JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

VII. INDUSTRY EDUCATIONAL COURSES - LONG TERM

G. Australian Lecture Series

6. "Real Estate Feasibility and Real Estate Consulting", Fourth Module: See VII. F. 10. e. for shorter and slightly different version

Index

FOURTH MODULE

REAL ESTATE FEASIBILITY

Presented by

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FIRST HOUR

I. Basic Concepts and Definitions

A. Real estate is a tangible product - defined as artificially delineated space with a fourth dimension of time referenced to a fixed point on the face of the earth.

1. Real estate is a space-time unit, room per night, apartment per month, square foot per year, tennis court hours, or a condominium for two weeks in January at a ski slope.
2. To the space-time abstraction can be added special attributes to house some form of activity.
3. Improvements from survey market to city layouts to structures define space.
4. Legal contracts and precedents define time.
5. Rights of use are defined by public values, court opinions.
6. Private rights to use are those which remain after the public has exercised its rights to control, to tax, or to condemn.

B. A real estate project is a cash cycle business enterprise which combines a space-time product with certain types of management services to meet the needs of a specific user. It is the process of converting space-time needs to money-time dimensions in a cash economy.

1. A real estate business is any business which provides expertise necessary to relate space-time need to money-time requirements and includes architects, brokers, city planners, mortgage bankers, and all other special skills.
2. The true profit centers in real estate are in the delivery of services and cash capital. Money is an energy transfer system.
3. Equity ownership is the degree to which one enterprise controls or diverts cash from another real estate enterprise.

4. Public has direct ownership to the degree real estate taxes take a percentage of tenant income in excess of service cost.
5. Consumer must view space as a total consumption system involving direct cost, surface cost, transportation cost and negative income of risk.
6. The best real estate project is the one which has the lowest net present value of cost as the sum of cost to the consumer production sector and public sector.

C. The real estate process is the dynamic interaction of three groups, space users (consumers), space producers, and the various public agencies (infrastructures) which provide services and capital to support the consumer needs. (See Exhibit 1.)

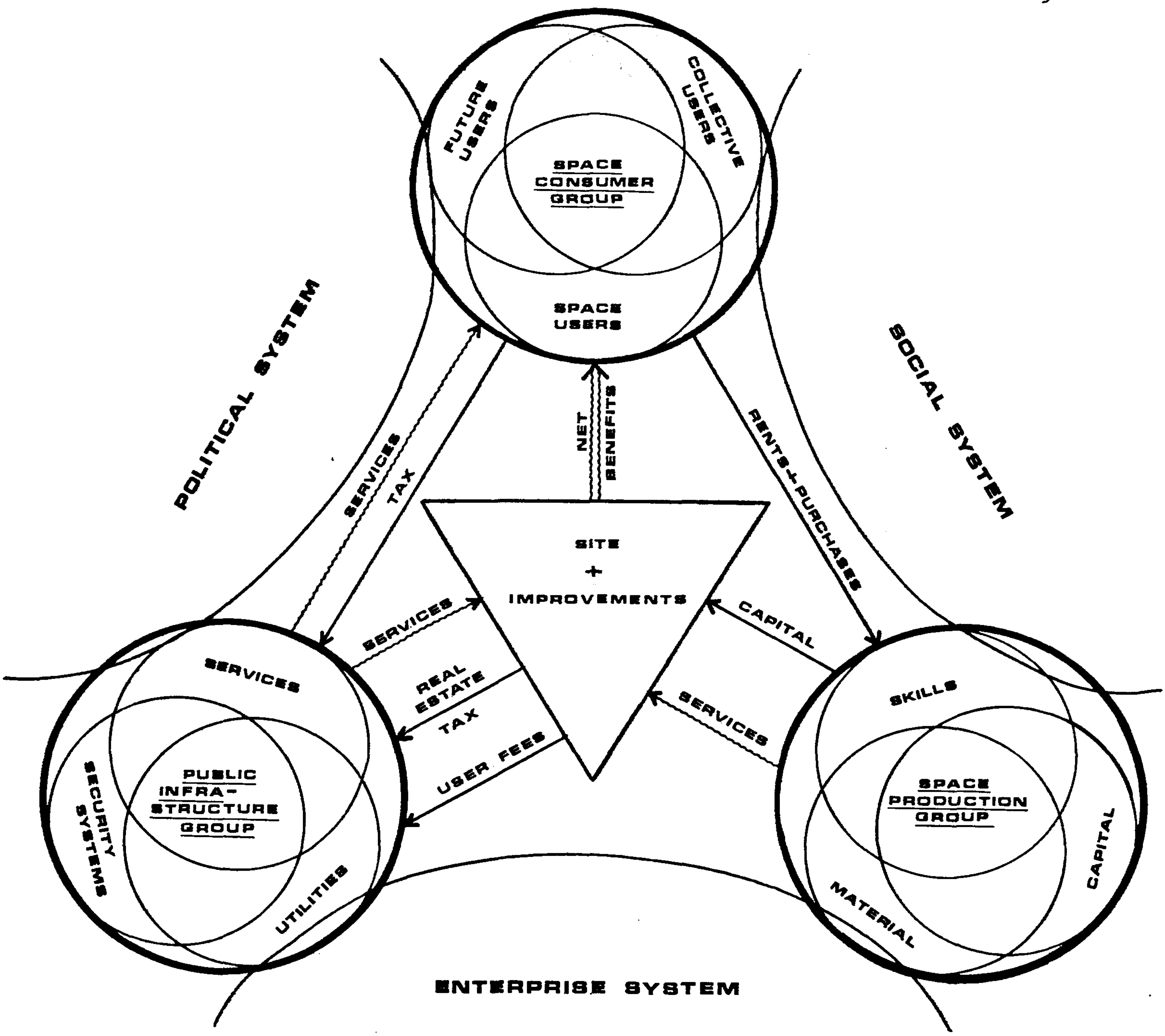
1. Each of these three decision groups represent an enterprise, an organized undertaking. All are cash cycle enterprises constrained by a need for cash solvency, both short and long term.
2. A desirable real estate solution occurs when the process permits maximum satisfaction to the consumer at a price that he can afford within the environmental limits of land while permitting the consumer, producer, and the government cash cycle to achieve solvency--cash breakeven at a minimum, after full payment for services rendered.
3. Solvency of the total process, not value, is the critical issue.
4. Land is an environmental constraint and not a profit center.
5. Land provides access to a real estate business opportunity and is not the opportunity itself. Real estate business wants to control land to create a captive market for services.

D. Land is the point where demand and supply forces find cash solvency. Location is a manufactured attribute. Site attributes are exploited to reduce outlays and to increase receipts and include:

1. Physical attributes
2. Legal-political attributes
3. Linkage attributes
4. Dynamic attributes
5. Environmental attributes

E. Recognition of the fact that profit maximization must be limited by concerns for physical environment, and community priorities for land use has resulted in redefinition of the most basic concept in appraisal;

Exhibit 1



THE REAL ESTATE PROCESS

i.e., highest and best use, in the authorized terminology handbook sponsored by the American Institute of Real Estate Appraisers and the Society of Real Estate Appraisers. Compare the 1971 definition with that for 1975:

> Highest and best use concept -
> "A valuation concept that can be applied to either the land or improvements. It normally is used to mean that use of a parcel of land (without regard to any improvements upon it) that will maximize the owner's wealth by being the most profitable use of the land. The concept of highest and best use can also be applied to a property which has some improvements upon it that have a remaining economic life. In this context, highest and best use can refer to that use of the existing improvements which is most profitable to the owner. It is possible to have two different highest and best uses for the same property: one for the land ignoring the improvements; and another that recognizes the presence of the improvements.
> P. 57, Real Estate Appraisal Principles and Terminology, Second Edition, Society of Real Estate Appraisers 1971.
>
> "Highest and Best Use: That reasonable and probable use that will support the highest present value, as defined, as of the effective date of the appraisal. Alternatively, that use, from among reasonably probable and legal alternative uses, found to be physically possible, appropriately supported, financially feasible, and which results in highest land value. The definition immediately above applies specifically to the highest and best use of land. It is to be recognized that in cases where a site has existing improvements on it, the highest and best use may very well be determined to be different from the existing use. The existing use will continue, however, unless and until land value in its highest and best use exceeds the total value of the property in its existing use. Implied within these definitions is recognition of the contribution of that specific use to community environment or to community development goals in addition to wealth maximization of individual property owners. Also implied is that the determination of highest and best use results from the appraiser's judgment and analytical skill, i.e., that the use determined

from analysis represents an opinion, not a fact to be found. In appraisal practice, the concept of highest and best use represents the premise upon which value is based. In the context of most probable selling price (market value) another appropriate term to reflect highest and best use would be most probable use. In the context of investment value an alternative term would be most profitable use."
<u>Real Estate Appraisal Terminology</u>, Edited by Byrl Boyce, Ph.D., SRPA, Ballinger Publishing Co., Cambridge, Mass., 1975. (Emphasis added.)

F. The purchase of a piece of real estate today involves the acceptance of a great many assumptions about the future. Those who take care to validate these assumptions in a period of transition as to public land use control tend to have the most successful investment.

1. Business decisions today make explicit recognition of their assumptions and the need to act under conditions of uncertainty.
2. Business risk is the difference between assumptions about the future and realizations, and the proforma budget and the end of the year income statement.
3. Risk management is the control of variance between key assumptions and realizations.
4. An appraisal is a set of assumptions about the future productivity of a property under conditions of uncertainty.

