450	\$ 5,300

EXHIBIT 10 (Continued)

Schedule of Vacancies by Floor and by Lease Terms for
the Period of April 30, 1980 Through April 29, 1985

	Space Sq. Ft. ²	% Vacant	Annual Rental Rate Per Sq. Ft.	# of Months Vacant	Projection Period					
					4/30/80- 4/29/81	4/30/81- 4/29/82	4/30/82- 4/29/83	4/30/83- 4/29/84	4/30/84- 4/29/85	
<u>Fourth Floor</u>										
401	150	100	6.40	12	\$ 960					
	150	100	6.40	12		\$ 960				
	150	100	6.90	12			\$ 1,040			
	150	100	6.90	12				\$ 1,040		
	150	100	7.45	12					\$ 1,120	
412	202	100	6.40	12	1,290					
	202	100	6.40	12		1,290				
	202	100	6.90	12			1,400			
	202	100	6.90	12				1,400		
	202	100	7.40	12					1,500	
416-19	1,370	100	6.00	6	4,110					
	1,370	50	6.50	12		4,450				
	1,370	50	6.50	12			4,450			
	1,370	50	7.00	12				4,800		
	1,370	50	7.00	6					2,400	
420-20a	560	100	6.70	6	1,880					
	560	50	6.70	12		1,870				
	560	50	7.20	9			1,520			
Total - Fourth Floor					\$ 8,240	\$ 8,570	\$ 8,410	\$ 7,240	\$ 5,020	
<u>Fifth Floor</u>										
502	842	100	7.50	12	\$ 6,310					
	842	50	8.00	12		\$ 3,410				
	842	50	8.00	12			\$ 3,410			
	842	50	8.75	6				\$ 3,410		
520	555	100	7.70	6			2,130			
	555	50	7.80	12				2,160		
	555	50	8.90	9					\$ 1,850	
Total - Fifth Floor					\$ 6,310	\$ 3,410	\$ 5,540	\$ 5,570	\$ 1,850	

EXHIBIT 10 (Continued)

Schedule of Vacancies by Floor and by Lease Terms for
the Period of April 30, 1980 Through April 29, 1985

	Space Sq. Ft. ²	% Vacant	Annual Rental Rate Per Sq. Ft.	# of Months Vacant	Projection Period				
					4/30/80- 4/29/81	4/30/81- 4/29/82	4/30/82- 4/29/83	4/30/83- 4/29/84	4/30/84- 4/29/85
<u>Sixth Floor</u>									
601	150	100	6.70	12	\$ 1,000				
	150	100	6.70	12		\$ 1,000			
	150	100	7.20	9			\$ 810		
602-4	1,473	100	6.00	6	4,420				
	1,473	50	6.50	12		4,770			
	1,473	50	6.50	12			4,770		
	1,473	50	7.00	9				\$ 3,870	
	1,473	50	7.00	6					\$ 2,580
605	204	100	6.40	12	1,300				
	204	100	6.40	12		1,300			
	204	100	6.90	12			1,410		
	204	100	6.90	9				1,060	
617	250	100	7.75	4	640				
620-24	1,262	100	6.70	12	8,450				
	1,262	100	7.20	6		4,540			
	1,262	100	7.20	6			4,540		
	1,262	50	7.80	9				3,690	
Total - Sixth Floor					\$15,810	\$11,610	\$11,530	\$ 8,620	\$ 2,580
<u>Seventh Floor</u>									
No Vacancies Projected									
<u>Eighth Floor</u>									
801	150	100	7.00	10	\$ 880				
	150	100	7.00	12		\$ 1,050			
	150	100	7.50	6			\$ 560		
Total - Eighth Floor					\$ 880	\$ 1,050	\$ 560	0	0

EXHIBIT 10 (Continued)

Schedule of Vacancies by Floor and by Lease Terms for
the Period of April 30, 1980 Through April 29, 1985

	Space Sq. Ft. ²	% Vacant	Annual Rental Rate Per Sq. Ft.	/ of Months Vacant	Projection Period				
					4/30/80- 4/29/81	4/30/81- 4/29/82	4/30/82- 4/29/83	4/30/83- 4/29/84	4/30/84- 4/29/85
<u>Ninth Floor</u>									
909-10	700	100	6.50	6		\$ 2,280			
	700	100	7.00	6			\$ 2,440		
922-23	355	100	7.00	12			2,500		
	355	100	7.60	6				\$ 1,350	
Total - Ninth Floor					0	\$ 2,280	\$ 4,940	\$ 1,350	0
<u>Tenth Floor</u>									
1009-10	455	100	6.50	12	\$ 2,950				
	455	100	7.00	12		\$ 3,190			
	455	100	7.00	9			\$ 2,390		
1014	229	100	6.25	12	1,430				
	229	100	6.25	12		1,430			
	229	100	6.70	6				770	
1019-20	680	100	6.70	1	380				
Total - Tenth Floor					\$ 4,760	\$ 4,620	\$ 2,390	\$ 770	0
TENNEY BUILDING TOTALS⁴					<u>\$ 120,790</u>	<u>\$ 85,330</u>	<u>\$ 66,480</u>	<u>\$ 59,910</u>	<u>\$ 39,220</u>

EXHIBIT 10 (Continued):

Notes to Schedule of Vacancies by Floor and by Lease Terms
For the Period of April 30, 1980 Through April 29, 1985

- ¹The lower level space has a continued record of vacancy; it is assumed that until the space is made more marketable by remodeling, rents will not keep pace with the market. Uses other than a showroom for the 4000 sq. ft. will need to be explored; subdividing the larger space for office space and/or storage space are possibilities.
- ²It is assumed that the smaller office spaces from 200-500 square feet will experience less overall vacancy than the larger spaces. There appears to be a trend toward several small independent businessmen sharing a common secretarial staff; some of the larger vacant suites could be remodeled for this type of use.
- ³The second and third floors have the greatest amount of vacancy due to the exodus of State tenants. By the end of June, 1980, the State's move alone will cause 44% of the second floor vacancies; the third floor will experience a vacancy rate of 39.5% due to loss of State tenants; the State related vacancy rates on the fourth and sixth floors will be 29% and 21% respectively. A most probable buyer will have to anticipate a large capital investment in 1980 to remodel and refurbish the Building to make it competitive in the Class B office market that already has a large supply of space available on and near the Square.
- ⁴Vacancies are assumed to gradually decrease between 1981 and 1983; a most probable buyer will institute a vigorous marketing program which will involve research of space needs in the area and remodeling which will be targeted to those needs.

Schedule of Projected Revenues and Expenses From
April 30, 1980 Through April 29, 1985

	4/30/80- 4/29/81	4/30/81- 4/29/82	4/30/82- 4/29/83	4/30/83- 4/29/84	4/30/84- 4/29/85
Revenues:					
Gross Income	\$493,960	\$522,120	\$537,260	\$565,460	\$586,210
Less: Vacancies	(120,790) (24.5%)	(85,330) (16.3%)	(66,480) (12.4%)	(59,910) (10.6%)	(39,220) (6.7%)
Effective Gross	<u>373,170</u>	<u>436,790</u>	<u>470,780</u>	<u>505,550</u>	<u>546,990</u>
Parking Rentals	<u>12,960</u>	<u>12,960</u>	<u>12,960</u>	<u>14,000</u>	<u>14,000</u>
Total Revenues	\$386,130	\$449,750	\$483,740	\$519,550	\$560,990
Expenses:					
Accounting & Legal	4,200	4,640	5,120	5,650	6,240
Building Security ²	21,840	24,100	26,620	29,390	32,440
Insurance	7,000	7,730	8,530	9,420	10,400
Maintenance ³	28,850	31,850	35,160	38,820	42,860
Wage & Salaries	60,000	66,240	73,130	80,730	89,130
Payroll Taxes	11,500	12,700	14,020	15,470	17,080
Repairs	14,880	16,430	18,130	20,020	22,100
Telephone ⁴	1,600	1,770	1,950	2,150	2,380
Utilities	90,600	101,470	107,560	114,380	122,020
Office Expenses ⁵	7,040	7,520	8,250	8,840	9,690
Management ⁶	22,390	26,320	27,540	30,280	32,570
Concourse Special Assessment	<u>2,360</u>	<u>2,410</u>	<u>2,630</u>	<u>2,550</u>	<u>2,480</u>
Total Operating Expenses Before R.E. Taxes⁷	<u>(\$272,260)</u>	<u>(\$303,180)</u>	<u>(\$328,640)</u>	<u>(\$357,700)</u>	<u>(\$389,390)</u>
Net Operating Income Before R.E. Taxes	\$113,870	\$146,570	\$155,100	\$161,850	\$171,600
Real Estate Taxes⁸	<u>(26,680)</u>	<u>(28,000)</u>	<u>(29,400)</u>	<u>(30,880)</u>	<u>(32,420)</u>
Net Operating Income	\$ 87,190	\$118,570	\$125,700	\$130,970	\$139,180

EXHIBIT 10 (Continued)

Notes to Schedule of Projected Revenues and Expenses
From April 30, 1980 Through April 29, 1985

¹Expenses

In general, expenses are projected to increase according to the average annual change of 10.4% in the All Item Consumer Price Index over the past five years. (See amended Exhibit 27).

²Building Security

Security personnel is hired from 10 P.M. to 6 A.M. on weekdays with 24 hour coverage on the weekends. The building is open to the public from 6 A.M. to 6 P.M. each weekday. The continuing problems created by the presence of bars and adult entertainment places across the street make this security protection mandatory.

³Maintenance

This account includes an elevator maintenance contract at \$9,060 a year.

⁴Utilities

At present the Tenney Building consumes approximately 55,000 to 70,000 gallons of No. 2 fuel oil per year depending upon the weather. The cost of fuel has increased as follows:

January 12, 1979	.43/gallon
October 1, 1979	.77/gallon
February 1, 1980	.95/gallon

In thirteen months the cost has risen 121%. Though the Tenney Building is converting to natural gas on its primary boiler, the cost of natural gas is also volatile. Over the past five years natural gas has had an average annual increase of 17.6% for the commercial time-of-use consumer, according to Milton Spiros, Madison Gas & Electric Co.

The installation of combination storm windows throughout the building should help to conserve fuel costs. To stabilize utility costs it is assumed management will place energy cost escalators in renewed leases; therefore in the pro forma income statement utility costs are escalated at 12 percent annually with 50 percent of the increase passed through to the tenant after year 2.

⁵Office expenses include rental of space in the Tenney Building for management operations.

⁶Management costs are computed as 6% of effective gross office revenue with 4% allowed for management and 2% for leasing commissions for space turnover.

Notes to Schedule of Projected Revenues and Expenses
From April 30, 1980 Through April 29, 1985

⁷Total operating expenses are calculated before including real estate taxes for ease in using the MRCAP discounted cash flow program.

⁸Real estate taxes are calculated as 5.4% of gross revenues in the first year and increased at 5% per annum thereafter. These calculations are based on the following fact and assumptions:

1. The assessed value as of 1/1/80 is \$1,200,000.
2. The mill rate is assumed to increase slightly (approximately 1%) after several years of decrease.
3. Taxes will continue to increase due to inflated city budgets and decreasing state aids.

EXHIBIT 10 (Continued)

4. Conversion of Net Income to Present Value

The MRCAP program from the National EDUCARE library of programs, previously described, is used to convert net income to a present value after taxes as of April 30, 1980, for the Tenney Building at the end of a five-year holding period.

C. Assumptions Used in MRCAP

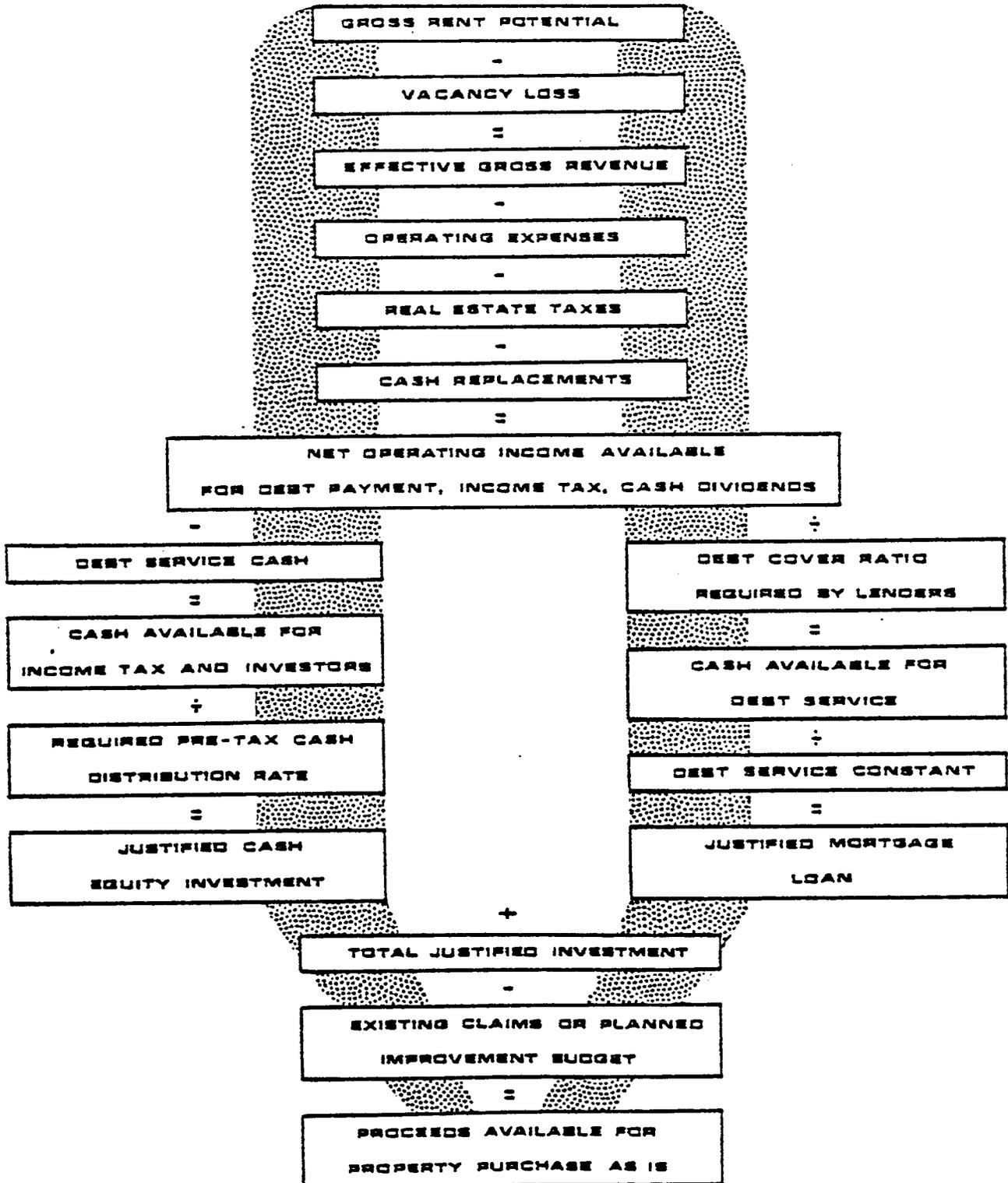
The MRCAP discounted cash flow program can solve for a justified project value by specifying the ratio of net income to debt service acceptable to an institutional mortgage lender. Given the interest rate and term available as of April 30, 1980, the program will solve for the justified amount of mortgage and for justified cash equity, assuming typical before-tax cash-on-cash investor requirements for office buildings, with potential for inflation sensitive rents. Exhibit 28 is a simplified flow chart depicting the steps in solving for the justified project budget.