G. The concept of highest and best use of land was a commodity concept which did not consider externalities adequately. It is being replaced by concepts of <u>most fitting use</u> and the concept of <u>most probable use.</u>

1. The <u>most fitting use</u> is that use which is the optimal reconciliation of effective consumer demand, the cost of production, and the fiscal and environmental impact on third parties.
2. Reconciliation involves financial impact analysis on "who pays" and "who benefits" - thus the rash of debate on how to do impact studies.
3. The <u>most probable use</u> will be something less than the most fitting use depending upon topical constraints imposed by current political factors, the state of real estate technology, and short-term solvency pressures on consumer, producer, or public agency.
4. <u>Most probable use</u> means that an appraisal is first a feasibility study of alternative uses for a site in search of a user, an investor, and of public consent.

H. In seeking the most fitting and most probable use, the inner city planner and private property appraiser must interact to determine how community objectives and consumer production sector solvency can be achieved simultaneously.

1. A real estate decision has only two basic forms. Either a site is in search of a use and consumer with the ability to pay, or a consumer, need or use with a defined ability to pay is seeking some combination of space-time attributes he can afford.
2. The individual consumer with needs and budget is the drive wheel.
3. The public sector represents the community owned consumer service delivery system, seeking to minimize marginal cost to the consumer and average cost to the community at large.
4. The production sector responds to a derivative demand for engineering and management expertise.

I. Critiquing the form and adequacy of a real estate solution is analogous to the artistic concept of judging the success of an art object by relating form of the solution to the context to which it was created.

1. Context includes those elements which are fixed, given, or objective, and to which any solution must adapt.
2. Form-giving elements are those variables within the artists control, i.e., options or alternatives at a particular time.
3. A solution is judged for its correctness or success in terms of the degree of fit of the form proposed to the content.
4. Feasibility analysis is concerned with the degree of fit or the extent of misfit between a proposed course of action and the context within which it must operate or fit.
5. Success therefore depends on how appropriately the problem is defined; testing feasibility depends primarily upon accurate and comprehensive definition of the context.

J. An enterprise is any organized undertaking, and a real estate problem or project always begins from the viewpoint of some enterprise relative to its environment.

1. The systems engineer sees the eventual form of an enterprise, in terms of both its configuration and behavior, as representing a negotiated consensus between two general sources of power--the power of the environment to dictate form and behavior of the organization on the one hand, and the power of the organization to decide for itself what its characteristics and behavior will be on the other.

2. The systems engineer uses "power of the environment" as a dynamic alternative to the static implications of context and adds dynamic element of behavior to the elective responses of the form-giver.

REAL ESTATE FEASIBILITY

Presented by

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SECOND HOUR

I. Feasibility Analysis

A. The concept of feasibility is elusive and much abused. Combining the systems concept of enterprise under conditions of uncertainty and the physical design concept of fit leads to the following definition:

> "A real estate project is 'feasible' when the real estate analyst determines that there is a reasonable likelihood of satisfying explicit objectives when a selected course of action is tested for fit to a context of specific constraints and limited resources."

B. The problem of defining objectives and measuring success depends almost entirely on correctly defining the problem and values of the client.

1. The nature of a decision process must be made explicit.
2. Defining a problem in terms of inherent characteristics must be addressed today.
3. The nature of risk and risk management must be made explicit because the definition implies uncertainty by means of a subjective probability, "reasonable likelihood of succeeding."
4. There is a need to identify and measure the weight elements of success.
5. There is a need to identify and dimension the limited resources of the client in terms of personnel, expertise, cash, and time for commitment and completion.
6. Definition of decision process and problem lead to proper description of work project for the analyst.

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

Values, objectives, policy	Strategic format
Search for opportunity alternatives	Market trend analysis
Selection of an opportunity	Merchandising target with monopoly character
Program to capture opportunity	Legal-political constraints Ethical-aesthetic constraints Physical-technical constraints Financial constraints
Construction of program	Project development
Operation of program	Property management
Monitoring and feedback	Real estate research

D. These basic elements and definitions then lead to the requirement of a correct report title. Most feasibility reports go wrong on the title page because the analyst did not clearly understand to which elements of context and form his report was to be addressed. Seldom does the analyst do a complete feasibility study as a single report on his own. Components may be provided by others and the sequence of set may differ in each case depending on how the consultant understands the client. Therefore, a report should be entitled as one of the following:

1. <u>Strategy study</u>: selection of objectives, tactics, and decision criteria.
2. <u>Market analysis</u>: Economic base studies or other related aggregate data review.
3. <u>Merchandising studies</u>: consumer surveys, competitive property analysis, marketability evaluation, etc.
4. <u>Legal studies</u>: opinion on potential legal constraints, model contracts of forms of organization, and politician briefs.
5. <u>Architectural and engineering studies</u>: alternative building envelopes, structural solutions, and net usable space and space relationships, together with technical resolutions of problems in the physical context adequate for budgeting and marketing work.
6. <u>Compatibility studies</u>: project impact on various groups affected in terms of their attitudes, expectations and vested interests in the status quo and community goals.
7. <u>Financial studies</u>: cash flow budgets, potential risk and sensitivity analysis, fiscal impact analysis, and alternative sources of capital, tax implications, etc.

E. Feasibility analysis is a sub-topic within the generally expanding literature of problem solving. Any Counselor or problem solver is urged to read the following:

1. The Art of Problem Solving, Russell L. Ackoff, John Wiley & Sons, New York, 1978.
2. The Complete Problem Solver, John R. Hayes, The Franklin Institute Press, Philadelphia, 1981.
3. Strategic Planning in Emerging Companies, Steven C. Brandt, Addison-Wesley Publishing Company, 1981.

Ackoff subdivides any problem into five types of components:

1. The decision maker--the person or persons faced with the problem as a group or individual.

2. The controllable variables--those aspects of the problem situation the decision maker can control.

3. The uncontrolled variables--those aspects of the problem situation the decision maker cannot control but those which, together with the controlled variables can effect the outcome of his choice. The uncontrolled variables may be quantitative or qualitative, but together they define the problem environment, in the language of Ackoff, or the context in the language of Christopher Alexander.

4. Constraints imposed from within or without on the values of the controlled and uncontrolled variables. For example, the consumer places a limit on how much he is willing to pay for rent, although rent levels themselves are often set by cost factors beyond his control.

5. The possible outcomes produced jointly by the decision makers choice and the uncontrolled variable.

Ackoff further refines problem solving:

> A problem is said to be solved when the decision maker selects those values of the controlled variables which maximize the value of the outcome; that is, when he has optimized. If he selects values of the controlled variables that do not maximize the value of the outcome but produce an outcome that is good enough, he has resolved the problem by satisficing. There is a third possibility: he may dissolve the problem. This is accomplished by changing his values so that the choices available are no longer meaningful. For example, the

problem of selecting a new car may be dissolved by deciding that the use of public transportation is better than driving oneself. It may also be dissolved by moving to within walking distance from work so that driving is no longer required. We use "solving" loosely to cover all three alternatives.

Ackoff also points out that many problem solvers are reactive responding to the immediate irritation which leads us "to walk into the future facing the past - we move away from, rather than toward something. This often results in unforeseen consequences that are more distasteful than the deficiencies removed." Recall D.D.T. Problem should be proactive by specifying the ideal outcome and looking for ways to move in that direction. "The chances of overlooking relevant consequences are minimized when we formulate a problem in terms of approaching ideals ... focusing on an ideal reveals the relationships between things that can be done in the future and tends to make us feel simultaneously with sets of interacting threats and opportunities, to treat them as a whole, as a system of problems.

From that it is important to learn that:

Planning is dealing with sets of interacting problems
Problem solving is finding alternative routes to approach an ideal solution
Feasibility analysis is testing a specified course of action for its likelihood of fulfilling the ideal
An appraisal is a ficticious feasibility study in which human behavior is assumed to be normative

F. The Hayes text is a rich collection of problem solving and decision making methods. Hayes believes that problems should be represented with doodles, flow charts, simple diagrams, or other graphics. He sees the problem solving process as correctly representing the goal, correctly specifying the initial state of affairs, correctly specifying the differences between the current state of affairs and the goal, the restrictions in moving toward the goal and operators available to advance affairs to the goal. He defines decision technique for conditions of certainty, uncertainty, or competitive conflict. Hayes develops for strategic viewpoints:

1. The mini-max strategy which assumes that "nature is against us" so that the object is to choose the strategy that will minimize the disaster, although it has the unfortunate property that may also eliminate the best possible outcome.

2. The maxi-max strategy chooses the course of action which could provide the best of the best possible outcomes, but it does not defend you against the possibility of enjoying the worst possible outcome.

3. The Hurwitz strategy allows a compromise between the pessimistic and the very optimistic strategies above while allowing one to modify the probabilities with a factor for the level of optimism or pessimism of the decision maker.

4. Minimizing maximum regret strategy may be most significant for real estate investors as in phasing the project or buying standby credit at an exorbitant rate.

G. Hayes describes four general types of decisions which require different decision procedures: decisions under certainty, under risk, under uncertainty, and under conflict. In the case of certainty the facts are known and static, and it is only necessary to rank in terms of desirability. Consider four student apartments as described in Exhibit 2. Hayes demonstrates five different methods which may be useful for making decisions under certainty:

1. Dominance which determines that one alternative dominates if it is at least as good as the other properties and is better in one attribute on at least one property. (See Exhibit 3.)
2. The lexicographic method which ranks like a dictionary specifying the most important attributes first and then resolving ties in ranking by going to the second most important attribute second. The weakness is that the selection process ignores all but the most important attributes so that the selection may have serious unattractive secondary attributes.
3. Additive weighting takes all attributes into account but gives them different weights depending on value systems of observer. It does not recognize interactions of attributes so it can lead to inappropriate decisions by ignoring interactions just as lexicographics ignore minor attributes. (See Exhibit 4.)
4. Effectiveness indices take into account interactions, such as the profitability index which takes present value of premises relative to total capital budget.

EXHIBIT 2

Student Apartments

A1

brightness:	always needs artificial lighting
cleanliness:	needs vacuuming
kitchen:	new stove, sink, and refrigerator
noise level:	frequently noisy
size of rooms:	average
general repair:	needs no repairs
distance from place of employment:	15 minutes
landlord attitude:	indifferent

A2

size of rooms:	cramped
noise level:	usually quiet
general repairs:	needs no repairs
brightness:	very bright throughout the day
cleanliness:	needs vacuuming
landlord attitude:	cordial
distance from place of employment:	60 minutes
kitchen:	stove, sink, and refrigerator in good condition

A3

distance from place of employment:	20 minutes
brightness:	fairly bright
landlord attitude:	very friendly
cleanliness:	ready to move in
kitchen	stove, sink, & refrigerator, old but useable
noise level:	sometimes noisy
general repair:	needs one week repair work
size of rooms:	comfortable

A4

general repair:	needs no repairs
brightness:	very bright
noise level:	often quiet
size of rooms:	small
distance from place of employment:	45 minutes
kitchen:	stove & refrigerator in good condition
landlord attitude:	cordial
cleanliness:	ready to move in

EXHIBIT 3

Alternatives

	1	2	3	4
Distance in Minutes	15 Min	60 Min	20 Min	45 Min
Size of Rooms	Average	Cramped	Comfortable	Small
Kitchen	New stove, etc.	Stove, etc. in good condition	Stove, etc. old but useable	Stove, etc. in good condition
General Repair	Needs no Repair	Needs no Repair	Needs one Week work	Needs no Repair
Cleanliness	Needs Vacuuming	Needs Vacuuming	Ready to Move in	Ready to Move in
Noise Level	Frequently Noisy	Often Quiet	Sometimes Noisy	Often Quiet
Brightness	Always needs artificial light	Very Bright	Fairly Bright	Very Bright
Landlord	Indifferent	Cordial	Very Friendly	Cordial

Only one alternative dominates another in this problem: Alternative 4 dominates Alternative 2. Alternative 4 is as good as Alternative 2 in "kitchen," "general repair," "noise level," "brightness," and "landlord," and it is better in "distance," "size," and "cleanliness." Alternative 1 does not dominate Alternative 2 because, while it is better in some properties, such as "distance," it is worse in others.

EXHIBIT 4

Alternative Apartments

	1	2	3	4	Weight
Distance in Minutes	15 Min (4) 28	60 Min (1) 7	20 Min (3) 21	45 Min (2) 14	7
Size of Rooms	Average (3) 12	Cramped (1) 4	Comfortable(4) 16	Small (2) 8	4
Kitchen	New stove, etc. (5) 15	Stove, etc. in good condition (4) 12	Stove, etc. old but useable (3) 9	Stove,etc. in good condition (4) 12	3
General Repair	Needs no Repair (5) 10	Needs no Repair (5) 10	Needs one Week work (2) 4	Needs no Repair (5) 10	2
Cleanliness	Needs Vacuuming (4) 4	Needs Vacuuming (4) 4	Ready to Move in (5) 5	Ready to Move in (5) 5	1
Noise Level	Frequently Noisy (2) 2	Often quiet (4) 4	Sometimes Noisy (3) 3	Often quiet (4) 4	1
Brightness	Always needs artificial light (1) 1	Very bright (5) 5	Fairly Bright (3) 3	Very Bright (5) 5	1
Landlord	Indifferent(3) 3	Cordial (5) 5	Very Friendly (4) 4	Cordial (5) 5	1
Sum of Value X Weight	75	51	65	63	

5. Satisficing approach requires the decision maker to identify the minimum value he is willing to accept for each of the attributes, rejecting alternatives which fail the test, and accepting the first alternative which meets all the minimal values tests. (For example, a building with a debt cover ratio no less than 1.2, a cash on cash yield of 9%, leasable area no less than 60,000 square feet in an office building no more than five years old with one parking stall per 300 square feet of G.L.A.) (See Exhibit 5.)

H. Summary of systems in Exhibit 6

Success may be measured by any of the above systems with lists of attributes selected by the analyst as relevant tests of alternative courses of action, such as:

1. A check list of physical attributes
2. A check list of critical linkage attributes
3. A check list of dynamic behavioral attributes
4. A check list of attributes or services (given weighted point scores)
5. Financial ratios measuring risk, such as cash breakeven, rate of capital recapture, loan ratios or sensitivity to specified contingencies
6. Probability distributions of alternative outcomes and standard error
7. Psychological gratifications
8. Specified legal attributes
9. Measures of impact on environment

I. Data base management on personal computers will require that you learn to use decision rules dealing with certainty, conflict, and difference by understanding the advantages and disadvantages of each rule.

EXHIBIT 5

Worksheet Containing MUSTS and WANTS, With Appropriate Weights Added, For a House-Purchase

MUST OBJECTIVES: Resource Limits and Requirements

- Down payment not to exceed $10,000
- Monthly payment (principal, interest, taxes, and insurance) not to exceed $300
- Minimum of four bedrooms
- Minimum of two bathrooms
- Location outside of downtown area, within 45-minutes driving time to office parking lot
- Occupancy within 60 days

WANT OBJECTIVES: Best use of resources, maximum results and returns, minimum disadvantage

	Weight
Minimum down payment	6
Lowest monthly payment	10
Location conveniently close to work	7
Able to use present furnishings, drapes	5
Shelter for two cars	4
Public transportation nearby	4
Location convenient to elementary and high schools	8
Location convenient to shopping center, stores	7
Workshop and storage space available	2
Stable resale value	7
Attractive; modern style and appearance	5
Good landscaping; trees, shrubs	4
Large play area for kids	5
Large, modern kitchen with a view	2
Large, comfortable family room	3
Location on quiet street, in good neighborhood	4
Minimum maintenance cost to house	7
Minimum risk - tax increase or special assessments	4

Source: Page 198, <u>The Rational Manager</u> by Charles H. Kepner and Benjamin B. Tregoe.

EXHIBIT 6

Decision Making Methods

Method	Type	Use this method	Cost of computation required	Number of alternatives examined
Dominance	Optimizing	for preliminary screening of alternatives	low	all
Lexicography	Optimizing	when attributes are very different in weight	very low	all
Additive Weighting	Optimizing	when it is important to find the best alternative	high	all
Effectiveness Index	Optimizing	when it is very important to get best alternative	very high	all
Satisficing	Non-optimizing	when the cost of examining the whole set of alternatives is very high	very low	some

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THIRD HOUR

I. Problem Perceived by the Client

The original problem as perceived by the client is generally ill-defined or misdirected as the problem becomes understood by the analyst.

A. There are several reasons for the shift in perception by both parties, such as:

1. Implicit assumptions by the client as to the services offered by a real estate appraiser
2. Implicit assumptions and poor sequencing in the decision process
3. The bias of viewpoint, because everyone is an expert on real estate
4. A bias introduced by training, previous experience, or peer group controlling the client

B. The consultant must begin by attempting to discover the sequence or protocol of decisions which have brought the client to that point to discover what has been taken for granted, what has been overlooked, and what will be needed.

C. Education can't provide the tools for this critical initial step in the relationship between counselor and client. Ackoff pointed out that educators generally produce only competence, communicativeness, and concern while the characteristics that makes for outstanding managers are courage and creativity. Hayes goes on to define creativity as "A special kind of problem solving, that is the act of solving an ill-defined problem. Ill-defined problems are those which require problem solvers to contribute to the definition of the problem from their own resources."

D. The consultant must structure the initial interview and subsequent intermediate report sessions to ask the client explicitly about the following:

1. His concept as to the "essence" of his business
2. His preferred method of meeting entrepreneurial risk
3. His preferred method of dealing with governmental regulation and news media
4. His preferred method of personnel compensation
5. His style of value decision trade-offs between qualitative and quantitative issues
6. His perception of his risk position and his risk utility "curve"
7. His personal non-business objective
8. His reasons for being involved with real estate (a simple question revealing, in most cases, tremendous naivete and lack of in-depth preparation by the client)

E. In the process of developing the assignment with the client, keep in mind the following questions:

1. What is the Problem at hand?
2. From what Viewpoint or Perspective should the problem be analyzed?
3. What Judgments seem to be appropriate?
4. What Assumptions should be adopted?
5. Is the resulting Premise realistic?
6. What Derivation Process should be applied?
7. What Conclusion results?
8. What Alternative choices are available?

F. Since the problem perceived by the client may be poorly defined, the analyst needs to convert the stated problem into a sequence of issues which relate to the enterprise decision process outlined earlier. (See Exhibit 7.)

1. That stated question, "How much should I pay for the land?" is a step in implementation of the program. Go back to the statement of objectives, "Why do I need to invest in land?" and the search for opportunities, "How did we choose this piece of land?"

2. In general, you must discover what has been done, what explicit assumptions have been made, what implicit assumptions seem to be operating, and who made the decisions thus far. (See Exhibit 8.)