On April 30, 1980, prudent lenders will require a minimum debt cover ratio of 1.3 and equity investors expect no less than 6 percent cash-on-cash.

1. Inputs into MRCAP Program

- a. Debt cover ratio = 1.3
- b. Before tax cash-on-cash requirements = 6%
- c. Project holding period = 5 years

REVENUE JUSTIFIED CAPITAL BUDGET DEBT COVER RATIO APPROACH



- d. Real estate taxes = historical pattern suggests real estate taxes at 5.4 percent of first year's gross with an annual inflation factor of 5 $\frac{1}{2}$ (see assumptions discussed below)
- e. Discount rate = 13% (present value factor used to discount cash flow)
- f. Reinvestment rate = 6% after tax rate applied to after tax cash flow
- g. Resale price = 10 times net operating income in year of sale
- h. Resale cost rate = 4%
- i. Working capital reserves from equity to cover one month's expenses = \$30,000
- j. Investor marginal income tax rate = 50%
- k. Land = \$340,000, as of most recent appraisal for IRS
- l. Buildings = 60% of total improvement value
- m. Mechanicals and site improvements = 40% of total improvement value
- n. Elevators = remaining book value of \$73,000
- o. Improvements for Energy Conservation = a total of \$54,000 which includes \$43,000 for storm windows and \$11,000 for natural gas conversion unit.
- p. Tenant Improvements = \$50,000 for carpeting and partitions as needed to upgrade vacant office space
- q. Investment Credit Dummy = to allow for tax benefit of investment credit in first year for capital improvement for energy conservation
- r. Mortgage = principal amount determined by debt cover ratio; interest rate a minimum of 12% with a 20-year term, paid monthly, on the first mortgage and 13% interest and an 8-year term for the second mortgage

EXHIBIT 11 (Continued)

2. Real Estate Tax Assumptions

Real estate taxes are a function of assessed value (or fair market value when assessed value is 100 percent of market value) and the net mill rate; therefore, real estate taxes are estimated as a function of gross rental income. During the past two years, real estate taxes have been between 5 percent and 6 percent of the Building's potential gross rental income. As a result of tests of several values between 5 percent and 6 percent, it is determined that 5.4 percent of gross rental revenues best represents the historical pattern of the Building's real estate taxes. MRCAP is programmed to use 5.4 percent of the first year's gross rental income to compute the first year's real estate taxes and then provides for a growth factor of 5 percent to increase the taxes each year thereafter.

D. Analysis of Test Results

Four runs of the MRCAP program were done using different assumptions about the amount of real estate taxes that would be paid on the subject property. Taxes and net mill rates for the past three years on the subject property have been:

<u>Year</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
<u>Real Estate Taxes</u>	\$33,118.75	\$29,951.95	\$25,340.93
<u>Net Mill Rate</u>	.026495	.024153	.022036

Real estate taxes estimated at various percentages of the first year's projected gross and inflated 5 percent a year gave these results in the MRCAP runs:

<u>Percentage of First Year's Gross Rental Revenue</u>	<u>Real Estate Taxes</u>				
	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
5.0	\$24,698	\$25,933	\$27,230	\$28,591	\$30,021
5.4	\$26,674	\$28,008	\$29,408	\$30,878	\$32,422
5.8	\$28,650	\$30,082	\$31,586	\$33,166	\$34,824
6.0	\$29,638	\$31,119	\$32,675	\$34,309	\$36,025

The real estate taxes estimated at 5.4 percent of the first year's gross rent best approximates the shift from a decreasing to an increasing net mill rate that can now be expected due to an anticipated decrease in state aids to cities. Rising costs of local government can be expected to be borne by the local taxpayer.

The input and output for the MRCAP program using real estate taxes estimated at 5.4 percent of gross rental revenue are found in Exhibit 29.

If taxes are a conservative 5.4 percent of gross rental revenue, MRCAP substantiates the fair market value of \$1,150,000 estimated by the market comparison approach to value.

EXHIBIT 12

MRCAP INPUT AND OUTPUT--
JUSTIFIED CAPITAL BUDGET WITH
REAL ESTATE TAXES AT 5.4% OF
FIRST YEAR'S GROSS RENT

MRCAP 09:49CST 12/20/80

ENTER INPUT FILE NAME?TENNEY

THE PROGRAM MRCAP IS THE PROPERTY OF
MICHAEL L. ROBBINS
C/O REAL ESTATE DYNAMICS INC.
4701 WINNEQUAH RD.
MONONA, WISC.

USER NO. 66

(608)-221-1120

NO REPRESENTATION IS MADE THAT THE ASSUMPTIONS OR
COMPUTATIONAL FORMAT USED IN THIS PROJECTION WILL
BE ACCEPTABLE TO TAXING AUTHORITIES.

*\$10.00 LIB CHG APPLIED

R E P O R T S E C T I O N N U M B E R 1 P A G E 1

* GROSS RENT	\$ 554378.	* RATE OF GROWTH OF GROSS RENT	0.0432
* EXPENSES	\$ 330234.	* RATE OF GROWTH OF EXPENSES	0.0936
* R E TAXES	\$ 29478.	* RATE OF GROWTH OF R E TAXES	0.0500
INCOME TAX RATE	0.5000	PROJECT VALUE GROWTH OF	2.0000
* VACANCY RATE	0.1375	WORKING CAPITAL LOAN RATE	0.1400
EQUITY DISCOUNT	0.1300	EXTRAORDINARY EXPENSES	\$ 0.
RESALE COST	0.0400	REINVESTMENT RATE	0.0600
WKG CAPITAL RS	\$ 30000.	CAPITAL RESER INTEREST RATE	0.
INITIAL COST	\$ 1091502.	INITIAL EQUITY REQUIRED	\$ 486009.

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

INITIAL COST DERIVED THROUGH BACKDOOR TYPE 3 USING 2 MORTGAGES

P R O F O R M A
 I N V E S T M E N T A N A L Y S I S O F
 B U I L D I N G
 F O R

R E P O R T S E C T I O N N U M B E R 2
 =====

PAGE 1

C O M P O N E N T S U M M A R Y

TITLE	PCT. DEPR	BEGIN USE	USEFUL LIFE	DEPR METHOD		COST	SCH
LAND	0.	1	25.	0	\$	340000.	0
BUILDING	0.80	1	29.	2	\$	338221.	0
HVAC	0.90	1	9.	2	\$	225481.	0
ELEVATORS	0.90	1	4.	2	\$	73000.	0
ENERGY CONSERVATION	0.90	1	5.	2	\$	54000.	0
TENANT IMPROVEMENTS	0.90	1	10.	4	\$	50000.	0
INVESTMENT CREDIT GU	1.00	1	1.	2	\$	10800.	0

M O R T G A G E S U M M A R Y

TITLE	INTR RATE	BEGIN YR.	END YR.	TERM		ORIG BALC	PCT VALUE
FIRST MORTGAGE	0.1200	1	20	20	\$	531493.	0.487
SECOND MORTGAGE	0.1300	1	3	8	\$	104000.	0.095

P R O F O R M A
 INVESTMENT ANALYSIS OF
 BUILDING
 FOR

REPORT SECTION NUMBER 5

PAGE 1

CASH FLOW ANALYSIS

	1980	1981	1982	1983	1984
1 GROSS INCOME	506920.	535080.	550220.	579460.	600210.
2 LESS VACANCY	120790.	85330.	63480.	59910.	59820.
3 LESS REAL ESTATE TAXES	26674.	28008.	29408.	30678.	32422.
4 LESS EXPENSES	272260.	303180.	328640.	357700.	389390.
5 NET INCOME	87196.	118562.	125692.	130972.	139178.
6 LESS DEPRECIATION	76323.	64398.	63442.	62629.	45513.
7 LESS INTEREST	76472.	74515.	72298.	69785.	66938.
8 TAXABLE INCOME	-65599.	-20351.	-10048.	-1443.	26726.
9 PLUS DEPRECIATION	76323.	64398.	63442.	62629.	45513.
10 LESS PRINCIPAL PAYMENTS	14730.	16687.	18904.	21417.	24263.
11 CASH THROW-OFF	-4006.	27361.	34490.	39770.	47976.
12 LESS TAXES	0.	0.	0.	0.	13363.
13 LESS RESERVES	0.	0.	0.	0.	0.
14 CASH FROM OPERATIONS	0.	27361.	34490.	39770.	34613.
15 WORKING CAPITAL LOAN	0.	0.	0.	0.	0.
16 DISTRIBUTABLE CASH AFR TAX	0.	27361.	34490.	39770.	34613.
17 TAX SAVING ON OTHER INCOME	32799.	10175.	5024.	721.	0.
18 SPENDABLE CASH AFTER TAX	32799.	37536.	39514.	40491.	34613.

EXHIBIT 12 (Continued)

MARKET VALUE & REVERSION

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CASH FLOW ANALYSIS

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	1980	1981	1982	1983	1984
19 END OF YEAR MARKET VALUE	871962.	1185625.	1256921.	1309717.	1391778.
20 LESS RESALE COST	34878.	47425.	50277.	52389.	55671.
21 LESS LOAN BALANCES	620764.	604077.	585173.	563756.	539493.
22 PLUS CUM. CASH RESERVES	25994.	25994.	25994.	25994.	25994.
23 BEFORE TAX NET WORTH	242314.	560117.	647466.	719566.	822508.
24 CAPITAL GAIN (IF SOLD)	-181096.	182544.	313511.	426719.	551596.
25 CAPITAL GAINS TAX	-36219.	36509.	62702.	85344.	110319.
26 MINIMUM PREF. TAX	0.	0.	0.	0.	0.
27 INCOME TAX ON EXCESS DEP.	1500.	2438.	2897.	2950.	2657.
28 TOTAL TAX ON SALE	-16610.	38946.	65599.	88294.	112977.
29 AFTER TAX NET WORTH	258924.	521171.	581867.	631273.	709632.

BEFORE TAX RATIO ANALYSIS

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CASH FLOW ANALYSIS

=====

	1980	1981	1982	1983	1984
30 RETURN ON NET WORTH B/4 TAX	-0.5014	1.4245	0.2175	0.1728	0.2099
31 CHANGE IN NET WORTH B/4 TAX	-243696.	317803.	87349.	72100.	103042.
32 ORIG EQUITY CASH RTNB/4 TAX	-0.0082	0.0563	0.0710	0.0818	0.0987
33 ORIG EQUITY PAYBACK B/4 TAX	0.0000	0.0563	0.1273	0.2091	0.2903
34 B/4 TAX PRESENT VALUE	846386.	1092030.	1126006.	1142995.	1174189.

AFTER TAX RATIO ANALYSIS

=====

CASH FLOW ANALYSIS

=====

	1980	1981	1982	1983	1984
35 RETURN ON NET WORTH AFR TAX	-0.3998	1.1578	0.1923	0.1545	0.1796
36 CHANGE IN NET WORTH AFR TAX	-227086.	262248.	60696.	49406.	78359.
37 ORIG EQUITY CASH RTNAFR TAX	0.0675	0.0772	0.0813	0.0833	0.0712
38 ORIG EQUITY PAYBACK AFR TAX	0.0675	0.1447	0.2260	0.3093	0.3806
39 AFTER TAX PRESENT VALUE	893655.	1102039.	1124561.	1133367.	<u>1150082.</u>

CASH FLOW ANALYSIS

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	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	0.7696	0.7394	0.3165	0.3260	0.3517

INPUT FILE

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 210 102..14.1..04.0
 220 103.0.30000.0.0
 230 200.1,ILAND
 240 201.1,340000.0.0
 250 202.1.1.25.0
 260 200.2,BUILDING
 270 201.2..60..80.2
 280 202.2.1.29.0
 290 200.3,HVAC
 300 201.3..40..90.2
 310 202.3,1,9.0
 320 200.4,ELEVATORS
 330 201.4.73000..90.2
 340 202.4.1,4,0
 350 200.5,ENERGY CONSERVATION
 360 201.5.54000..90.2
 370 202.5,1,5.0
 380 200.6.TENANT IMPROVEMENTS
 390 201.6.50000..90.4
 400 202.6,1,10.0
 410 200.7,INVESTMENT CREDIT DUMMY
 420 201.7,10800.1.0.2
 430 202.7,1,1.0
 440 300.1,FIRST MORTGAGE
 450 301.1.1.0..12.0.20
 460 302.1,12.1.20.0
 470 303.1.0.0.0,0
 480 300.2,SECOND MORTGAGE
 490 301.2.104000..13,0.8
 500 302.2,12,1.8.0
 510 303.2.0.0.0,0
 520 400.9
 530 403.99.1,2,3,4,5
 540 999.99

- D. Our firm makes heavy use of the backdoor approach on MRCAP for valuation. (See Exhibit 6.)