EXHIBIT 7

SCOPE OF SERVICES

BASIC BUSINESS	BASIC SERVICES	COMPONENT ACTIVITIES	INFORMATION TRACTS & CRITICAL DETAILS
Real Estate Investment Analysis	Development Coordination	Planning & Programming	**Analysis of Economic Context Re:** Past Growth Trends Economic Base & Volatility Strengths & Weaknesses Recent Trends & Changes Future Economic Outlook including - Growth Potential - Growth Constraints - Investment Considerations
		Site & Use Analysis	
		Economic Analysis of Region	
	Development Feasibility Analysis	Construction Cost Analysis	**Analysis of Specific Property Types Re:** Past Directions of Growth Major Growth Factors Future Growth Areas Sub-Area Differentiation Historic Supply/Demand Relationships Future Demand Trends Absorption Capacity Recent Trends & Projected Construction
		Highest & Best Use Analysis	
		Market Analysis	
		Marketability Analysis	
	Appraisal	Location Analysis	**Analysis of Specific Property Types Re:** Rent Levels & Trends Vacancy Levels & Trends Quality Differences Locational Differences Lease Terms & Differences
		Rent & Vacancy Survey	
		Market Price Analysis	
	Income Property Analysis (potential or previous acquisitions & problem properties)	Value-Price Determination	**Analysis of a Specific Property Re:** Revenue Assumptions (1st year & Growth) Expense Assumptions (1st year & Growth) Reserves and Capital Replacement Req'ts Financing Assumptions Depreciation Assumptions Resale Assumptions Return Comparisons
		Financial Return Analysis	
		Transaction Structuring	
	Acquisition, Sale, Trade, Refinancing Assistance	Hold/Sell/Refinance/Evaluation	**Formulation of Investment Criteria Re:** Economic expectations (nat'l & local) Realistic Return Levels for alternate markets and property types Risk/return tradeoffs Diversification (geographic & prop. type) Management Strategies Alternate investment vehicles
		Investment Strategy Formulation	
		Acquisition Negotiation	
		Sale & Debt Packaging	
	Property Management & Analysis	Property Search & Evaluation	**Formulation of Search Methodology Re:** Comparison/Selection of Markets Identification/Solicitation of available properties Contact with Owners and/or Brokers Determination of Market Preference Points (Cap rates, cash-on cash returns, expense ratios, and market trends) Approximation of Value to Buyer Determination of Upside Potential
	Management Assistance	Buyer Identification	
		Management Analysis & Planning	

EXHIBIT 8

FEASIBILITY ASSIGNMENT AND ACCOUNTABILITY WORKSHEET
XYZ APPRAISAL COMPANY
XXX STREET ANYWHERE, U.S.A.

Name of Client: ______________________ Date: __________

Assignment Description: ______________________

FEASIBIITY INPUT	PROVIDED BY	APPROVED BY	SEQUENCE AND DATE AVAILABLE
1. Definition of questions and strategic objectives			
2. Definition of success criterion			
3. Ranking of criteria by priority			
4. Definition of specific site			
5. Definition of market opportunity			
6. Space user profile			
7. Space consumer preference survey			
8. Space product definition			
9. Aggregate and market forecast and absorption rate			
10. Merchandising capture rate by product mix			
11. Legal and political constraints assumed for user and investor			
12. Site constraints and site development plan			
13. Architectural constraints and plans			
14. Environmental impact assumptions			
15. School district impact assumption			
16. Municipal infrastructure and revenue impact			
17. Aesthetic and social impact			
18. Land cost assumptions			
19. Improvement cost assumptions			
20. Indirect cost assumptions			
21. Operational cash-flow budget assumptions			
22. Income tax liability assumptions			
23. Financing and refinancing assumption			
24. Other			

Accepted by Client ______________________
(Date)

Worksheet suggested in part by John Rasmussen, Feasibility Research Group, 210 Michigan Theater Building, Ann Arbor, Michigan 48108.

3. A useful technique is always to reverse the question or place it in some hierarchy of values.

   a. For industrial real estate assume that working capital is preferrable to fixed assets. Therefore,
   b. Own no real estate - shift real estate problems by purchasing procedures.
   c. If you can't shift space needs, lease short term
   d. If you want the option of long term leases, negotiate a long term lease for rental discount and then give back part of the discount if you cancel under a change of conditions clause.
   e. Own or build only as last resort

4. One creative think system recommends conversion of new problem by analogy to old format; retail location is useful for any multi-tenant space just as commodity terms made describe a mortgage. Familiar problems may need a purge of conventional answers by conversion to strange analogies.

G. Another way of understanding the problem is to relate it to scope of services you can offer, as in Exhibit 8, or the ideal way to approach a solution for the client. For example:

1. It is preferred to identify locational need and use requirements of a user before searching for a specific site. (See Exhibit 9.)

2. If the site is already owned by a specific client, it is then necessary to adapt the use to the specific limitations of the site. (See Exhibit 10.)

3. In the absence of a site in search of a use or a use in search of a site, the problem is to search for an investment opportunity in real estate. (See Exhibit 11.)

4. Limitations of a site owned may require the consultant to solve both a disposition and an acquisition problem.

H. Definition of a report medium and viewpoint of an intended audience is critical in the early stages of defining the assignment.

I. In distinguishing between judgment and assumptions, the analyst may need to be an expert on experts, helping to select members of a team of specialists under the control of a generalist.

EXHIBIT 9

Figure 6

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

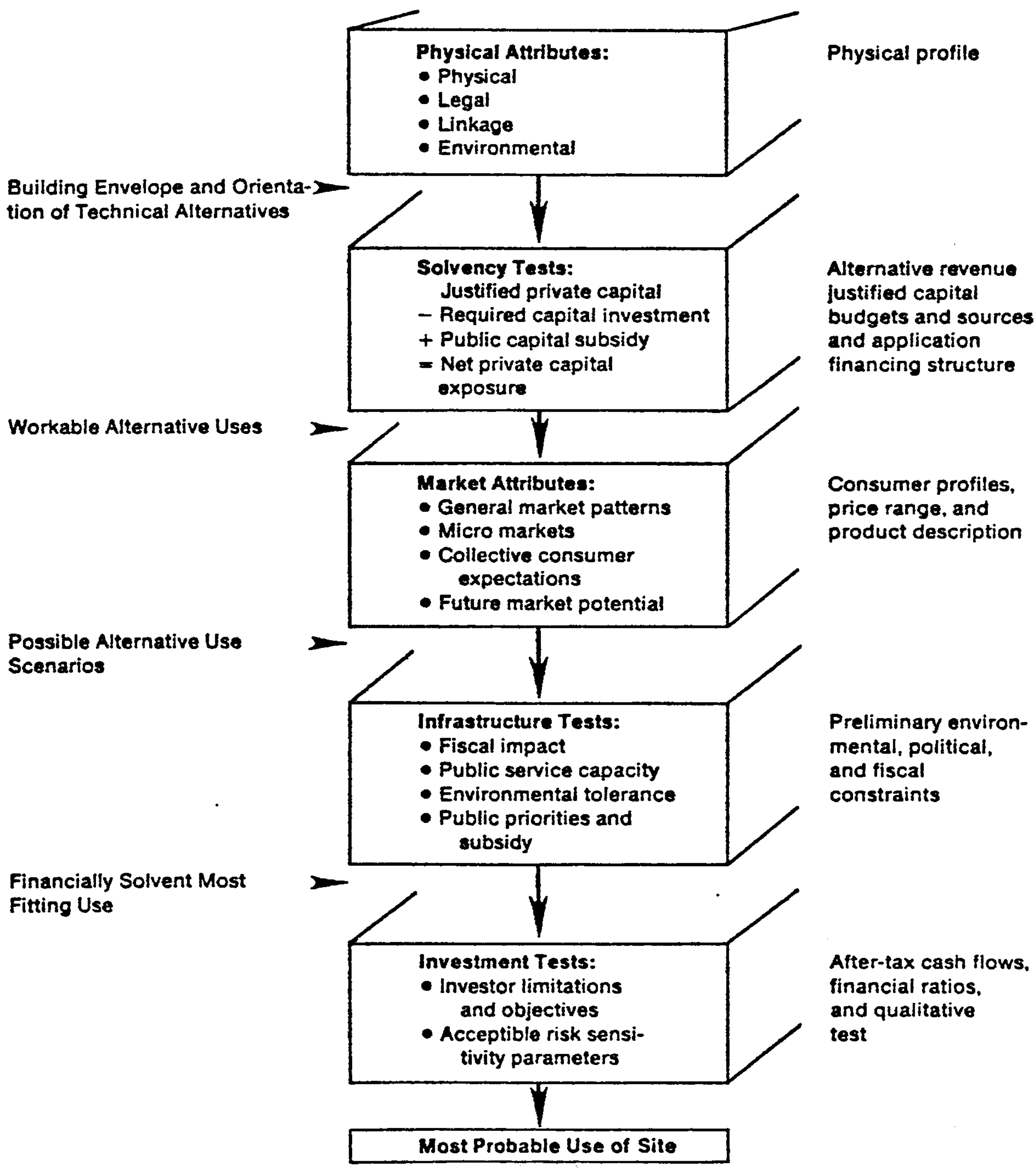


EXHIBIT 10

Figure 5

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

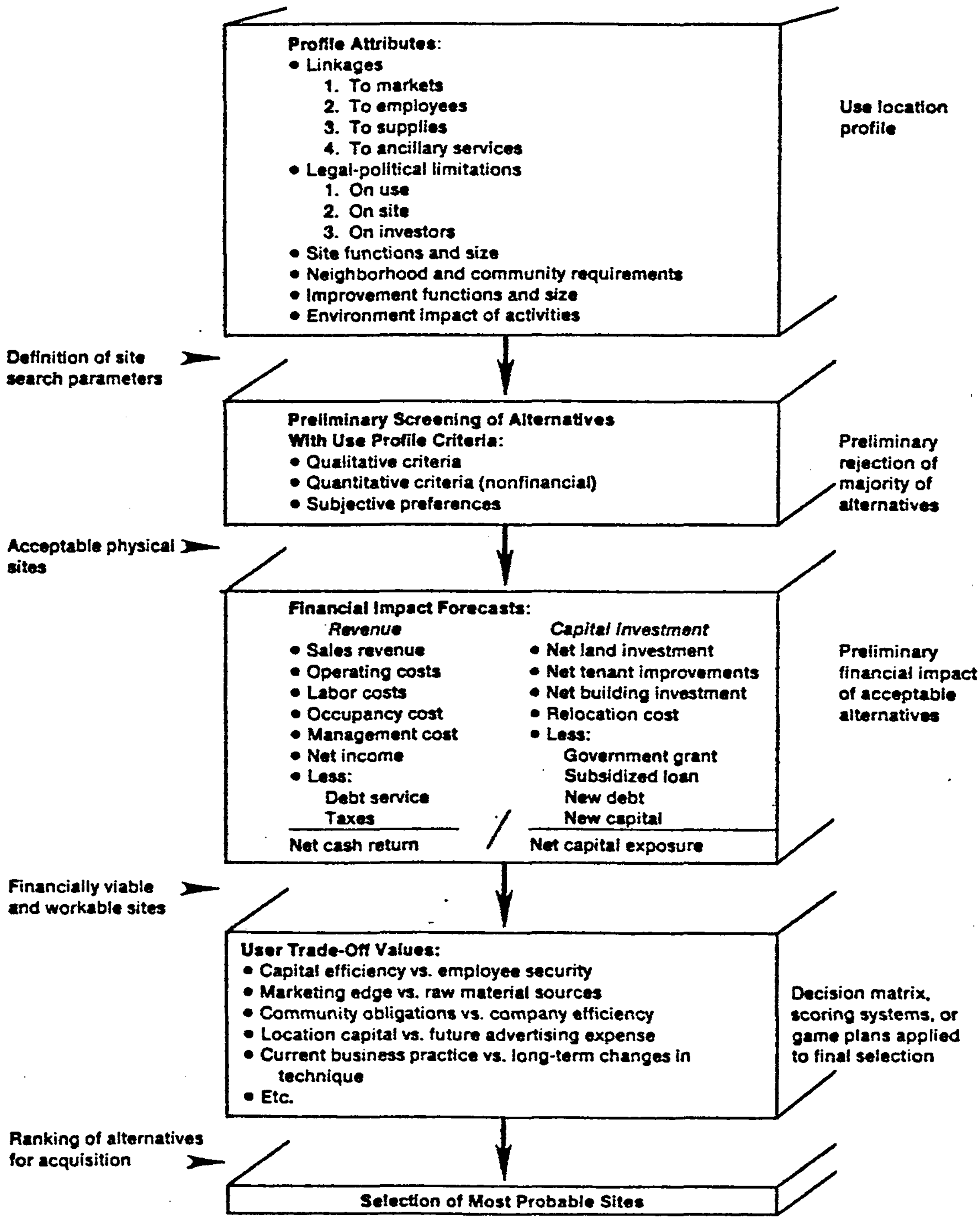
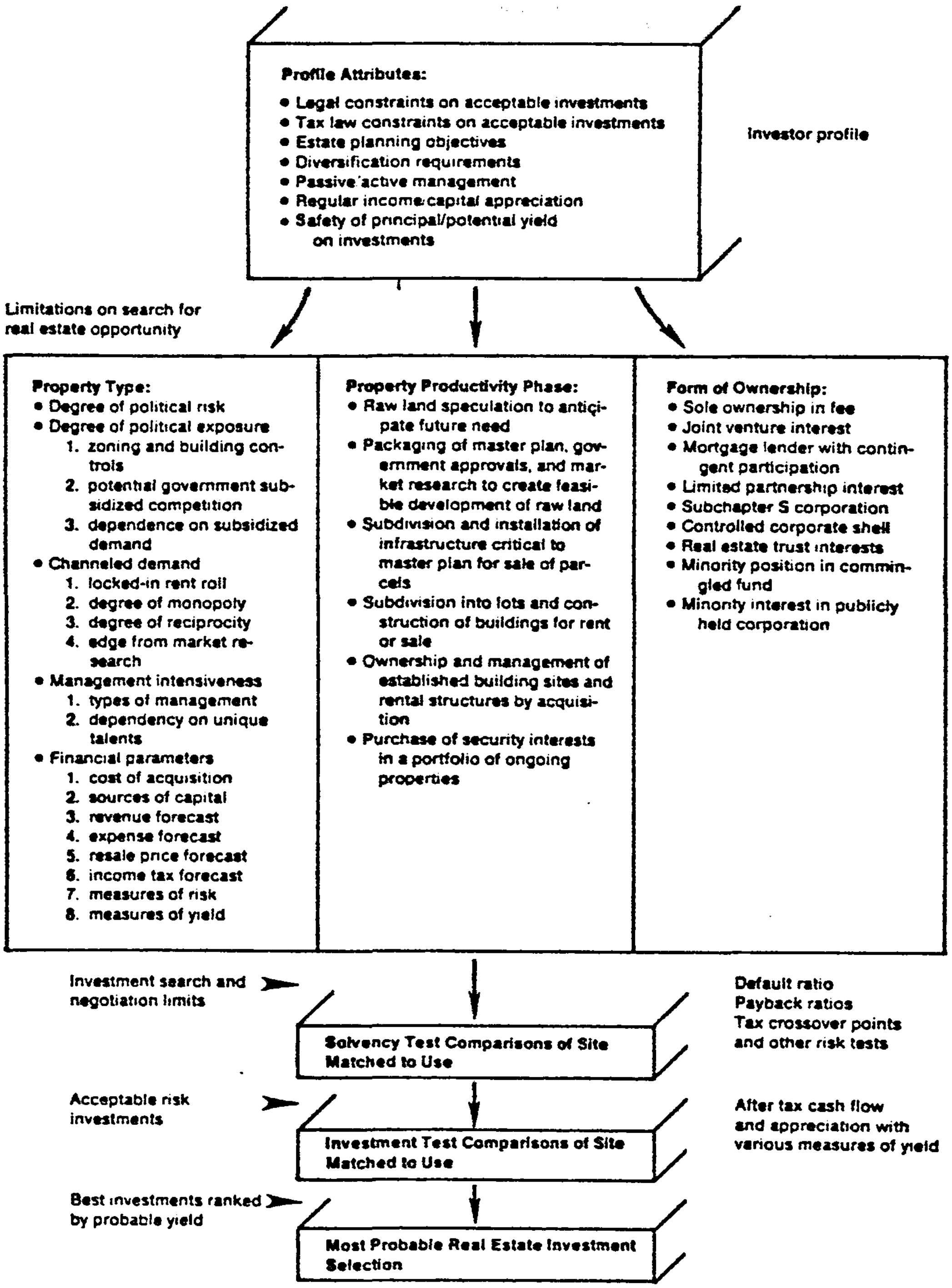


EXHIBIT 11

Figure 7
Process for Investor Selection of Real Estate



REAL ESTATE FEASIBILITY

Presented by

Professor James A. Graaskamp, Ph.D., CRE, SREA
University of Wisconsin, School of Business

FOURTH HOUR

I. Although macro-economic theory argues a tendency toward perfect competition, the individual project should be striving toward a monopoly. Market analysis is the research necessary to create and maintain a competitive edge in order to stabilize investment performance against the profit decline of perfect competition, against inadvertent clash with community attitudes, and against future user rejection.

A. Given that premise, market research is risk management. The levels of market research would be:

1. Intuitive positioning to reflect attitudes about the future long-term trends of society, demographics, the economy, etc.

a. For example, if government, education, and high tech are attitudes, then positioning might lead one to focus on state capitals with universities having technical rather than liberal arts emphasis.

b. Attitudes might be set by futuristic books such as <u>Megatrends</u>, <u>Third Wave</u>, or <u>The Ten Countries of North America</u>.

c. An old precept is "sell if everybody's buying, market to the gap that everyone overlooks." Thus market positioning might take an established idea in first and second tier cities and introduce it in the third and fourth tier cities.

2. Next, marketing would stratify within a narrow band of broader demographic market of intuitive positioning.

3. Stratification would consist of several segments of the broader band of preference (elderly breakdown or thirteen housing segments).

4. Identifying issues and symbols which would trigger adverse reactions of the collective consumer.

5. Evaluating demand/supply relationships to determine need for sensitivity to specialized consumer needs.

6. Focusing the project to provide relief from anxiety, a reduction in physical discomfort, improved efficiency of an activity house, or improvement of self-esteem of the targeted user/customer group.

7. Defining and controlling the window for presentation of the concept (the approach zone, the sales center office, the formal introduction and interview, etc.).

8. Identifying alternative markets and basic product features necessary to permit marketing campaign for an alternative second course, a fallback position.

B. The real estate project marketing program must keep in mind the features required to neutralize the collective consumer who might oppose entitlements, the features and codes which will motivate the space consumer at a price which provides financial viability, and the overall six strategic attributes to be marketed to the investor. At the very least, market and merchandising research should be able to eventually produce a marketing program which suggests:

1. Where the developer/investor should position his effort relative to demographic and economic trends given a desired scale of operation.

2. The unmet needs in the marketplace in terms of most probable user groups, their total number, and their effective demand constraints.

3. The time span of their effective demand in the marketplace.

4. The competitive standard product minimum required for entry into the market.

5. The competitive product/service/margin necessary for monopoly advantage.

6. The project image most likely to neutralize collective opposition.

7. Essential media and themes required for promotion programs.

8. Financial parameters required to attract investors, mortgage or equity.

II. The first step is to reduce aggregate data about user groups which is plausible but overly general information to a scale which will focus on a sub-segment with a proper rationale or hierarchy. To do that requires an analytical model and in most cases, each situation requires the analyst to create his own model with which to structure the data available and to discover the missing links in the logic diagram which must be researched.

A. Models organize the analyst, the report, and the client

1. Models explain what you are going to do.

2. Models make relationships and key assumptions explicit.

3. Models permit clients to understand logic of conclusions and to test his own set of assumptions.

B. A market research model should be careful to recognize?

1. What are the questions?

2. What data is available which is relevant?

3. What theory is available to focus data on the questions?

4. How will the results be communicated?

5. What are the abilities of the analyst?

6. What is the cost benefit ratio between the model method and the question?

C. Merchandising data is generally primary information generated by the analyst about specific competitive projects and specific user groups which will permit an estimate of what percentage of the opportunity group can be captured for a specific project.