- VII. Because the client of the appraiser faces unique liabilities in the United States as a pension fund trustee (Employees Retirement Securities Act) or as a party to a partial sale of a real estate interest under the Securities Act of 1983, appraisal assignments are becoming the subject of highly detailed contract negotiations. These contracts specify appraisal content and method.
 - A. Example of contract with specified format for information contained (PMI Exhibit 13).
 - B. Example of contract controlling methods and assumptions (FARA Exhibit 14).
 - C. Appraisal reform is occurring because customers contract for it rather than because of leadership from the professional society.
 - D. After-tax cash flow models predominate for pension fund work where each lease is detailed (see Exhibit 15).
 - E. For example of application of income approach to best use decision, see example in Exhibit 16 for reuse of vacant tower structure.
 - F. Tower structure appraisal provided in Exhibit 17.
 - G. Creative financing of investment syndications or mortgage loan defaults leads to extensive discounting of nominal price to arrive at cash equivalent price presumed at fair market value.
 - 1. See Exhibit 18 for cash price of seller finance sale.
 - 2. See Exhibits 19 and 20 for examples of bank resale of distressed property.



**First Asset
Realty
Advisors**

First Bank Place
Minneapolis, MN 55480

APPRAISAL ENGAGEMENT LETTER

TO:

RE: Property Identification

Dear _____:

On behalf of First Asset Realty Advisors (FARA), we would like to engage your services for the appraisal of the above property to determine the fair market value of the legal interests owned by a Commingled Fund as of (date of appraisal). To that end and before accepting the assignment, the appraiser should consider the following requirements as to definition and procedure:

1. Fair market value shall be defined as the most probable price at which the property would sell to a knowledgeable buyer on a given date if placed on the market for a reasonable length of time by a well informed seller assuming:
 - a. Cash to the seller or cash plus debt owed or assumed by the buyer, where appropriate.
 - b. Fee title will be encumbered by leases in place and possible other covenants. Appraiser must indicate remaining market value of these other leasehold or non-possessory interests.
 - c. The appropriate exposure on the market has occurred prior to the date of sale.

2. Fee title may be encumbered by leases, mortgages, as well as possible conditional use permits and private covenants. FARA is obligated to provide access to all of the appropriate documents at the office of _____ located at _____ during normal business hours. The appraiser is expected to read the leases, mortgage instruments and other encumbrances and relate to them appropriately. If existing debt is assumable by another buyer, then the appraiser can value the sale as cash to the seller with the buyer accepting the mortgage(s) already in place if that would be consistent with the most probable buyer's self interest. Otherwise the trustees of the Commingled Fund management (FARA) are interested in a value which is the most probable cash price to the seller and with the buyer accepting the existing encumbrances in terms of leases and covenants, etc.

EXHIBIT 14 (Continued)

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3. When using the market comparison approach, the appraiser must document each comparable sale as to grantor, grantee, public record, plot plan and photograph as well as basic details of construction and existing encumbrances, terms of sale, and seller motivation. Buyer motivation is profiled as an assumption by the appraiser. All calculations necessary to adjust engineered prices to cash equivalencies must be documented and explained as well as any and all adjustments to relate the comparable price to the subject property must be itemized and explained so that the reader can repeat the mathematical adjustments.
4. The income approach must use discounted cash flow from a ten-year forecast (and your own forecast, if different) in which all the property's existing leases are detailed individually. The rationale for roll-over vacancies, absorptions, and expense projections must be itemized with a series of footnotes in the manner of a fully detailed accounting income and balance sheet statement. Income projections should account for current market lease rates with explanations of all assumptions used. Normalized income methods including investment bond, Ellwood or net income multipliers are not acceptable.
5. The appraiser must document his opinion as to the appropriate discount rate applied to each segment of the cash throw-off and after tax cash flow as appropriate, together with financing terms assumed.
6. A cost approach based upon a responsible service or professional should be supplied with the initial appraisal. If it is not used in the final valuation, then a discussion on why it is not used is required. The appraiser is expected to carefully inspect the property and report his own independent views on the quality of maintenance, deferred maintenance, and tenant housekeeping.
7. The appraiser is regarded as the eyes and property inspector of FARA. To put the property in context, the appraiser must supply a separate market analysis section to include current market conditions, an evaluation of projects which are competitive alternatives in the market area of the appraiser, an indication of rent structures, vacancy and absorption rates, and in the case of a new building, some indication as to rentup success and source of tenants. Wherever possible, the appraiser is to indicate the ownership and character of investment position in competitive properties and the property management or leasing term involved with each. The appraiser should include in his market analysis section an evaluation of the future projected market conditions over the ten-year holding period.

Following the initial appraisal at the time of acquisition, the appraiser will be asked to submit a letter of review 180 days after the date of the original appraisal indicating if he would modify any of his critical

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assumptions at that time and, if so, indicating how this might affect his original value estimate as a specific dollar adjustment, up or down.

At the end of 360 days, the appraiser would be expected to perform a thorough review of his original appraisal, specifically focusing on the market approach (item 3), adjustments indicated for the income approach (items 4 and 5), and additions and amendments to market data (item 7). Aside from the specific instructions provided in paragraphs 1-7 above, it is anticipated that all work will be done according to the standards of the American Institute of Real Estate Appraisers, and it is further understood that the client for whom the appraisal is done for purposes of professional accountability is both First Asset Realty Advisors, Inc., and its operations agent, The Center Companies of Minneapolis, Minnesota. Purpose of the appraisal is to meet the asset valuation requirements of an open-ended, commingled real estate fund suitable for investment by pension fund programs subject to ERISA.

Please return both copies of this letter together with an indication of your fee for the appraisal services above by (date) with a separate quote for the initial appraisal, the 180 day review, and a 360 day reappraisal and an estimate of the date the appraisal will be completed. If this is your first assignment for FARA, please include a sample of your work, preferably of a similar property, in which you have provided for the necessary cash flow projections.

Yours very truly,

Rent Roll and Lease Summaries
June 30, 1982

Space No.	Tenant	No. of Twin City Stores	Tenant Rating	G.L.A. Sq. Ft.	Lease Term From	To	Year	Base Rental	Base Rental/Sq. Ft.	% Rent Formula	/Sq. Ft.
14.	Total Sports	3	National	10,000	11/1/78	1/11/94	15 yrs. Yr. 1-3 3 mos. Yr. 4-7 Yr. 8-10 Yr. 11-15	\$50,000 \$60,000 \$70,000 \$80,000	\$5.00 \$6.00 \$7.00 \$8.00	4% over \$1,250,000 4% over \$1,500,000 4% over \$1,750,000 4% over \$3,000,000	(\$125) (\$150) (\$175) (\$200)
17.	Oriental Arts, Inc.	1	Local	1,066	2/1/81	1/31/83	2 yrs. Yr. 1 Yr. 2	\$ 8,925 \$ 9,975	\$8.37 \$9.35	6% over \$148,750 1% over \$161,250	(\$140) (\$151)
18.	Unassigned	--	--	(1,232)	--	--	--	\$ 9,856	\$8.00	1% over \$166,250 6% over \$164,267	(\$156) (\$133)
19.	Unassigned	--	--	(449)	--	--	--	\$ 7,000	\$15.59	10% over \$70,000	(\$156)
20.	Unassigned	--	--	(873)	--	--	--	\$12,000	\$13.75	5% over \$70,000	(\$275)
21.	Photomill (3)	5	Local	1,536	10/1/78	1/31/89	10 yrs. Yr. 1-3 3 mos. Yr. 4-7 Yr. 8-10	\$ 6,144 \$12,288 \$18,432	\$4.00 \$8.00 \$12.00	6% over \$102,400 6% over \$204,800 6% over \$307,200	(\$671) (\$133) (\$200)
22.	Urrah	8	National	1,632	2/1/79	1/31/89	10 yrs. --	\$11,424	\$7.00	6% over \$190,400	(\$177)
23.		24	Reg.	4,966	11/1/78	1/31/94	15 yrs. -- 3 mos.	\$32,279	\$6.50	6% over \$537,983	(\$108)
24.	Great	5	National	1,037	10/1/78	1/31/84	5 yrs. Yr. 1 3 mos. Yr. 2-5	\$10,000 \$15,000	\$9.64 \$14.46	8% over \$125,000 8% over \$187,500	(\$121) (\$181)
25.	The Book Center	1	Reg.	1,201	6/1/79	1/31/87	7 yrs. Yr. 1-2 8 mos. Yr. 3-8	\$ 9,608 \$12,010	\$8.00 \$10.00	6% over \$160,133 6% over \$200,167	(\$100) (\$167)
27.	Imports	1	Local	788	12/1/80	1/31/84	3 yrs. -- 2 mos.	\$10,200	\$12.00	6% over \$170,000	(\$261)
Total				66,142							

(3) Assigned to Photomill as of April 1, 1981

Rental Summary

	G.L.A. - S.F.
Leased Space	56,364 (85.2%)
Unassigned Space	9,778 (14.8%)
Totals	66,142 (100.0%)

Exhibit 15

H A L L

Tenant by Tenant Base Rent Projections
Including Lease Step-ups (1), and Reletting Activity (2)

Space No.	Tenant	Area Sq. Ft.	1982 6 mos.	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992 6 mos.
1.	Footwear	5,745	\$ 19,964	\$ 39,927	\$ 39,927	\$ 39,927	\$ 39,927	\$ 45,816	\$ 51,705	\$ 51,705	\$ 51,705	\$ 51,705	\$ 25,835
2.	Fabric	10,179	\$ 27,993	\$ 55,985	\$ 55,985	\$ 55,985	\$ 55,985	\$ 55,985	\$ 55,985	\$ 55,985	\$ 55,985	\$ 55,985	\$ 27,993
3.	Unassigned	813	\$ 3,862	\$ 7,724	\$ 7,724	\$ 7,724	\$ 7,724	\$ 7,724	\$ 9,858	\$ 9,858	\$ 9,858	\$ 9,858	\$ 4,929
4.	Cedrica	1,586	\$ 5,155	\$ 10,309	\$ 11,895	\$ 11,895	\$ 11,895	\$ 11,895	\$ 11,895	\$ 18,083	\$ 18,083	\$ 18,083	\$ 9,042
5.	Unassigned	2,100	\$ 7,875	\$ 15,750	\$ 15,750	\$ 15,750	\$ 15,750	\$ 20,101	\$ 20,101	\$ 20,101	\$ 20,101	\$ 20,101	\$ 12,827
6.	Unassigned	4,288	\$ 11,528	\$ 23,056	\$ 23,056	\$ 23,056	\$ 23,056	\$ 30,897	\$ 30,897	\$ 30,897	\$ 30,897	\$ 30,897	\$ 19,717
7.	Northwestern Book	5,495	\$ 13,738	\$ 27,475	\$ 27,475	\$ 27,475	\$ 33,068	\$ 38,660	\$ 38,660	\$ 38,660	\$ 38,660	\$ 38,660	\$ 24,670
8.	Body Shoppe	1,795	\$ 14,360	\$ 14,360	\$ 17,950	\$ 17,950	\$ 17,950	\$ 20,635	\$ 20,635	\$ 20,635	\$ 20,635	\$ 20,635	\$ 13,238
9.	Richards	1,612	\$ 6,045	\$ 12,090	\$ 12,090	\$ 12,090	\$ 15,430	\$ 15,430	\$ 15,430	\$ 15,430	\$ 15,430	\$ 19,693	\$ 9,846
10.	Unassigned	1,255	\$ 4,993	\$ 8,785	\$ 8,785	\$ 8,785	\$ 8,785	\$ 11,772	\$ 11,772	\$ 11,772	\$ 11,772	\$ 11,772	\$ 7,512
11.	House of Large Sizes	1,332	\$ 4,329	\$ 8,658	\$ 9,990	\$ 9,990	\$ 9,990	\$ 9,990	\$ 9,990	\$ 11,322	\$ 11,322	\$ 11,322	\$ 5,661
12.	Video	2,186	\$ 8,744	\$ 17,488	\$ 19,674	\$ 19,674	\$ 19,674	\$ 26,365	\$ 26,365	\$ 26,365	\$ 26,365	\$ 26,365	\$ 16,824
13.	Pizza	2,976	\$ 8,793	\$ 17,586	\$ 17,586	\$ 20,832	\$ 20,832	\$ 20,832	\$ 20,832	\$ 20,832	\$ 20,832	\$ 33,856	\$ 16,928
14.	Total Sports	10,000	\$ 30,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 70,000	\$ 70,000	\$ 70,000	\$ 80,000	\$ 80,000	\$ 80,000	\$ 40,000
17.	Oriental	1,066	\$ 4,988	\$ 10,412	\$ 10,412	\$ 10,412	\$ 10,412	\$ 10,412	\$ 13,290	\$ 13,290	\$ 13,290	\$ 13,290	\$ 6,645
18.	Unassigned	1,232	\$ 4,928	\$ 9,856	\$ 9,856	\$ 9,856	\$ 9,856	\$ 13,208	\$ 13,208	\$ 13,208	\$ 13,208	\$ 13,208	\$ 8,428
19.	Shirt	449	\$ 3,500	\$ 7,000	\$ 8,934	\$ 8,934	\$ 8,934	\$ 8,934	\$ 8,934	\$ 11,402	\$ 11,402	\$ 11,402	\$ 5,701

EXHIBIT 15 (Continued)

M A L L

Tenant by Tenant Base Rent Projections
Including Lease Step-ups (1) and Relletting Activity (2)

Space No.	Tenant	Area Sq. Ft.	1982 6 mos.	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992 6 mos.
20.	Diamond Center	873	\$ 6,000	\$ 12,000	\$ 12,000	\$ 12,000	\$ 16,885	\$ 16,885	\$ 16,885	\$ 16,885	\$ 16,885	\$ 23,759	\$ 11,880
21.	Photomall	1,536	\$ 6,144	\$ 12,288	\$ 12,288	\$ 12,288	\$ 12,288	\$ 18,432	\$ 18,432	\$ 20,016	\$ 20,016	\$ 20,016	\$ 10,008
22.	Hurrah	1,632	\$ 5,712	\$ 11,424	\$ 11,424	\$ 11,424	\$ 11,424	\$ 11,424	\$ 11,424	\$ 18,608	\$ 18,608	\$ 18,608	\$ 9,304
23.		4,966	\$ 16,140	\$ 32,279	\$ 32,279	\$ 32,279	\$ 32,279	\$ 32,279	\$ 32,279	\$ 32,279	\$ 32,279	\$ 32,279	\$ 16,140
24.	Great	1,037	\$ 7,500	\$ 15,000	\$ 17,868	\$ 17,868	\$ 17,868	\$ 17,868	\$ 17,868	\$ 22,804	\$ 22,804	\$ 22,804	\$ 11,400
25.	Book Center	1,201	\$ 6,005	\$ 12,010	\$ 12,010	\$ 12,010	\$ 12,010	\$ 18,347	\$ 18,347	\$ 18,347	\$ 18,347	\$ 18,347	\$ 11,700
27.	Imports	788	\$ 5,100	\$ 10,200	\$ 11,807	\$ 11,807	\$ 11,807	\$ 11,807	\$ 11,807	\$ 13,669	\$ 13,669	\$ 13,669	\$ 6,835
		66,142	\$233,396	\$451,662	\$466,765	\$470,011	\$493,829	\$545,698	\$556,599	\$592,153	\$592,153	\$616,314	\$333,063

- (1) Most lease anniversaries end 1/31 of any particular year. For cash flow projection purposes, we've assumed lease anniversary dates to be 12/31 of the preceding year. No material change results from this minor timing adjustment.
- (2) Reret rental rates assume a 5% annual growth over the average rent currently generated from the existing tenant.

EXHIBIT 15 (Continued)

H A L L

2 Rent Computations

<u>Tenant</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
Fabrica	540	--	622	3,192	5,967	8,965	7,703	11,198	14,975	19,052	23,546
Northwestern Book	--	--	--	551	1,396	--	--	--	2,500	5,813	--
Pizza	--	--	1,309	--	1,207	2,971	4,875	6,931	--	--	1,119
House of Large Sizes	--	--	--	--	--	578	1,424	2,337	1,991	3,056	4,206
Ikurrah	--	--	707	1,678	2,726	3,858	5,081	--	643	2,183	3,846
	--	--	1,793	4,518	7,462	10,642	14,075	17,784	21,789	26,114	30,785
Great	3,420	4,894	3,617	5,337	7,193	9,197	11,363	13,701	16,227	18,955	22,296

EXHIBIT 15 (Continued)

H A I. I.

	7/1 to 12/31 1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1/1 to 6/30 1992
Revenues											
Base Rents (1)	\$233,396	\$451,662	\$466,765	\$470,011	\$493,829	\$545,698	\$556,599	\$592,153	\$ 592,153	\$ 616,314	\$ 333,063
Ground Rent (2)	\$ 14,453	\$ 28,907	\$ 28,907	\$ 33,243	\$ 33,243	\$ 33,243	\$ 38,229	\$ 38,229	\$ 38,229	\$ 43,964	\$ 21,982
Lease Rent (3)	\$ 10,593	\$ 13,660	\$ 19,116	\$ 28,830	\$ 34,046	\$ 47,074	\$ 58,515	\$ 67,783	\$ 77,572	\$ 98,565	\$ 56,681
Real Estate Tax Recovery (4)	\$ 69,741	\$115,300	\$121,400	\$133,000	\$139,800	\$146,300	\$157,300	\$165,200	\$ 173,300	\$ 182,000	\$ 95,600
Recovered Exp. (5)	\$ 45,310	\$ 95,100	\$ 99,800	\$104,800	\$110,000	\$115,600	\$121,300	\$127,400	\$ 133,700	\$ 140,400	\$ 73,700
Total Gross Revenue	\$373,493	\$704,629	\$735,988	\$769,884	\$810,918	\$887,915	\$931,943	\$990,765	\$1,014,954	\$1,081,243	\$ 581,026
Less Vacancy (6)	\$ 43,935	\$ 59,307	\$ 61,775	\$ 42,564	\$ 44,889	\$ 50,081	\$ 39,200	\$ 41,900	\$ 44,500	\$ 45,500	\$ 24,700
Percentage	(17%)	(12%)	(12%)	(8%)	(8%)	(8%)	(6%)	(6%)	(6%)	(6%)	(6%)
Effective Gross Revenue	\$329,558	\$645,322	\$674,213	\$727,318	\$766,029	\$837,834	\$892,743	\$948,865	\$ 970,454	\$1,035,743	\$ 556,326
Expenses											
Real Estate Taxes (7)	\$ 84,000*	\$153,000**	\$138,000	\$144,500	\$152,000	\$159,000	\$167,300	\$175,700	\$ 184,400	\$ 193,700	\$ 101,700
Recoverable Exp. (8)	\$ 39,400	\$ 82,700	\$ 86,800	\$ 91,100	\$ 95,700	\$100,500	\$105,500	\$110,800	\$ 116,300	\$ 122,100	\$ 64,100
Mgmt. (5%) (9)	\$ 12,900	\$ 24,700	\$ 25,700	\$ 26,600	\$ 28,000	\$ 31,300	\$ 32,700	\$ 34,500	\$ 35,400	\$ 37,900	\$ 20,600
Reserves for Tenant Work (12)	0	\$ 3,300	\$ 1,500	0	\$ 6,700	\$ 4,600	\$ 800	\$ 6,600	0	\$ 3,200	\$ 7,500
Reserves for Repairs (10)	\$ 3,500	\$ 7,300	\$ 7,700	\$ 8,100	\$ 8,400	\$ 8,900	\$ 9,300	\$ 9,800	\$ 10,300	\$ 10,800	\$ 17,500
Leasing Fees (11)	0	\$ 10,300	\$ 4,500	0	\$ 20,800	\$ 14,200	\$ 2,200	\$ 19,700	0	\$ 9,000	\$ 21,200
Total Expenses	\$139,800	\$281,300	\$264,200	\$270,200	\$311,600	\$318,500	\$317,800	\$357,500	\$ 346,400	\$ 376,700	\$ 232,600
Net Operating Income	\$189,758	\$364,022	\$410,013	\$457,118	\$454,429	\$519,334	\$574,943	\$591,365	\$ 624,054	\$ 659,043	\$ 323,726

* Includes specials of \$21,604.82

** Includes specials of \$22,000.00

EXHIBIT 15 (Continued)

1982 RECOVERABLE EXPENSES ANNUALIZEDFor Mall

Recoverable expenses for 1982 are shown below in the 1982 annualized budget:

Recoverable Expenses

Insurance		\$ 8,400
Utilities		
Electric	\$19,900	
Water and Sewer	\$ 3,200	
Gas	<u>\$ 3,200</u>	
		\$26,300
Maintenance Services		
Snow Removal	\$10,500	
Janitorial	\$12,600	
Parking Lot Sweep	\$ 3,000	
Trash	\$ 400	
Rodent Control	\$ 1,100	
Landscaping	\$ 3,800	
Mall Music	<u>\$ 300</u>	
		\$31,700
Overload Security		\$ 1,300
Supplies		
Maintenance	\$ 3,000	
Electric	\$ 600	
Landscaping	<u>\$ 1,300</u>	
		\$ 4,900
Repairs		
Electricity	\$ 3,100	
Equipment	\$ 2,500	
Plumbing	<u>\$ 600</u>	
		<u>\$ 6,200</u>
TOTAL RECOVERABLES		\$78,800

Recoverable expenses have been increased at 5% per year, compounded.

EXHIBIT 15 (Continued)

BASIC ASSUMPTIONS TO CASH FLOW PROJECTIONSRevenues

1. In completing the financial analysis, we projected a ten-year (from July 1, 1982 to July 1, 1992) cash flow projection. Rental revenues are based upon actual leases giving full recognition to all step-up rental provisions. For vacant space, economic rents were estimated based upon rent levels at competitive properties. Upon reletting, rental rates are projected as increasing 5% per year over current levels. A five-year term was assumed for all new leases.
2. The ground rent is adjusted according to the CPI change for all cities every three years. For example, the 1982 rent is based upon the CPI change from February 1978 to February 1981 (see Exhibit D in addenda). A 5% annual rate of inflation is assumed for each subsequent rental adjustment.
3. For tenants in occupancy for a year or more, historical sales were used as a benchmark for projected sales. For tenants, the calendar years 1982 through 1992 sales volumes were escalated at 8% per year. Percentage rent was calculated on a tenant-by-tenant and year-by-year basis using the percentage rent formula outlined in each lease.
4. The standard lease provides for all tenants to pay their pro-rata share of taxes. Since the projected vacancy allowance varies, tenant reimbursement is as follows:

	<u>Vacancy</u>	<u>Tax Reimbursement</u>
1982 (6 mos)	17	83%
1983-84	12	88%
1984-87	8	92%
1988-91	6	94%

5. The standard lease provides for 100% of all recoverable expenses to be reimbursed to the landlord by the tenants, collectively. Unlike the tax clause, the pro-rata share each tenant contributes is allocated between the gross leased and occupied space; consequently 100% of all recoverable expenses are paid collectively by the existing tenants. A 15% administrative charge is added to all reimbursable expenses (per the leases). Furthermore, based upon experience, 75% of the "Reserves for Structural Repairs" are reimbursable expenses.
6. A discussion for vacancy allowance is detailed in Item #4.

EXHIBIT 15 (Continued)

Basic Assumptions to Cash Flow Projections - ContinuedExpenses

7. Real estate taxes for 1982 are detailed on page 1 of this report. For 1983 and thereafter, taxes have been escalated at a 5% annual rate of increase.

Finally, in 1982 about \$43,000 of special assessments will be billed to Burnhaven, including interest payable at 8%. Approximately one-half of the \$43,000 is to be paid in 1982 and the balance in 1983 as scheduled in the cash flow projection.

8. Recoverable expenses for 1982 are shown in the 1982 annualized budget on the following page.
9. Property management expense is 5% of base, ground and percentage rents.
10. As per our discussions with _____ properties, reserves for structural repairs are estimated at \$.10 per square foot for the first three years and are increased at 5% per year thereafter.
11. For 1982, leasing fees are \$2.25 per square foot of leased space. The fee is increased 5% per year, consistent with the increase in base rents. Leasing fees are expensed in the year incurred.
12. According to _____ properties, tenant work is minimal for this type of mall. The cost is estimated at \$.70 per square foot for 1982 and escalated at 8% per year thereafter. Tenant work is expensed in the year incurred.

Discounted Cash Flow Analysis - Continued

		<u>Annual Cash Flow</u>		<u>Discount @ 17%</u>		<u>Present Worth</u>
Last 6 mos.	1982	\$ 189,758	x	.924500	=	\$ 175,431
	1983	\$ 364,022	x	.790171	=	\$ 287,640
	1984	\$ 410,013	x	.675360	=	\$ 276,906
	1985	\$ 457,118	x	.577230	=	\$ 263,862
	1986	\$ 454,429	x	.493359	=	\$ 224,197
	1987	\$ 579,334	x	.421674	=	\$ 244,290
	1988	\$ 574,943	x	.360405	=	\$ 207,212
	1989	\$ 591,365	x	.308039	=	\$ 182,163
	1990	\$ 624,054	x	.263281	=	\$ 164,302
	1991	\$ 659,043	x	.225026	=	\$ 148,302
1st 6 mos.	1992	\$ 323,726	x	.208037	=	\$ 67,347
	*Rev.	\$4,839,000	x	.208037	=	<u>\$1,006,000</u>
						\$3,247,652
						Rounded to
						\$3,200,000

* Projected 1992 Resale Price

The 1992 resale price was estimated by adding the last six months income of 1991 and the first six months income of 1992 and capitalizing the total income at 13-1/2%.

\$329,522	-	1991 (last six months)	
<u>\$323,726</u>	-	1992 (first six months)	
\$553,248	-	Capitalized @ 13-1/2%	\$4,838,866
		Estimated 1992 Sale Price	\$4,838,900

V A L T E S T

A DEMONSTRATION PACKET

**PREPARED BY
LANDMARK RESEARCH, INC.
MADISON, WISCONSIN**

**PREPARED FOR
THE REAL ESTATE ANALYSTS NORTHSTAR USERS GROUP**

**SEPTEMBER 24 AND 25, 1982
COSTA MESA, CALIFORNIA**

VALTEST

DEMONSTRATION 1

INPUT ASSUMPTIONS

1. ENTER PROJECT NAME ? J
 2. ENTER PROJECTION PERIOD ? 5
 3. DO YOU WANT TO ENTER EFFECTIVE GROSS REVENUE INSTEAD OF NOI? N
TO REPEAT PREVIOUS YEAR'S NOI/EGR FOR BAL OF PROJECTION ENTER 0
N.O.I. YEAR 1? 5000
N.O.I. YEAR 2? 5000
N.O.I. YEAR 3? 6000
N.O.I. YEAR 4? 6000
N.O.I. YEAR 5? 7000
 4. ACQUISITION COST: ? 50000
 5. DO YOU WANT TO USE STANDARD FINANCING? Y OR N? Y
MTG. RATIO OR AMOUNT, INT., TERM, NO PAY/YR ? .8, .12, 25, 12
 6. ENTER RATIO OF IMP #1/TOTAL VALUE, LIFE OF IMP #1? .8, 15
IS THERE A SECOND IMPROVEMENT? Y OR N? N
 7. DEPRECIATION METHOD, IMPROVEMENT #1 ? 2
ENTER D.B. 2: ? 175
IS PROPERTY SUBSIDIZED HOUSING ? Y OR N ? N
IS PROPERTY RESIDENTIAL? Y OR N? Y
 8. IS OWNER A TAXABLE CORPORATION? Y OR N ? Y
CORPORATE FEDERAL ORDINARY TAX RATE COULD BE :
17% - 46% (1978 LAW, EFFECTIVE 1979)
16% - 46% (1981 LAW, EFFECTIVE 1982)
15% - 46% (1981 LAW, EFFECTIVE 1983 & THEREAFTER)
MAXIMUM CORPORATE CAPITAL GAIN ALTERNATIVE TAX RATE IS 28%

(PLUS STATE RATE)
- ENTER:
- 1) EFFECTIVE ORDINARY RATE 2) EFFECTIVE ORDINARY RATE (YEAR OF SALE)
? .46, .46
 9. RESALE PRICE (NET OF SALE COSTS) ? 60000
 10. IS THERE LENDER PARTICIPATION ? N
 11. ENTER OWNER'S AFTER TAX REINVESTMENT RATE (%)? 9
 12. ENTER OWNER'S AFTER TAX OPPORTUNITY COST OF EQUITY FUNDS (%)? 9

DEMONSTRATION 1 (Cont.)