1. Absorption rates apply to aggregate market data to determine the total size or amount of market activity in terms of how many lots were sold, how many apartments in a rental range were newly rented, or how many square feet of leased office space were occupied.

2. <u>Capture rates</u> are the product of merchandise research and are the ratio of the total opportunity potential which might be secured for a project or must be secured to achieve financial goals. The capture rate will reflect a careful judgment of product mix, amenities, pricing, and timing.

D. A flow chart of the market research process is provided in Exhibits 12 and 13.

E. Most multi-tenant or multi-user land uses are susceptible to a retail trade area model. A retail model is a device analogous to establishing a retail trade area perimeter for a super market to segregate households which have a reasonable probability of using the outlet from those who don't because of convenience, distance, age, or income. Thus the analyst should establish a preliminary hypothesis for:

1. Primary market area to be served.

2. Secondary market area to be served.

3. Principal competitors.

F. Consider Exhibit 14 as a simple market model to define the size of an opportunity area in a selected county for elderly persons requiring residential care units.

1. For lines with asterisks the key ratios for reduction were derived from a survey of the elderly generating primary data for this county.

2. For example, while 37% of the elderly were financially qualified, only about 60% of those were interested in considering a residential, minimal care facility or 22% of those in the conventional housing market - hence the reduction from 19,700 to only 4,200. This chart should have showed the ratios from the survey.

3. Failure to convert serious interest into action was a round number based on experience of those who had marketed similar developments in the past, as was an allowance for potential customers coming from outside the county to be closer to relatives, etc.