AFTER TAX CASH FLOW PROJECTION

DATE 9/14/82

DATA SUMMARY

ACQUISTN COST: \$50,000. MTG. AMT.: \$40,000.
 NOI 1ST YR: \$5,000. MTG. INT.: 12%
 ORG. EQUITY: \$10,000. MTG. TERM: 25. YRS
 CTD 1ST YEAR: \$-55. DEBT SERVICE 1ST YEAR: \$5,055.
 MTG. CONST.: .1263869
 IMP. #1 VALUE: \$40,000. IMP. #1 LIFE: 15.
 INC. TX RATE: 46%
 SALE YR RATE: 46% OWNER: CORPORATION

DEPRECIATION IMPROVEMENT #1 : 175% D.B.
 RESIDENTIAL PROPERTY

LENDER PARTICIPATION: CASH THROW-OFF: NONE REVERSION: NONE

NO REPRESENTATION IS MADE THAT THE ASSUMPTIONS PROVIDED BY JEAN
 ARE PROPER OR THAT THE CURRENT TAX ESTIMATES USED IN THIS
 PROJECTION WILL BE ACCEPTABLE TO TAXING AUTHORITIES. NO ESTIMATE
 HAS BEEN MADE OF MINIMUM PREFERENCE TAX. CAPITAL LOSSES IN YEAR OF
 SALE ARE TREATED AS ORDINARY LOSSES (SECTION 1231 PROPERTY) AND
 ARE CREDITED AGAINST TAXES PAID AT THE
 ORDINARY RATE AT THE TIME OF SALE.
 FOR THE PURPOSE OF THE MODIFIED INTERNAL RATE OF RETURN (M.I.R.R.)
 CALCULATION, NEGATIVE CASH IN ANY ONE PERIOD IS COVERED
 BY A CONTRIBUTION FROM EQUITY IN THAT PERIOD

YEAR	NOI	MTG INT & LENDERS %	TAX DEP	TAXABLE INCOME	INCOME TAX	AFTER TAX CASH FLOW
1.	5000.	4785.	4667.	-4453.	-2049.	1994.
2.	5000.	4751.	4122.	-3874.	-1783.	1728.
3.	6000.	4713.	3641.	-2355.	-1084.	2029.
4.	6000.	4669.	3216.	-1857.	-869.	1814.
5.	7000.	4626.	2841.	-462.	-214.	2159.
	\$29000.	\$23539.	\$18488.	\$-13031.	\$-5999.	\$9722.

EXHIBIT 16 (Continued)

DEMONSTRATION 1 (Cont.)

RESALE PRICE:	\$60,000.	1ST YR B4 TAX EQ DIV:	-.5548%
LESS MORTGAGE BALANCE:	\$38,261.	AVG DEBT COVER RATIO:	1.1473
PROCEEDS BEFORE TAXES:	\$21,739.		
LESS LENDER'S %:	\$0.		
NET SALES PROCEEDS BEFORE TAXES:	\$21,739.		

RESALE PRICE:	\$60,000.
LESS LENDER'S %:	\$0.
NET RESALE PRICE:	\$60,000.
LESS BASIS:	\$31,512.
TOTAL GAIN:	\$28,488.
EXCESS DEPRECIATION:	\$5,155.
CAPITAL GAIN:	\$23,333.
ORDINARY GAIN:	\$5,155.

TAX ON ORDINARY GAIN:	\$2,371.
TAX ON CAPITAL GAIN:	\$6,533.
PLUS MORTGAGE BAL:	\$38,261.
TOTAL DEDUCTIONS FROM NET RESALE PRICE:	\$47,166.

NET SALES PROCEEDS AFTER TAX:	\$12,834.
----------------------------------	-----------

IF PURCHASED AS ABOVE, HELD 5 YEARS & SOLD FOR \$60,000.
 THE MODIFIED I.R.R. BEFORE TAXES IS 20.6487% AND AFTER TAXES IS 19.5605%
 ASSUMING AN AFTER TAX REINVESTMENT RATE OF 9%, AND OPPORTUNITY COST OF 9%

EXHIBIT 16 (Continued)
DEMONSTRATION 1 (Cont.)

MORTGAGE ANALYSIS

J

YEAR	NOI	MORT INT.	MORT AMORT	DEBT SERV	DCR	MTG. BAL.
1.	5000.	4785.	270.	5055.	.989	39730.
2.	5000.	4751.	304.	5055.	.989	39426.
3.	6000.	4713.	343.	5055.	1.187	39083.
4.	6000.	4669.	386.	5055.	1.187	38697.
5.	7000.	4620.	435.	5055.	1.385	38261.
AVG	\$5,800.				1.147	

DISTRIBUTION OF CASH THROW-OFF

J

YEAR	CASH THROW-OFF TOTAL	CASH THROW-OFF TO EQUITY	CASH BONUS TO LENDER
1.	-55.	-55.	0.
2.	-55.	-55.	0.
3.	945.	945.	0.
4.	945.	945.	0.
5.	1945.	1945.	0.
	----- 3723.	----- 3723.	----- 0.

RESALE PRICE:	\$60,000.
LESS MORTGAGE BALANCE:	\$38,261.
PROCEEDS BEFORE TAXES:	\$21,739.
LESS LENDER'S %:	\$0.
NET SALES PROCEEDS BEFORE TAXES:	\$21,739.
	=====

CASH THROW-OFF = 0% REVERSION = 0%

DEMONSTRATION 1 (Cont.)

DEPRECIATION SCHEDULE

J

IMPROVEMENT # 1

175% D.B.

RESIDENTIAL

YEAR	TAX DEP.	S.L. DEP.	EXCESS DEP	BALANCE
1.	4666.7	2666.7	2000.0	35333.3
2.	4122.2	2666.7	1455.6	31211.1
3.	3641.3	2666.7	974.6	27569.8
4.	3216.5	2666.7	549.8	24353.3
5.	2841.2	2666.7	174.6	21512.1

	=====	=====	=====
TOTAL	18487.9	13333.3	5154.6

EQUITY ANALYSIS

J

BEFORE TAX EQUITY DIVIDEND

YR	NOI	YR END EQUITY	CASH RETURN		
			AMOUNT	ORG EQ	CUR EQ
1.	\$5,000.	\$10,325.	\$-55.	-.0055	-.0054
2.	5,000.	10,685.	-55.	-.0055	-.0052
3.	6,000.	11,028.	945.	.0945	.0856
4.	6,000.	11,414.	945.	.0945	.0827
5.	7,000.	11,850.	1,945.	.1945	.1641

ORIGINAL EQUITY: \$ 10000

V A L T E S T

DEMONSTRATION 2

INPUT ASSUMPTIONS

1. ENTER PROJECT NAME ? CARDINAL-2
 2. ENTER PROJECTION PERIOD ? 5
 3. DO YOU WANT TO ENTER EFFECTIVE GROSS REVENUE INSTEAD OF NOI? N
TO REPEAT PREVIOUS YEAR'S NOI/EGR FOR BAL OF PROJECTION ENTER 0
N.O.I. YEAR 1? 81745
N.O.I. YEAR 2? 81920
N.O.I. YEAR 3? 98910
N.O.I. YEAR 4? 108800
N.O.I. YEAR 5? 119680
 4. ACQUISITION COST: ? 1007000
 5. DO YOU WANT TO USE STANDARD FINANCING? Y OR N?Y
MTG. RATIO OR AMOUNT, INT., TERM, NO PAY/YR ? 647000, .15236, 30, 12
 6. ENTER RATIO OF IMP #1/TOTAL VALUE, LIFE OF IMP #1? .149, 15
IS THERE A SECOND IMPROVEMENT? Y OR N? Y
ENTER RATIO OF IMP #2/TOTAL VALUE, LIFE OF IMP #2? .781, 15
ENTER REHABILITATION TAX CREDIT FOR IMP #2: 196625
IS STRUCTURE A CERTIFIED HISTORICAL LANDMARK? Y OR N?Y
 7. DEPRECIATION METHOD, IMPROVEMENT #1 ? 1
DEPRECIATION METHOD, IMPROVEMENT #2 ? 1
IS PROPERTY SUBSIDIZED HOUSING ? Y OR N ?N
IS PROPERTY RESIDENTIAL? Y OR N? Y
 8. IS OWNER A TAXABLE CORPORATION? Y OR N ?N
THE MAXIMUM FEDERAL INDIVIDUAL ORDINARY RATE COULD BE:
70% (PRE-1981 LAW)
50% (1981 LAW, EFFECTIVE 1982)

(PLUS STATE RATE)
- ENTER:
- 1) EFFECTIVE ORDINARY RATE 2) EFFECTIVE ORDINARY RATE (YEAR OF SALE)
? .5, .5
 9. RESALE PRICE (NET OF SALE COSTS) ? 1258750
 10. IS THERE LENDER PARTICIPATION ?N
 11. ENTER OWNER'S AFTER TAX REINVESTMENT RATE (X)? 11
 12. ENTER OWNER'S AFTER TAX OPPORTUNITY COST OF EQUITY FUNDS (X)? 11

DEMONSTRATION 2 (Cont.)

AFTER TAX CASH FLOW PROJECTION
CARDINAL-2
DATE 9/14/82

DATA SUMMARY

ACQUISTN COST: \$1,007,000. MTG. ANT.: \$647,000.
 NOI 1ST YR: \$81,745. MTG. INT.: 15.236%
 ORG. EQUITY: \$360,000. MTG. TERM: 30. YRS
 CTO 1ST YEAR: \$-17,893. DEBT SERVICE 1ST YEAR: \$99,638.
 MTG. CONST.: .15400037
 IMP. #1 VALUE: \$150,043. IMP. #1 LIFE: 15.
 IMP. #2 VALUE: \$786,467. IMP. #2 LIFE: 15.
 INC. TX RATE: 50%
 SALE YR RATE: 50% OWNER: INDIVIDUAL

DEPRECIATION IMPROVEMENT #1 : STRAIGHT LINE
 DEPRECIATION IMPROVEMENT #2 : STRAIGHT LINE
 RESIDENTIAL PROPERTY
 CERTIFIED HISTORICAL STRUCTURE
 LENDER PARTICIPATION: CASH THROW-OFF: NONE REVERSION: NONE

NO REPRESENTATION IS MADE THAT THE ASSUMPTIONS PROVIDED BY JEAN
 ARE PROPER OR THAT THE CURRENT TAX ESTIMATES USED IN THIS
 PROJECTION WILL BE ACCEPTABLE TO TAXING AUTHORITIES. NO ESTIMATE
 HAS BEEN MADE OF MINIMUM PREFERENCE TAX. CAPITAL LOSSES IN YEAR OF
 SALE ARE TREATED AS ORDINARY LOSSES (SECTION 1231 PROPERTY) AND
 ARE CREDITED AGAINST TAXES PAID AT THE
 ORDINARY RATE AT THE TIME OF SALE.
 FOR THE PURPOSE OF THE MODIFIED INTERNAL RATE OF RETURN (M.I.R.R.)
 CALCULATION, NEGATIVE CASH IN ANY ONE PERIOD IS COVERED
 BY A CONTRIBUTION FROM EQUITY IN THAT PERIOD

YEAR	NOI	MTG INT & LENDERS %	TAX DEP	TAXABLE INCOME	INCOME TAX	AFTER TAX CASH FLOW
1.	81745.	98500.	62434.	-79190.	-236221.	218328.
2.	81920.	98313.	62434.	-78828.	-39415.	21697.
3.	98910.	98097.	62434.	-61622.	-30812.	30084.
4.	108800.	97845.	62434.	-51480.	-25741.	34903.
5.	119680.	97552.	62434.	-40307.	-20154.	40196.
	\$491055.	\$490307.	\$312170.	\$-311427.	\$-352343.	\$345207.

NOTE: 1ST YEAR'S TAX REDUCED BY \$196,625. FOR TAX CREDIT (IMP #2)

EXHIBIT 16 (Continued)

DEMONSTRATION 2 (Cont.)

RESALE PRICE:	\$1,258,750.	1ST YR B4 TAX EQ DIV:	-4.9703%
LESS MORTGAGE BALANCE:	\$639,115.	AVG DEBT COVER RATIO:	.9857
PROCEEDS BEFORE TAXES:	\$619,635.		
LESS LENDER'S %:	\$0.		
NET SALES PROCEEDS BEFORE TAXES:	\$619,635.		
	=====		

RESALE PRICE:	\$1,258,750.
LESS LENDER'S %:	\$0.
NET RESALE PRICE:	\$1,258,750.
LESS BASIS:	\$694,830.
TOTAL GAIN:	\$563,920.
EXCESS DEPRECIATION:	\$0.
CAPITAL GAIN:	\$563,920.
ORDINARY GAIN:	\$0.
	=====

TAX ON ORDINARY GAIN:	\$0.
TAX ON CAPITAL GAIN:	\$112,784.
PLUS MORTGAGE BAL:	\$639,115.
TOTAL DEDUCTIONS FROM NET RESALE PRICE:	\$751,899.
	=====

NET SALES PROCEEDS AFTER TAX:	\$506,851.
	=====

IF PURCHASED AS ABOVE, HELD 5 YEARS & SOLD FOR \$1,258,750.
 THE MODIFIED I.R.R. BEFORE TAXES IS 10.5005% AND AFTER TAXES IS 22.2744%
 ASSUMING AN AFTER TAX REINVESTMENT RATE OF 11%, AND OPPORTUNITY COST OF 11%

DEMONSTRATION 2 (Cont.)

DISTRIBUTION OF CASH THROW-OFF
CARDINAL-2

YEAR	CASH THROW-OFF TOTAL	CASH THROW-OFF TO EQUITY	CASH BONUS TO LENDER
1.	-17893.	-17893.	0.
2.	-17718.	-17718.	0.
3.	-728.	-728.	0.
4.	9162.	9162.	0.
5.	20042.	20042.	0.
	-----	-----	-----
	-7136.	-7136.	0.

RESALE PRICE:	\$1,258,750.
LESS MORTGAGE BALANCE:	\$639,115.
PROCEEDS BEFORE TAXES:	\$619,635.
LESS LENDER'S %:	\$0.
NET SALES PROCEEDS BEFORE TAXES:	\$619,635.
	=====

CASH THROW-OFF = 0% REVERSION = 0%

MORTGAGE ANALYSIS
CARDINAL-2

YEAR	NDI	MORT INT.	MORT AMORT	DEBT SERV	DCR	MTG. BAL.
1.	81745.	98500.	1139.	99638.	.820	645861.
2.	81920.	98313.	1325.	99638.	.822	644537.
3.	98910.	96097.	1541.	99638.	.993	642995.
4.	108800.	97845.	1793.	99638.	1.092	641202.
5.	119680.	97552.	2086.	99638.	1.201	639115.
AUG	\$98,211.				.986	

EQUITY ANALYSIS
CARDINAL-2

BEFORE TAX EQUITY DIVIDEND

YR	NDI	YR END EQUITY	AMOUNT	ORG EQ	CUR EQ
1.	\$81,745.	\$379,032.	\$-17,893.	-.0497	-.0472
2.	81,920.	398,075.	-17,718.	-.0492	-.0445
3.	98,910.	400,345.	-726.	-.0020	-.0018
4.	108,800.	402,138.	9,162.	.0254	.0228
5.	119,680.	404,224.	20,042.	.0557	.0496

ORIGINAL EQUITY: \$ 360000

EXHIBIT 16 (Continued)
 DEMONSTRATION 2 (Cont.)

DEPRECIATION SCHEDULE
 CARDINAL-2
 IMPROVEMENT # 1
 STRAIGHT LINE
 RESIDENTIAL

YEAR	TAX DEP.	S.L. DEP.	EXCESS DEP	BALANCE
1.	10002.9	10002.9	.0	140040.1
2.	10002.9	10002.9	.0	130037.3
3.	10002.9	10002.9	.0	120034.4
4.	10002.9	10002.9	.0	110031.5
5.	10002.9	10002.9	.0	100028.7
	-----	-----	-----	
SUB-TOTAL	50014.3	50014.3	.0	

DEPRECIATION SCHEDULE
 CARDINAL-2
 IMPROVEMENT # 2
 STRAIGHT LINE
 RESIDENTIAL

YEAR	TAX DEP.	S.L. DEP.	EXCESS DEP	BALANCE
1.	52431.1	52431.1	.0	734035.9
2.	52431.1	52431.1	.0	681604.7
3.	52431.1	52431.1	.0	629173.6
4.	52431.1	52431.1	.0	576742.5
5.	52431.1	52431.1	.0	524311.3
	-----	-----	-----	
SUB-TOTAL	262155.7	262155.7	.0	
	=====	=====	=====	
TOTAL	312170.0	312170.0	.0	

V A L T E S T - DEMONSTRATION 3

86

INPUT ASSUMPTIONS

1. ENTER PROJECT NAME ? SELL AT LOSS TEST
2. ENTER PROJECTION PERIOD ? 5
3. DO YOU WANT TO ENTER EFFECTIVE GROSS REVENUE INSTEAD OF NOI? Y
TO REPEAT PREVIOUS YEAR'S NOI/EGR FOR BAL OF PROJECTION ENTER 0
 - EFFECTIVE GROSS REVENUE YEAR 1? 13800
 - EFFECTIVE GROSS REVENUE YEAR 2? 14210
 - EFFECTIVE GROSS REVENUE YEAR 3? 1000
 - EFFECTIVE GROSS REVENUE YEAR 4? 15080
 - EFFECTIVE GROSS REVENUE YEAR 5? 15530
- VAR OF EXPENSE (X) YEAR 1? 6
- VAR OF EXPENSE (X) YEAR 2? 5
- VAR OF EXPENSE (X) YEAR 3? 0
- FIXED OF EXPENSE YEAR 1? 3700
- FIXED OF EXPENSE YEAR 2? 3920
- FIXED OF EXPENSE YEAR 3? 4160
- FIXED OF EXPENSE YEAR 4? 4410
- FIXED OF EXPENSE YEAR 5? 4670
4. ACQUISITION COST: ? 66000
5. DO YOU WANT TO USE STANDARD FINANCING? Y OR N? Y
MTG. RATIO OR AMOUNT, INT., TERM, NO PAY/YR ? 49500, .18, 25, 12
6. ENTER RATIO OF IMP #1/TOTAL VALUE, LIFE OF IMP #1? .25, 15
IS THERE A SECOND IMPROVEMENT? Y OR N? Y
ENTER RATIO OF IMP #2/TOTAL VALUE, LIFE OF IMP #2? .55, 15
ENTER REHABILITATION TAX CREDIT FOR IMP #2: 9075
IS STRUCTURE A CERTIFIED HISTORICAL LANDMARK? Y OR N? Y *
7. DEPRECIATION METHOD, IMPROVEMENT #1 ? 2
ENTER D.B. X: ? 175*
DEPRECIATION METHOD, IMPROVEMENT #2 ? 2
ENTER D.B. X: ? 175*
IS PROPERTY SUBSIDIZED HOUSING ? Y OR N ? N
IS PROPERTY RESIDENTIAL? Y OR N? N
8. IS OWNER A TAXABLE CORPORATION? Y OR N ? Y
CORPORATE FEDERAL ORDINARY TAX RATE COULD BE :
 - 17% - 46% (1978 LAW, EFFECTIVE 1979)
 - 16% - 46% (1981 LAW, EFFECTIVE 1982)
 - 15% - 46% (1981 LAW, EFFECTIVE 1983 & THEREAFTER)
 MAXIMUM CORPORATE CAPITAL GAIN ALTERNATIVE TAX RATE IS 28%

(PLUS STATE RATE)
- ENTER:
 - 1) EFFECTIVE ORDINARY RATE 2) EFFECTIVE ORDINARY RATE (YEAR OF SALE)
 - ? .4, .4
9. RESALE PRICE (NET OF SALE COSTS) ? 60000
10. IS THERE LENDER PARTICIPATION ? Y
ENTER CASH THROW-OFF (%), PROCEEDS BEFORE TAXES (%): 5, 5
11. ENTER OWNER'S AFTER TAX REINVESTMENT RATE (%)? 9
12. ENTER OWNER'S AFTER TAX OPPORTUNITY COST OF EQUITY FUNDS (%)?

*For Illustrative
Purposes Only

DEMONSTRATION 3 (Cont.)

AFTER TAX CASH FLOW PROJECTION
 SELL AT LOSS TEST
 DATE 9/14/82

DATA SUMMARY

ACQUISTN COST:	\$66,000.	MTG. AMT.:	\$49,500.
NOI 1ST YR:	\$9,272.	MTG. INT.:	18%
ORG. EQUITY:	\$16,500.	MTG. TERM:	25. YRS
CTG 1ST YEAR:	\$258.	DEBT SERVICE 1ST YEAR:	\$9,014.
		MTG. CONST.:	.1820916
IMP. #1 VALUE:	\$16,500.	IMP. #1 LIFE:	15.
IMP. #2 VALUE:	\$36,300.	IMP. #2 LIFE:	15.
INC. TX RATE:	40%		
SALE YR RATE:	40%	OWNER:	CORPORATION

DEPRECIATION IMPROVEMENT #1 : 175% D.B.
 DEPRECIATION IMPROVEMENT #2 : 175% D.B.
 NON-RESIDENTIAL PROPERTY
 CERTIFIED HISTORICAL STRUCTURE
 LENDER PARTICIPATION: CASH THROW-OFF: 5% REVERSION: 5%

NO REPRESENTATION IS MADE THAT THE ASSUMPTIONS PROVIDED BY JEAN ARE PROPER OR THAT THE CURRENT TAX ESTIMATES USED IN THIS PROJECTION WILL BE ACCEPTABLE TO TAXING AUTHORITIES. NO ESTIMATE HAS BEEN MADE OF MINIMUM PREFERENCE TAX. CAPITAL LOSSES IN YEAR OF SALE ARE TREATED AS ORDINARY LOSSES (SECTION 1231 PROPERTY) AND ARE CREDITED AGAINST TAXES PAID AT THE ORDINARY RATE AT THE TIME OF SALE.
 FOR THE PURPOSE OF THE MODIFIED INTERNAL RATE OF RETURN (M.I.R.R.) CALCULATION, NEGATIVE CASH IN ANY ONE PERIOD IS COVERED BY A CONTRIBUTION FROM EQUITY IN THAT PERIOD

YEAR	NOI	MTG INT & LENDERS %	TAX DEF	TAXABLE INCOME	INCOME TAX	AFTER TAX CASH FLOW
1.	9272.	8914.	6160.	-5803.	-11397.	11643.
2.	9580.	8907.	5441.	-4770.	-1909.	2447.
3.	-3210.	8953.	4667.	-16870.	-6749.	-5475.
4.	9916.	8866.	4246.	-3197.	-1280.	2137.
5.	10084.	8837.	3750.	-2505.	-1003.	2019.
	\$35641.	\$44377.	\$24404.	\$-33145.	\$-22338.	\$12771.

NOTE: 1ST YEAR'S TAX REDUCED BY \$9,075. FOR TAX CREDIT (IMP #2)

EXHIBIT 16 (Continued)

DEMONSTRATION 3 (Cont.)

RESALE PRICE:	\$60,000.	1ST YR B4 TAX EQ DIV:	1.4881%
LESS MORTGAGE BALANCE:	\$48,670.	AVG DEBT COVER RATIO:	.7908
PROCEEDS BEFORE TAXES:	\$11,330.	AVG DEFAULT RATIO:	1.1581
LESS LENDER'S %:	\$567.		
NET SALES PROCEEDS BEFORE TAXES:	\$10,764.		

RESALE PRICE:	\$60,000.
LESS LENDER'S %:	\$567.
NET RESALE PRICE:	\$59,433.
LESS BASIS:	\$41,596.
TOTAL GAIN:	\$17,838.
TAX DEPRECIATION:	\$24,404.
CAPITAL GAIN:	\$0.
ORDINARY GAIN:	\$17,838.

TAX ON ORDINARY GAIN:	\$7,135.
TAX ON CAPITAL GAIN:	\$0.
PLUS MORTGAGE BAL:	\$48,670.
TOTAL DEDUCTIONS FROM NET RESALE PRICE:	\$55,805.

NET SALES PROCEEDS AFTER TAX:	\$3,629.
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IF PURCHASED AS ABOVE, HELD 5 YEARS & SOLD FOR \$60,000.
 THE MODIFIED I.R.R. BEFORE TAXES IS -12.4777% AND AFTER TAXES IS 5.4951%
 ASSUMING AN AFTER TAX REINVESTMENT RATE OF 9%, AND OPPORTUNITY COST OF 9%

DEMONSTRATION 3 (Cont.)

DISTRIBUTION OF CASH THROW-OFF
SELL AT LOSS TEST

YEAR	CASH THROW-OFF TOTAL	CASH THROW-OFF TO EQUITY	CASH BONUS TO LENDER
1.	258.	246.	13.
2.	566.	538.	28.
3.	-12224.	-12224.	0.
4.	902.	857.	45.
5.	1070.	1016.	53.
	-----	-----	-----
	-9427.	-9567.	140.

RESALE PRICE:	\$60,000.
LESS MORTGAGE BALANCE:	\$48,670.
PROCEEDS BEFORE TAXES:	\$11,330.
LESS LENDER'S %:	\$567.
NET SALES PROCEEDS BEFORE TAXES:	\$10,764.
	=====

CASH THROW-OFF = 5% REVERSION = 5%

EQUITY ANALYSIS
SELL AT LOSS TEST

YR	NDI	BEFORE TAX EQUITY DIVIDEND		CASH RETURN	
		YR END EQUITY	AMOUNT	ORG EQ	CUR EQ
1.	\$9,272.	\$16,613.	\$246.	.0149	.0148
2.	9,580.	16,747.	538.	.0326	.0321
3.	-3,210.	29,131.	-12,224.	-.7406	-.4196
4.	9,916.	29,324.	857.	.0520	.0292
5.	10,084.	29,554.	1,016.	.0616	.0344

ORIGINAL EQUITY: \$ 16500

EXHIBIT 16 (Continued)

DEMONSTRATION 3 (Cont.)

 MORTGAGE ANALYSIS
 SELL AT LOSS TEST

YEAR	NOI	MORT INT.	MORT AMORT	DEBT SERV	DCR	MTG. BAL.	DEFAULT RATIO
1.	9272.	8901.	113.	9014.	1.029	49387.	.981
2.	9580.	8879.	135.	9014.	1.063	49253.	.960
3.	-3210.	8853.	161.	9014.	-.356	49092.	13.224
4.	9916.	8821.	192.	9014.	1.100	48900.	.940
5.	10084.	8784.	230.	9014.	1.119	48670.	.931
AVG	\$7,128.				.791		1.158

 REVENUE AND EXPENSE REPORT
 SELL AT LOSS TEST
 DATE 9/14/82

YEAR	EFF GROSS REV	% RATE	% VAR OP.	\$ FIXED OP	NOI
1.	\$13,800.	6.2	\$828.	\$3,700.	\$9,272.
2.	\$14,210.	5.2	\$711.	\$3,920.	\$9,580.
3.	\$1,000.	5.2	\$50.	\$4,160.	\$-3,210.
4.	\$15,080.	5.2	\$754.	\$4,410.	\$9,916.
5.	\$15,530.	5.2	\$777.	\$4,670.	\$10,084.
	-----		-----	-----	-----
	\$59,620.		\$3,119.	\$20,860.	\$35,641.

EXHIBIT 16 (Continued)
 DEMONSTRATION 3 (Cont.)

DEPRECIATION SCHEDULE
 SELL AT LOSS TEST
 IMPROVEMENT # 1
 175% D.B.
 NON-RESIDENTIAL

YEAR	TAX DEP.	S.L. DEP.	TAX DEP.	BALANCE
1.	1925.0	1100.0	1925.0	14575.0
2.	1700.4	1100.0	1700.4	12874.6
3.	1502.0	1100.0	1502.0	11372.5
4.	1326.8	1100.0	1326.8	10045.8
5.	1172.0	1100.0	1172.0	8873.7
	-----	-----	-----	
SUB-TOTAL	7626.3	5500.0	7626.3	

DEPRECIATION SCHEDULE
 SELL AT LOSS TEST
 IMPROVEMENT # 2
 175% D.B.
 NON-RESIDENTIAL

YEAR	TAX DEP.	S.L. DEP.	TAX DEP.	BALANCE
1.	4235.0	2420.0	4235.0	32065.0
2.	3740.9	2420.0	3740.9	28324.1
3.	3304.5	2420.0	3304.5	25019.6
4.	2919.0	2420.0	2919.0	22100.7
5.	2578.4	2420.0	2578.4	19522.2
	-----	-----	-----	
SUB-TOTAL	16777.8	12100.0	16777.8	
	=====	=====	=====	
TOTAL	24404.0	17600.0	24404.0	

EXHIBIT 17

DEMONSTRATION OF SELECTION OF BEST USE SCENARIO FOR
VACANT OFFICE TOWER REQUIRING
COMPLETE MECHANICAL RENOVATIONB. Alternative Uses for Pyare Square

A combination of the physical characteristics of the property and the general demand characteristics of the Hilldale area suggest the following alternative scenarios for use of the subject property (Appendix D):

Scenario #1: The building would be remodeled into multi-tenant office space of class A on floors 4 to 14 and class B on floors 1 to 3.