EXHIBIT 12

SEGMENTATION LOGIC TREE

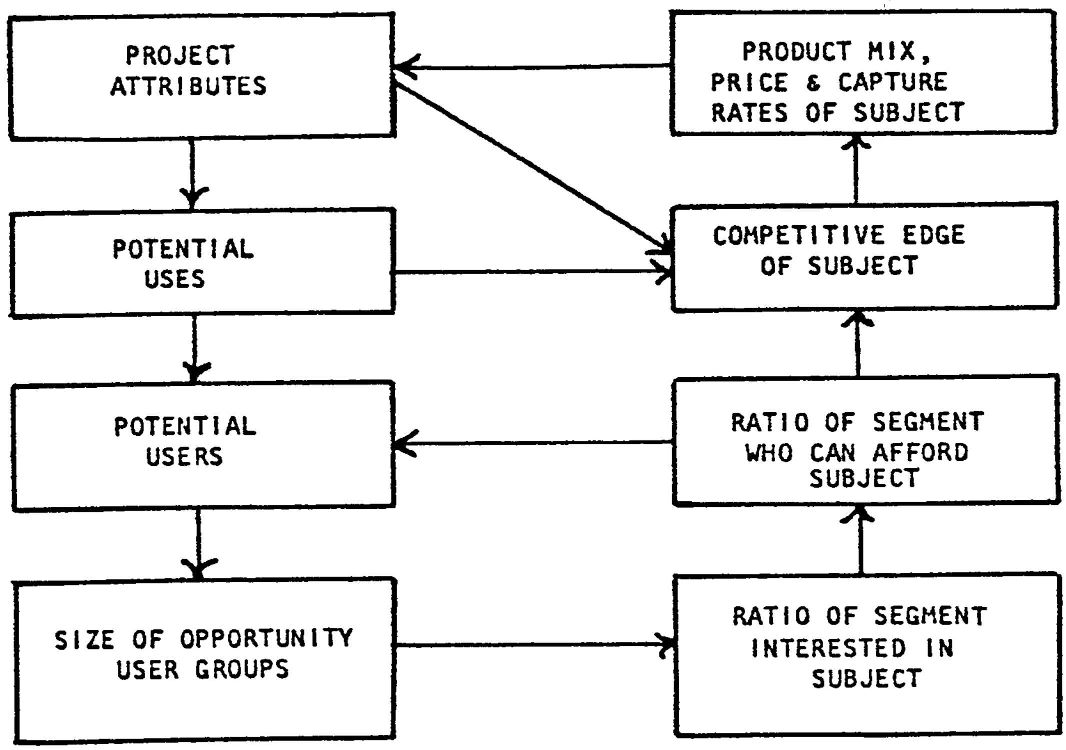


EXHIBIT 13

FOCUSING IN ON THE VARIOUS SEGMENTS OF THE ELDERLY POPULATION

TO DETERMINE RELATIVE LEVELS OF HOUSING NEED

AND THE URGENCY OF THAT NEED

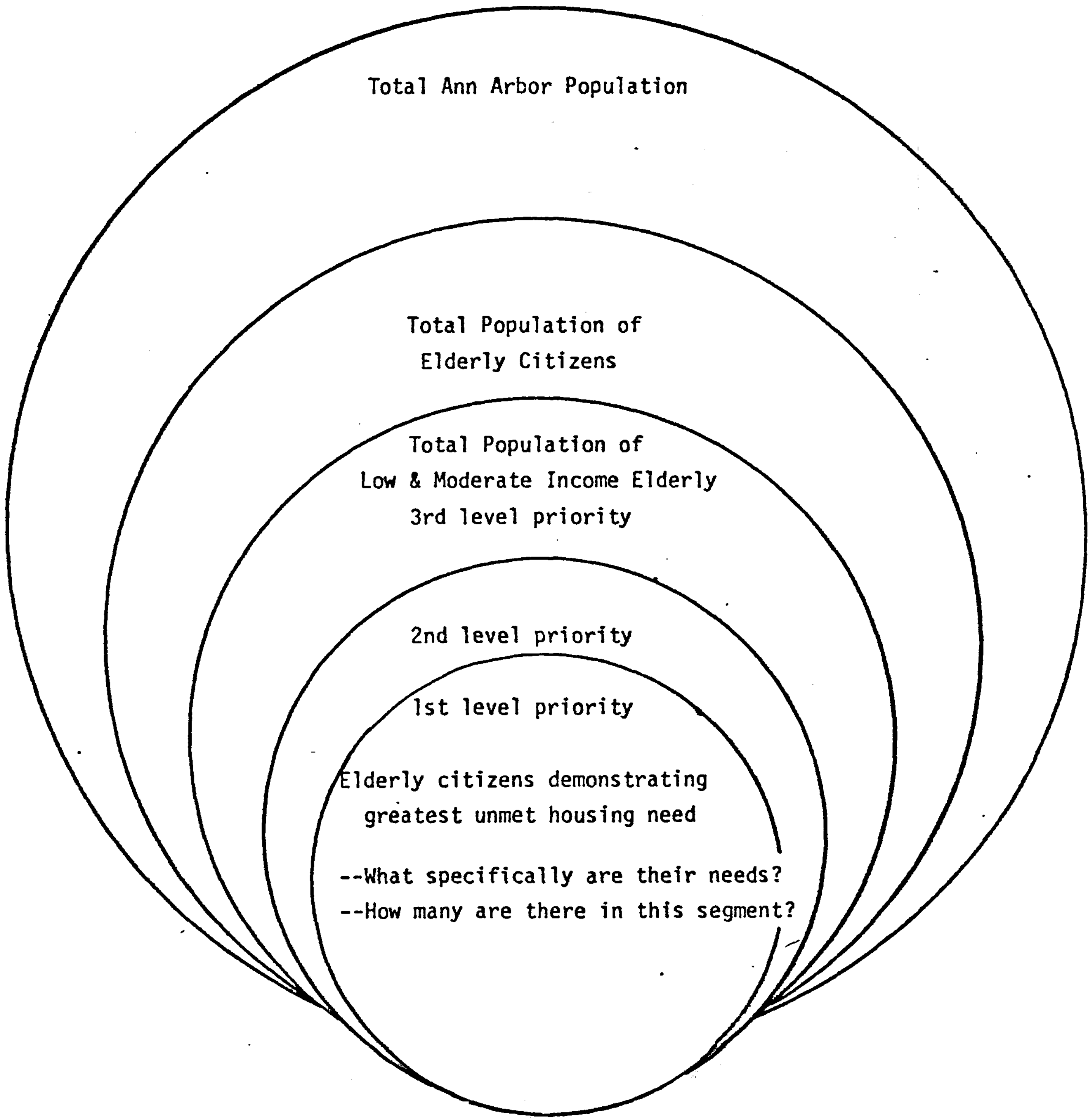


EXHIBIT 14

FLOW CHART OF LOGICAL STEPS TO ESTIMATE PRESENT AND POTENTIAL EFFECTIVE DEMAND

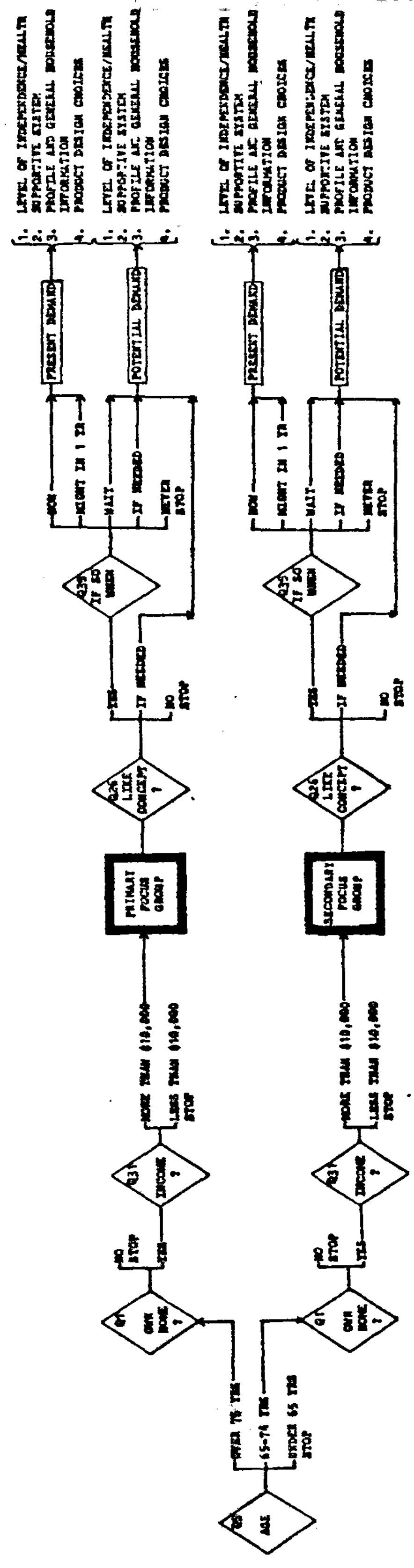
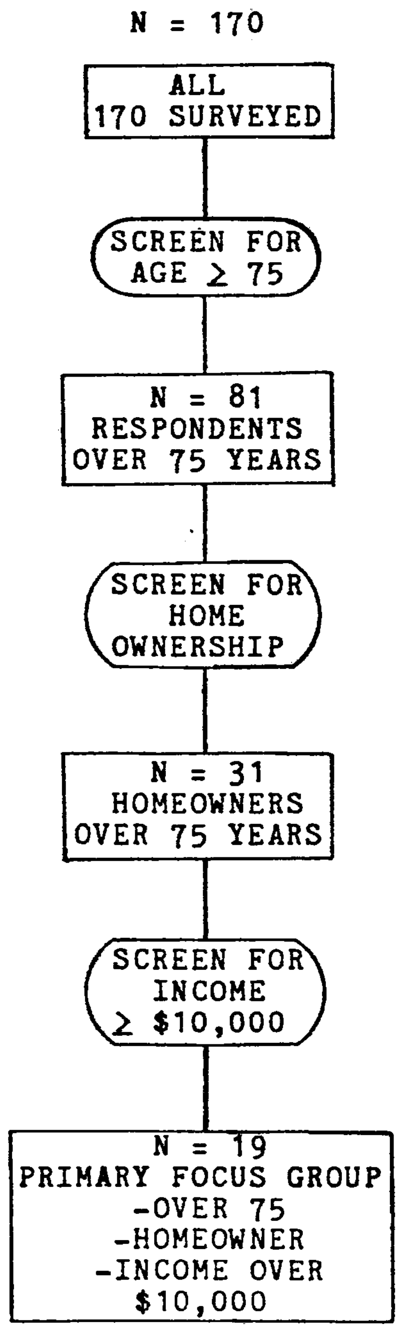


EXHIBIT 14 (Continued)

MODEL FOR SELECTION OF
PRIMARY MARKET GROUP
FROM SURVEY SAMPLE



III. Market data provides a measure of potential scale of a market opportunity; the most important aspect of market analysis is forecasting the degree of market penetration or capture rate of remedial development.

A. To reduce aggregate market data to a merchandising hypothesis, the first clue to segmentation may be found in correctly understanding the essence of buyer motivation or of the activity to be housed.

1. Retailing is a break point for goods (a warehouse grocery), or a service industry, or a theater using lighting, staging, and mood to reinforce a role played by the buyer.

2. A restaurant may be to provide a quick food break (high turnover, pedestrian flow, conditioned ordering), or to provide recreational entertainment and consumption of an evening, or to provide a staging for business, social, or publicity roles.

3. A motel for transients, for resorts, or for terminal traffic uses all of its facilities and location to sell a "room-night" of occupancy because that is an 80% gross margin. Anything done after that is justified by its contribution to "room-night" sales or its reduction of average cost to capture a customer per "room-night."

4. The revenue unit may be related to the method of measuring profit of the project in question such as per acre, per camper pad, per event, per front foot of shoreline, per stool or table, etc., not to mention sq. ft., per frame at a bowling alley or per tennis court hours, or per hour of ice time.

5. Sometimes the prospect is identified by who really signs the check for a particular type of real estate.

a. The salesman or the management paying his travel costs
b. The doctor or the clinic
c. The district manager or the corporate real estate manager
d. The ticket buyer or the promoter
e. The bowling league, team business manager, travel agency tour guide

6. The market segment may be defined initially by the source for a prospective user list - people who share a common address, hobby, professional specialty or some other identifier.

   a. A reverse directory or criss-cross telephone book
   b. Building directories of comparables
   c. Mailing lists of specialty publications
   d. License number spotting
   e. Guest registers
   f. Charge account mailing addresses

B. The objective of these approaches, revenue unit, the decision maker, the prospect list source, is to segment the user market to a specific and relatively small group of potential customers who can be surveyed to generate original and relevant information about their space needs and motivations. Unlike most consumer markets, the number of prospects is always low; think small!

   1. Real estate is a series of micro-markets. A 24-unit building with one, two, three bedroom units has at least three sub-markets.

   2. A 24-unit building is a $500,000 enterprise with a $75,000 gross sales potential from only 24 customers!

C. Consider alternatives for segmentation of macro market models in Exhibit 15 using a branch diagram and definitions of detached family housing unit consumers in Exhibit 16.

D. The ratio sought by the survey follow a precise reduction pattern:

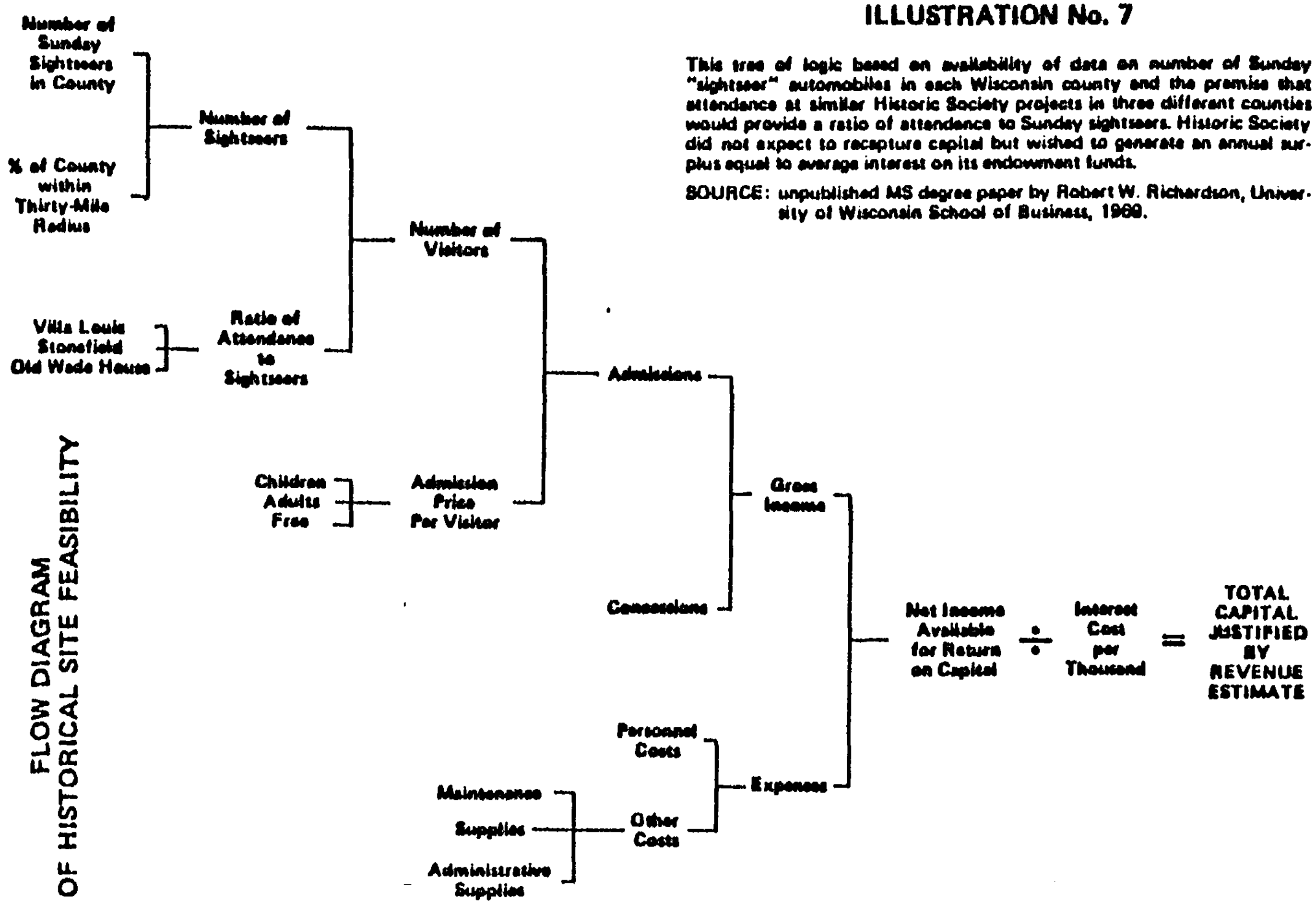
   1. How many will consider moving?
   2. Of those, how many would consider staying in town?
   3. Of those, how many would consider an apartment?
   4. Of those remaining, who would consider an apartment in town, how many would consider a specific location?
   5. Notice the reduction process defines a subset of the elderly market - a micro-market.

EXHIBIT 15

ILLUSTRATION No. 7

This tree of logic based on availability of data on number of Sunday "sightseer" automobiles in each Wisconsin county and the premise that attendance at similar Historic Society projects in three different counties would provide a ratio of attendance to Sunday sightseers. Historic Society did not expect to recapture capital but wished to generate an annual surplus equal to average interest on its endowment funds.