Scenario #2: The building would be modified into residential apartments on floors 4 to 14 and class B office space on floors 1 to 3.

Scenario #3: The building would be modified into residential condominiums on floors 4 to 14 and class B office space on floors 1 to 3.

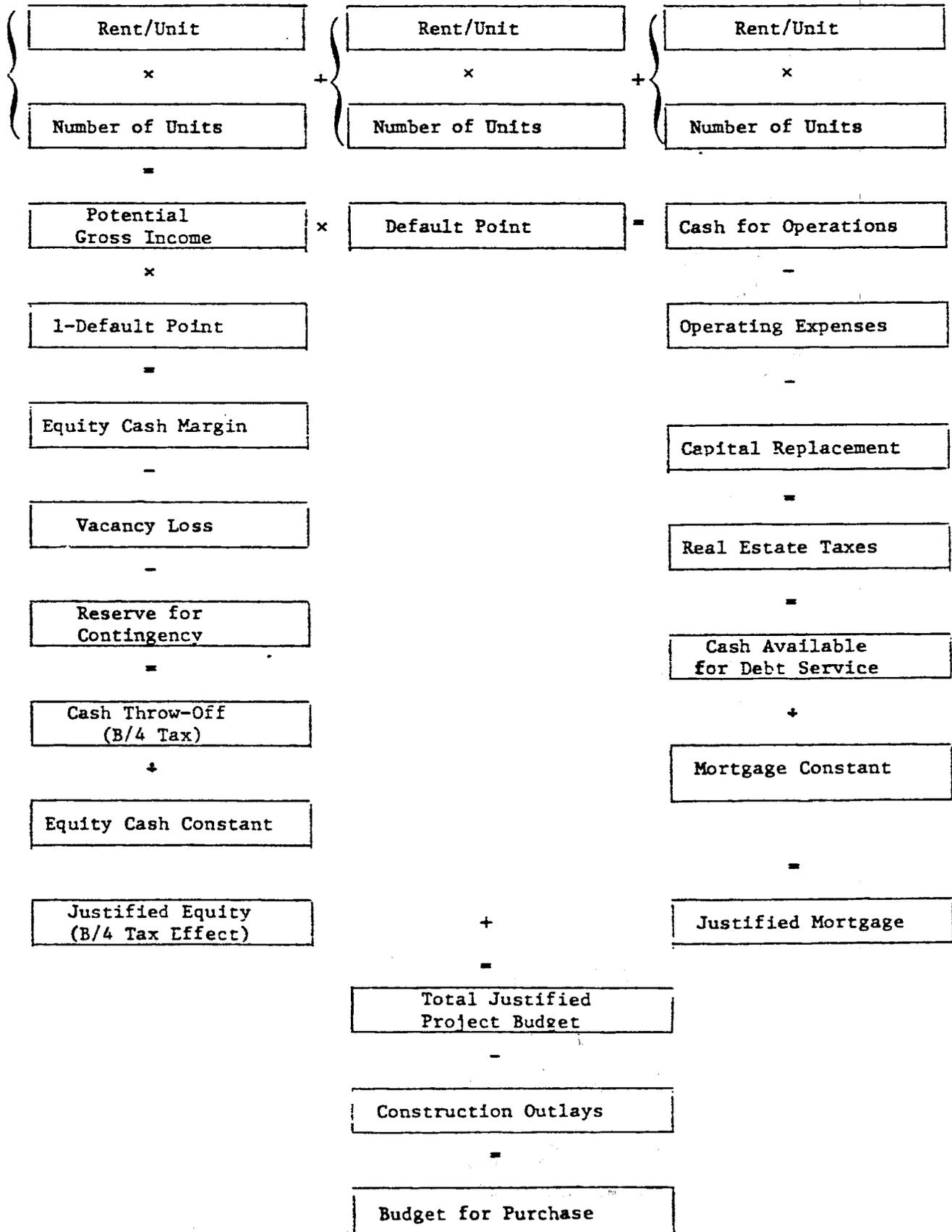
Scenario #4: The building would be modified into a hotel facility with hotel rooms on floors 4 to 14, a restaurant on floor 3, and seminar and office space on the remainder.

C. Economic Ranking of Alternatives

The alternative uses that might be plausible for the subject property can first be ranked in terms of the general budget parameters inherent in revenues and expenses for each. The best financial alternatives must then be screened for effective demand, political acceptability, and risk. In order to reveal the general range of justified investment on the existing property, the appraiser developed a logic of converting rents to justified investment by determining a market rent for each use and assuming an acceptable cash breakeven point¹ for financial planning and budgeting. This process capitalizes funds available for debt service or cash dividends into amounts of justified investment. This residual approach can be misleading if there are small errors in the cash-flow forecast, but if estimating bias is consistent when applied to the alternative uses, it does rank the alternatives in terms of their ability to pay for the subject property as is. The logic of this process is provided in Exhibit 15; the cost assumptions and calculations are provided in Appendix D.

¹ The ratio of cash expenses, real estate taxes, and debt service to potential gross income.

BASIC LOGIC FOR RANKING ALTERNATIVE PROGRAM SCENARIOS BY JUSTIFIED PURCHASE BUDGET



A summary of these calculations from the Appendix are provided in Exhibit 16. A preliminary ranking based on a cash-justified investment (Line 3, Exhibit 16), without regard to future reversion value, demonstrates that Scenario 1 is the preferable use of the structure as is.

D. Ranking of Alternatives

In terms of estimating risks, Scenario 1 offers more certainty in regard to construction budget because multi-tenant office use is more similar to the previous use. Less extensive remodeling plans imply that fewer problems will arise. In Scenarios 2, 3, and 4, all new plumbing facilities and windows are required for floors 4 to 14. The same improvements simply need refurbishing if the building remains office use. In addition, the market for a high-rise residential or hotel facility is largely untested in the Hilldale area, but office use has been expanding. A change from office use of Pyare Square carries business risks that are difficult to ascertain, and the costs incurred in those risks could be great.

E. Political Compatibility of Alternatives

According to the village administrator of Shorewood Hills, all four of the scenarios would be politically acceptable because the village wants to see improvement of the building. However, Scenarios 2, 3, and 4 require a zoning change that must be approved by the village--an effort that is likely to be more time-consuming than futile.

Although condominiums are a relatively new idea to Shorewood Hills, the community boasts of being a residential suburb, and so a well-conceived plan should pass the board. A hotel use, however, is questionable and would be subject to serious scrutiny because demand is not evident. Office use appears to be most probable in light of the fact that costs are lower, zoning is proper, and demand is evident.

F. Conclusions

Since the estimated residual justified purchase prices of Scenarios 1 and 3 are fairly close, the choice in determining the most probable fitting use relates to the higher costs of converting to residential coupled with the risks involved in tapping an untested market. A prudent investor would seek to stabilize his income by choosing the less speculative scenario. A review of the summary feasibility data in Exhibit 17 supports the conclusion that the most probable use of the subject property in the opinion of the appraiser is Scenario 1.

The most probable use of the subject property would be renovation to a multi-tenant office building.

SUMMARY OF BUDGETS FOR ALTERNATIVE USE SCENARIOS

Budget Stem	Scenario #1	Scenario #2	Scenario #3	Scenario #4
1. Cost to construct	(2,509,975)	(2,414,225)	(2,668,140)	(2,569,600)
2. Justified investment for property as is	2,897,566	1,409,513	2,868,983	(4,662,172)
3. Total justified investment in subject property as is	387,591	(1,004,712)	200,843	(7,231,772)

SUMMARY MATRIX OF FEASIBILITY OF ALTERNATIVE USES

Feasibility Factor	Scenario #1	Scenario #2	Scenario #3	Scenario #4
Justified Investment in subject	387,600	Negative	200,843	Negative
Remodeling Risks	Moderate	Significant	Significant	Serious
Effective Market demands	Positive	Positive	Questionable	Soft
Political acceptability	Strong	Strong	Strong	Mixed
Financial Risk	Depends on marketing ability in projecting new image for the building	Depends on desire to live in a high-rise	Depends on desire to own a home in a high-rise	Financial risk is great-- Hilldale is not a major office center nor a stop for travellers.

EXHIBIT 17 (Continued)

B. Most Probable Price

A number of transactions involving the sale and purchase of multi-story office facilities have occurred in the greater Madison metropolitan area. This makes it possible to infer from past transactions the probable price and range of sales price involving the subject property and the most probable buyer defined above. In order to reconcile the important differences between the subject property and past transactions, a ranking system will be used. This system, shown in Exhibit 13, yields a weighted score point total for each property. The weighting of the features distinguishes the most probable buyer. The point totals are a measure of the desirability of the given property to the most probable buyer. The time-adjusted cash equivalent price of each comparable can then be weighted for a property point total that provides a common denominator for comparison purposes. The common denominator can be further refined by weighting it for net rentable area. The result is a cash equivalent dollar/point square foot figure, which is then related to the cash equivalent sales price by computing the mean price per point. This statistical process produces the predicted price per unit, or central tendency, and therefore a means to estimate the range and reliability of the sale price prediction, or standard error.

SCALE FOR SCORING COMPARABLES ON PROBABLE BUYER CONSIDERATIONS

Location	5 = Neighborhood of stable or increasing prices 3 = Neighborhood of stagnant prices 1 = Neighborhood of declining or deteriorating prices
Vacancy at sale	5 = Mostly occupied, 10% or less vacancy 3 = Partially occupied 1 = Vacant at time of sale
Building condition and remodeling required	5 = Minimal improvements required, good condition 3 = Average renovation, fair condition 1 = Empty shell, major renovation required, poor condition
Accessibility	5 = Easily accessible, visible entrance or entrances 3 = Some accessibility problems 1 = Very difficult access, one-way streets or no islands
Parking	5 = Adequate, available parking 3 = Limited, expensive parking 1 = No parking

C. Market Comparison Approach to Probable Price

The first problem in real estate market comparison is to define the unit by which the comparison proceeds. Recent comparable sales that were arm's-length transactions, located in office or retail nodes, ordinary mid/high-rise construction types, and preferably sold as vacant shells were collected. Exhibit 14 summarizes the comparable sales selected for use in predicting the most probable price for the subject property. Of the eight sales, one was for cash, the balance required some type of nonmarket seller-financing.

SUMMARY OF COMPARABLE SALES

Property	Date of Sale	Terms of Sale
110 E. Main	10/76	land contract
149 E. Wilson	8/78	seller-financing
16 N. Carroll	9/74	installment
137 E. Wilson	10/78	cash
301 N. Broom	11/79	land contract
212 E. Washington	12/77	seller-financing
102-110 N. Hamilton	7/77	land contract
202 N. Henry	3/79	land contract

For each of the eight selected comparables, shown in Exhibits 15 to 22, attributes thought to greatly influence buyer behavior were scored. Location in a neighborhood of stable or increasing prices was believed to be desired by the prudent investor. Vacancy presented a depressing effect on price and was therefore viewed as a negative factor. The amount of renovation required to bring the building into compliance with codes was recognized as a negative influence on price. Well-maintained, concrete structures were preferred over those with poor maintenance or ordinary construction. Accessibility also affects price with a negative influence recognized for those buildings with difficult access paths, constrained by poor visibility. Inadequate on-site or off-site parking is an important factor that impacts on price. The final weighted matrix is presented in Exhibit 23.

Exhibit 24 displays the calculations used to obtain the predicted price for the subject property and an estimate of the reliability of the prediction.

WEIGHTED MATRIX FOR COMPARABLE PROPERTIES OF 4610 UNIVERSITY AVENUE

Feature	Weight	Weight/Weighted Ratings								
		110 E. Main	149 E. Wilson	16 N. Carroll	137 E. Wilson	301 N. Broom	212 E. Washington	102-110 Hamilton	202 Henry	Pyare Square
Location	.10	3/.3	3/.3	3/.3	3/.3	5/.5	3/.3	3/.3	5/.5	5/.5
Vacancy	.20	3/.6	1/.2	5/1.0	1/.2	1/.2	1/.2	3/.6	1/.2	1/.2
Building condition & remodeling required	.35	3/1.15	1/.35	3/1.15	1/.35	1/.35	1/.35	3/1.15	1/.35	1/.35
Accessibility	.15	1/.15	1/.15	1/.15	1/.15	1/.15	3/.45	1/.15	1/.15	3/.45
Parking	.20	1/.2	1/.2	1/.2	1/.2	5/1.0	5/1.0	1/.2	1/.2	3/.6
Total weighted score	100%	2.4	1.2	2.8	1.2	2.2	2.3	2.4	1.4	2.1
Time-adjusted cash equivalent (TACE) price ¹		\$1,391,008	\$270,694	\$781,741	\$271,200	\$96,570	\$574,209	\$395,464	\$262,933	...
Total net rentable area (NRA)		76,000	32,000	35,725	25,500	5,760	38,000	28,000	24,000	84,969
TACE price per sq.ft.(NRA)		\$18.30	\$8.46	\$21.88	\$10.64	\$16.77	\$15.11	\$14.12	\$10.96	...
Mean price per point per sq. ft.		\$7.63	\$7.05	\$7.82	\$8.86	\$7.62	\$6.57	\$4.88	\$7.82	...

EXHIBIT 18 (Continued)

¹See Appendix F for cash equivalency calculations.

EXHIBIT 18 (Continued)

CALCULATION OF MOST PROBABLE PRICE USING
MEAN PRICE PER POINT EQUATION METHOD

Comparable Property	Selling Price per NRA	Weighted Point Score	Price per NRA Weighted Point Score = (x)
1	\$18.30	2.4	\$7.63
2	8.46	1.2	7.05
3	21.88	2.8	7.82
4	10.64	1.2	8.86
5	16.77	2.2	7.62
6	15.11	2.3	6.57
7	14.12	2.4	5.88
8	10.96	1.4	7.82
		Total	\$59.25

$$\text{Central tendency } (\bar{x}) = \frac{\sum x}{n} = \frac{59.25}{8} = 7.41$$

$$\text{Dispersion (std. dev. = s)} = \sqrt{\frac{\sum (x - \bar{x})^2}{n-1}} = \sqrt{\frac{5.71}{7}} = .90$$

where:

<u>x</u>	<u>\bar{x}</u>	<u>$(x - \bar{x})$</u>	<u>$(x - \bar{x})^2$</u>	<u>n</u>	<u>$\frac{n-1}{1}$</u>
7.63	- 7.41	.22	.05	8	7
7.05	7.41	.36	.13		
7.82	7.41	.41	.17		
8.86	7.41	1.45	2.10		
7.62	7.41	.21	.04		
6.57	7.41	.84	.71		
5.88	7.41	1.53	2.34		
7.82	7.41	.41	.17		
			5.71		

$$\text{Value range: } \bar{x} \pm s = 7.41 \pm .90 [8.31, 6.51]$$

Estimate of value of subject property =

$$\begin{aligned} & \text{NRA of subject} \times \text{Weighted point score} \times \left[\begin{array}{l} \text{Sample mean of price per NRA} \\ \text{per total weighted score} = s \end{array} \right] \\ & (84,969) \quad \times \quad (2.1) \quad \times \quad [7.41 \pm .90] \end{aligned}$$

High estimate:¹ \$1,480,000
Central tendency: \$1,320,000
Low estimate: \$1,160,000

¹All value estimates are rounded.

EXHIBIT 18 (Continued)

NET PRESENT VALUE UNDER
L.C. FINANCING AND BALLOON PAYOUT
ACCORDING TO CONTRACT ON 12/31/85

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982 - 84</u> <u>4 years</u>
Down Payment	\$500,000	\$250,000	\$250,000	
	3,576 (2A)	5,364 (3A)	11,145 (3B)	\$ 67,710 (12C)
	<u>\$503,576</u>	<u>33,435 (9B)</u>	<u>50,787 (9C)</u>	
		<u>\$288,799</u>	<u>\$311,932</u>	
				Balance <u>2,450,000</u>
				<u>\$2,517,710</u>

NET PRESENT VALUE CONVENTIONAL LOAN

	<u>1979</u>	
Down Payment	\$862,000	
	--	Balance <u>2,404,022</u>

Cash year 1	\$503,576	\$288,799	\$311,932	
		<u>.884666</u>	<u>.796455</u>	
Cash year 2	255,491	\$255,491		
Cash year 3	248,440		248,440	
Cash year 4	48,551			\$67,710
Cash year 5	43,710			67,710
Cash year 6	39,351			67,710
Cash year 7	<u>\$1,317,332</u>			
	<u>\$2,456,451</u>			\$2,517,710
		Total Cash Equivalency (Versus \$3,450,000 nominal selling price)		

INCOME PREPORTED (Contract)	GROSS INCOME	\$499,249
	NET INCOME	<u>196,548</u>

MARKET RENT LEVELS

At least gross	\$450,000
Less 40% expense	<u>180,000</u>
NOI	<u>\$270,000</u>

$$\text{OAR} = \frac{270,000}{2,456,451} = .109915$$

$$\text{SP/Unit} = \frac{2,456,451}{168} = 14,622$$

Example Problem: Cash Equivalent Price - Existing Mortgage plus
Purchase Money Mortgage

Given the following information, determine the cash equivalent
price of the transaction:

Sale Price	\$1,000,000
Existing Mortgage (assumed)	Balance \$682,052 Mo. Pmt. \$6,039.20 Contract rate 8.5% Expired Term 6 years Remaining Term 19 years
Purchase Money Mortgage	\$200,000 @ 10% Amortization over 20 years, balloon in 10 years
Current Financing	14.5%, 20 year amortization with 10 year balloon

- What is the equity investment?
- What is the balance outstanding on the existing (assumed) mortgage in 10 years?
- What is the payment on the PMM?
What is the balance outstanding EOY 10?
- What is the cash equivalent price of the transaction?

Suggested Solution - II
Existing Mortgage plus PMM

A.	\$117,948
B.	\$454,781
C.	\$ 1,930 \$146,049
D.	Equity \$117,948
	Assumed Existing Mortgage
	PW \$6,039.20, 120 mos. @ 14.5%
	PW \$454,781, EOY 10 @ 14.5%
	Purchase Money Mortgage
	PW \$1,930, 120 mos. @ 14.5%
	PW \$146,049, EOY 10 @ 14.5%
	<u>\$ 34,558</u>
	Total (Cash Equivalent Price) \$763,581

* Courtesy of Byrl Boyce

IX. PROBLEM (CASH EQUIVALENCY)*

*Courtesy of A. Robert Parente, SREA, MAI.

An Income producing property (special purpose) was resold by the Midland National Bank on a "workout." The terms of the sale were as follows:

Sale Price:	\$1,178,808, no cash by purchaser, i.e., 100% debt financing
Terms of Financing:	First year - interest only at a rate of 4-1/2% and payable monthly
	Second year - interest only at a rate of 6% and payable monthly
	For the next 23 years - principal and interest at 8-1/2%, payable monthly

The property (a 12,000 sq. ft., 3-year old restaurant building) was purchased on November 10, 1977 for \$1,178,808. Typical terms of financing at that time (11/77) were 9-3/4% interest for 25 years on a 75% loan-to-value ratio. It is estimated that equity required a 12-15% return.

Questions:

- A. What are the monthly interest costs in years 1 and 2?
- B. What is the constant on the amortized portion of the mortgage?
- C. What is the monthly payment on the mortgage?
- D. What is the unadjusted sales price per square foot for use in the DSC approach?
- E. What is the cash equivalent price assuming 100% financing were typical in the market?
- F. What is the cash equivalent price assuming an equity yield requirement of 12% 15%?
- G. What is the adjusted sales price per square foot under each of the conditions set forth above?

Suggested Solution - IX
Problem (Cash Equivalency)

A. Year 1: \$4,420.53
Year 2: \$5,894.04

B. $f = .09913$

C. \$9,737.97

D. $\$1,178,808 \div 12,000 = \$98.23/\text{sq. ft.}$

E. PW i Costs Year 1 @ $9-3/4\%$ = \$ 50,347.92
PW i Costs Year 2 @ $9-3/4\%$ = 60,918.28
PW Amortization payments
Years 3-25 @ $9-3/4\%$ = 881,198.63

Cash Equivalent Price
(100% Financing) = \$992,464.83*

*\$186,343.17 less than face value of note

$\$992,464.83 \div 12,000 = \$82.71/\text{sq. ft.}$

F. Discount Rates given $Y = 12\%$, $Y = 15\%$, $m = 75\%$ $i = 9.75\%$

$Y = 12\%$

$Y = 15\%$

Mortgage $.75 \times .0975 = .073125$
Equity $.25 \times .12 = \underline{.03}$

$.75 \times .0975 = .073125$
 $.25 \times .15 = \underline{.0375}$

Discount Rate (r) = .103125 Discount rate (r) = .110625

PWCF @ 10.3125%

PWCF @ 11.0625%

Year 1 \$ 50,198.33
Year 2 60,399.42
Years 3-25 835,796.73

\$ 49,999.88
59,715.07
780,188.86

\$946,394.48**

\$889,903.81***

\$232,413.52 below face *\$288,904.19 below face

G. $\$946,394.48 \div 12,000 = \$78.87/\text{sq. ft.}$

$\$889,903.81 \div 12,000 = \$74.16/\text{sq. ft.}$

* Courtesy of Byrl Boyce

EXHIBIT 21

CASH EQUIVALENCY EXAMPLE

NAKOMA HEIGHTS
168 APARTMENT UNITS
SOLD NOVEMBER 1, 1979
NOMINAL SALES PRICE \$3,450,000

- A. One appraisal reviewed recently contained the following summary analysis. It is used as it probably parallels the Madison Assessor's Office perception of the transaction:

<u>Date</u>	<u>Price</u>	<u>Gross</u>	<u>Net</u>	<u>GIM</u>	<u>Income Expense</u>	<u>S.P. Unit</u>	<u>OAR</u>
7/79	\$3,450,000	\$449,249	\$196,548	7.68	56.3	\$20,536	5.7

- B. Cash Equivalency - Monthly payment differential

If 25% down with 75% L/V at 10.55 for 25 years	Down	862,000
	Mortgage	\$2,588,000
		<u>\$3,450,000</u>

Monthly payment \$24,528; Annual payment \$294,335

1979 - 4/80	Conv. Mortgage	\$294,335
	L.C. (9.25)	272,875
		<u>\$ 21,460/12 = \$1,788 (A)</u>

4/80 - 4/81

\$2,950,000			Conv. Mortgage	\$294,335
250,000	L.C.	=		249,750
<u>\$2,700,000</u>	X .0925			<u>\$ 44,585/12 = \$3,715 (B)</u>

4/81

\$2,700,000			\$294,335
250,000			226,625
<u>\$2,450,000</u>	X .0125		<u>\$ 67,710/12 = \$5,643 (C)</u>

3. See Exhibit 21 for example of converting purchase price and terms for syndicator.
- H. Cash equivalency to be consistent with definition of fair market value is the subject of major debate:
1. Strictly enforced, it tends to over-discount prices to a point where the seller would not have sold.
 2. Typically represents sale of financing to benefit both parties.
 3. There is growing evidence that in many cases the buyer and seller have shared the costs of seller financing so that fair market value is closer to the midpoint between nominal sales price and deferred points discounted for institutional interest rates.
- VIII. Critique of a Real Estate Appraisal requires some understanding of the institutions of appraisal, the normative economic logic of appraisal, and the elements of reform of the appraisal process already at work.
- A. Political compromises in the 1930s led to the appraisal doctrine which defined fair market value as that which results from synthesis of three normative approaches to value based on the economics of before tax income.
 - B. Marshallian economics presumes stability of currency and interest rates. Appraisers and their customers confuse normative models to establish a fair price with behavior models that would predict the most probable price at which a property would sell.
 - C. Normative methods are not predictive of price but nine times out of ten appraisers are supposed to predict the price at which a property would sell under specific circumstances.

- D. If the appraisal is to serve as a benchmark for a decision under specific circumstances, or purposes, then it should not be governed by conditions characteristic of an efficient market since real estate is not known for market efficiency.
- E. Widespread acceptance of appraisal models is a function of the cost of reeducation, on-the-job training, word processing, and data processing, and that is being drastically altered by electronics and communication advances.
- F. A consistent theory for reconstructing appraisal has been prepared by Professor R. U. Ratcliff but its tenets are being adapted at the grassroots level by individuals rather than considered by the controlling committee of the professional societies.
- G. Factors which have delayed appraisal reforms include:
 - 1. Compensation system which separates responsibility for payment of appraisal fee from beneficiary of objective useful analysis with a corresponding decline on reliance by financial institutions in the lending process, etc.
 - 2. Lack of understanding of the variety of services in terms of appraisal, feasibility analysis, or consulting which a professionally designated appraiser might offer. The right product depends on asking the right questions.
 - 3. Fear of appraisal societies that a retreat from old principles will discredit appraisal designations and existing regulatory monopolies and therefore contribute toward further competitive erosion by the accountants and the engineers and the investment bankers.

4. Postponement of reform pending merger of the major appraisal societies, an effort recently frustrated by a membership vote in March, which will trigger significant competition and public efforts which lack the benefit of significant reform of the profession and its out-of-date educational programs.

H. A common sense appraisal outline representing the Ratcliff approach would be as follows:

1. What is the issue?
2. What are the basic appraisal problems in the issue?
3. What definition of value is most appropriate?
4. What implicit assumptions are inherent in the value definitions?
5. What explicit assumptions are provided by others?
6. What is the most probable use of the property?
7. What is a profile of the most probable buyer of the property?
8. What level of behavioral transaction forecasting can be applied?
 - a. Inference from market sales
 - b. Simulation from actual buyer calculus
 - c. Standard normative models for prudent buyers
9. What externalities should be considered as modifying the expected transaction range?
10. How does the most probable price test in light of criteria presumed in the buyer profile?

- I. To critique an appraisal provided as a benchmark of a mortgage loan and to classify the appraiser as contemporary or old guard, the reader should look to the following elements.
 1. Definition of value - is it the classic definition or defined as the most probable price at which it would sell subject to specific financing terms?
 2. Does the interest to be appraised represent fee title encumbered or does it include entitlement to the financing requested or subject to financing appropriate to regulated institutional standard?
 3. For a proposed project does the appraisal assume completion and therefore a future appraisal date and does it assume absorption of the units into the market in a stated period of time. If so, it must prove absorption, capture rate, and construction as reasonable assumptions or it has sidestepped the critical issue of indirect cost.
 4. Does it discard any of the three approaches at the outset as inappropriate or does it wait until the report reaches the section called synthesis?
 5. In using the market approach for an appraisal, does the report indicate buyer motivation on comparable sales or current status of the comparable? Does the appraiser use basic statistics for adjustment or arbitrary percentage or flat dollar shifts in value? Does it provide the standard error of the investment or the mean price?
 6. In using the market approach for an appraisal, does the report indicate buyer motivation on comparable sales or current status of the comparable? Does the appraiser use basic statistics for

adjustment or arbitrary percentage of flat dollar shifts in value? Does it provide the standard error of the investment or the mean price?

7. In doing the income approach, does the appraiser use normalized income or cash flows over time, and in capitalizing the income does he use market rates, Ellwood rates, or cash on cash mortgage equity. Only the latter is reliable for mortgage loan purposes.
8. In doing the cost approach, does the appraiser show the entrepreneurial compensation or is that buried in over-estimated construction costs? Hard dollar costs should be the lowest of three estimates, not the highest as advocated by appraisal textbooks. The spread is the developer's fee for the entrepreneurial contribution to land, labor, and capital.
9. Does the appraiser provide a test on the after tax basis of either his resale assumptions on which his income approach depends or his conclusion as to most probable price at which it would sell? These tests might include something like VALTEST. The resulting financial ratios discussed previously, or a front door approach to demonstrate the rents implied by a given cost of acquisition.
10. Check the statement of limiting conditions to see what applies relative to underlying assumptions and limitations on use.