SOURCE: unpublished MS degree paper by Robert W. Richardson, University of Wisconsin School of Business, 1969.



FLOW DIAGRAM OF HISTORICAL SITE FEASIBILITY

Source: James A. Graaskamp. A Guide to Feasibility Analysis, (Society of Real Estate Appraisers, 1972), p.40.

POTENTIAL MARKET SEGMENTS

I. Singles — Unmarried, active, mobile, many interests, entertain informally, few financial burdens, recreation oriented. Buy basic furniture, basic kitchen equipment, cars, stereos, and vacations.

II. Young Marrieds, #1 — Young couple, working wife, entertain informally, amateur gardeners, planning on family. Better off financially than they will be in the "family formation" future. Buy durables — cars, kitchen equipment, furniture, and vacations. Rate housing as a need for more living space.

III. Young Marrieds, #2 — Discretionary income available, deferring family, active, entertain informally and often, some formal entertaining, independent, dual-person working household, do-it-yourself buffs, sports car. Rate housing as an investment.

IV. Compact Family/Move Down — Discretionary income available, interested in no maintenance, informal living, some formal entertainment. Away from home often, occasional visits from family or guests, focus on both active and passive recreation.

V. Divorcees/With Children — Family oriented activity, limited entertainment, informal lifestyle, limited maintenance.

VI. Full Nest, #1 — Home purchasing at its peak, even though liquid assets are low. Dissatisfied with financial position, and amount of money saved. Conscious of monthly payments, family activities. Unemployed female with numerous interests, mostly child oriented. Lifestyle is casual and informal. Interested in new products, buy washers, dryers, T.V.'s, baby food, dolls, wagons, etc.

VII. Full Nest, #2 -- Family move-up market, as financial position gets better, some wives work. Interested in larger sized packages. The most price/size sensitive group.

VIII. Established Family -- Making monthly payment comfortably, some discretionary income as more wives work, approaching peak of economic and social lifestyle curve, some formal entertaining, older children and teenagers, many interests.

IX. Luxury Families — Have arrived, tremendous discretionary income, very formal house, don't entertain often, but when they do, it's formal, dine out often, no maintenance, privacy mandatory.

X. Empty Nester - Home ownership at its peak, more satisfied with financial position. Small or no debt. Family is often away from home, occasional visits from family. Mobile in attitude, but permanent in residence, near grandchildren, many hobbies, one child in college, one or two children married, self-sufficient couple.

XI. Active Retired — Still working two or three days per week, active either socially or politically in community or church affairs, self-sufficient, many hours away from home, do not entertain often, but when they do, it's semi-formal. Winter/summer residences. Likely to sell home before retirement.

XII. Retired — Drastic cut in income, dependent, limited activities outside community. Winter/summer residences.

E. Each of these ratios suggests a specific calculation or perhaps a short table of statistics. The specific title on the table of data and its sub-columns should be written before the questions are drafted and the collection of data begun. Notice the research begins with careful definition of the questions to be answered. All answers become relevant and all unnecessary questions are avoided. These types of questions depend on knowing the precise character of secondary data available to which the ratios must be applied in the systematic model devised for the problem.

1. Confine vocabulary to basic 1000 words; avoid lingo.

2. Structure questions to permit check-off, or branching to set up subsets. (See Exhibit 17.)

3. Always test the questionnaire on half a dozen prospects or friends to reveal misunderstandings before using on the market.

4. Questions may take different formats. (See Exhibit 17.)

F. The second type of question is generally attempting to measure either anxieties or preferences. Both are dangerous survey areas for amateurs as well as professionals and it is often cheaper to subcontract these particular functions to consumer research specialists. Nevertheless, a little common sense can generate considerable useful information on the competitive edge.

1. Probe for dissatisfaction with existing space or life style.
2. Probe for anxieties about uncontrollable trends and events.
3. Probe for desired social structure ties, real or imagined.

EXHIBIT 17

Simple Survey Formats for Classification of Subsets & Measurement of Preference

I'd like to ask you a few questions about the place you lived just before you moved into this apartment.

5. About how many years did you live in your former home?

__ less than 1 year
__ 1 year - L.T. 2 years
__ 2 to L.T. 5 years
__ 5 to L.T. 10 years
__ 10 to 15 years
__ more than 15 years, ________

6. Did you live in a house or in an apartment building just before your move here?

__ house
__ apartment
__ other, ____________

About how many apartments, including yours were there in the building?

__ L.T. 4
__ 4 to 8
__ 9 to 16
__ 17 to 24
__ 24 to 32
__ more than 32

About how much rent did you pay per month, including utilities but not telephone? $ ________

__ L.T. $50
__ $50 to L.T. $75
__ $75 to L.T. $100
__ $100 to L.T. $125
__ $125 to $150
__ more than $150

Did you own or rent the house?

__ own
__ rent

Did you rent a room, a flat or floor, or entire house?

__ room __ flat/floor __ entire

About how much rent did you pay per month, including utilities but not telephone? $ ________

__ L.T. $50
__ $50 to L.T. $75
__ $75 to L.T. $100
__ $100 to L.T. $125
__ $125 to $150
__ more than $150

Now I'd like to ask you some general questions about your decision to move to this apartment.

7. How did you first find out about them?

__ family
__ friends
__ church
__ Housing Authority
__ newspaper
__ radio
__ television
__ other, ____________________

26. How important are the following items to you?

	Very Important	Somewhat Important	Indifferent	Somewhat Unimportant	Not Important
Private Balconies or patios	( )	( )	( )	( )	( )
Laundry facilities in each building	( )	( )	( )	( )	( )
Washer/dryer connection in your apartment	( )	( )	( )	( )	( )
Extra storage space	( )	( )	( )	( )	( )
More than 1 bath	( )	( )	( )	( )	( )
Carpeted stairways & hallways in common areas of apt. bldg. (Areas shared by all residents)	( )	( )	( )	( )	( )
Master T.V. Antenna System	( )	( )	( )	( )	( )
Children's day care center and/or nursery school nearby	( )	( )	( )	( )	( )

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

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

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

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

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

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

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

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

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

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

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

G. The real estate analyst can choose between systematic telephone interviews, direct mail questionnaires, and personal interviews in depth.

1. The telephone interview may be less expensive per question and fastest but is limited in the type and amount of questions which can be asked. Rifled to a project known to the analyst, it tells much about the user profile for a good comparable without having to ask about the product which the analyst can inspect for himself.

2. A telephone survey is also useful to disaggregate census data or to estimate market penetration of a competitor (such as a retail store) into an area.

3. Direct mail questionnaires may cost from 5 cents to $3 or more for each successful question; they take at least a week to prepare and test and perhaps three weeks before cutoff of additional responses. The type of question is broader and can be graphic such as alternative site maps and simple floor plans; response depends on careful construction of the mailing list, a very time consuming process. Consider the following types of questions:

4. The double barreled question occurs when two or more questions are combined in one so that the answer is always ambiguous as to the significance of each item but often occurs in the effort to shorten an interview or a question.

   - Would you be at all uneasy if people of a different religion or race were to move in next to your home?

   - As you see it, what are some of the good points and the bad points of the present Governor of this state?

5. Sensitive questions on family income should be asked at the end of the interview while the opening questions should be of more general interest. When a question about income is asked, the response should permit some degree of obliqueness by the respondent.

   - The respondent can select a range of income or perhaps enter the answer with a letter A, 1, B, etc. in place of a dollar amount.

- If socio-economic questions are generally short and direct, they are a welcome contrast to the time consuming and thought provoking questions which preceded them.

6. Consider the following elderly housing study survey and market model in Exhibits 18 and 19 or the apartment market questionnaire in Exhibit 20.

H. A survey of existing properties and alternatives available to a selected market segment defines only the competitive standard - namely the minimum product and price necessary to be in the market.

1. Comparison shopping further identifies where there may be gaps in the supply of alternatives, a market opportunity gap, or where the oversupply is so significant as to portend the last competitive alternative before bankruptcy - namely price cutting.

2. Comparison shopping should not only identify the physical characteristics of the product and price but the nature of the promotion effort as well.

3. Promotion comparison should consider pedestrian and vehicle approaches, model location, furnishings, and sales people.

4. Review of the promotion campaign should reveal whom the competitors believe to be their prospect.

I. A survey of users, is designed to reveal or to identify the competitive differential attributes which would provide that monopoly element required of every successful project.

1. A second product of consumer survey is the ability to develop locally relevant ratios which permit disaggregation of market data into market segments and the conversion of potential numbers of people into potential dollar sales over time.

2. Survey questions to create ratios require previous construction of a market model hypothesis.
3. Survey questions can discover latent political issues or provide a calm base for citizen input from those who rightfully dislike public hearings.
4. Survey questions and execution should not be done by planners or appraisers.

EXHIBIT 18

LOGIC FOR ESTIMATION OF EFFECTIVE DEMAND
FOR PROPOSED RETIREMENT CENTER

STEP 1:

$$\frac{\text{Number of households in sample with interested, qualified respondent(s)}}{\text{Number of households in sample}} = \text{Sample ratio}$$

STEP 2:

Number of households in population segmented by age * Sample ratio = Number of households in population segmented by age, income/assets, and degree of interest

STEP 3:

Number of households in population segmented by age income/assets and degree of interest * Capture rate = Estimate of number of units proposed project can capture from identifiable groups

STEP 4:

Developer must assume total unit demand will be the sum of units estimated in STEP 3 plus some units unanticipated from other communities and market segments.

EXHIBIT 19

ST. CATHERINE'S SURVEY

I am responding for:

___ Myself; ___ My parent(s); ___ My friend(s)

BACKGROUND AND HOUSEHOLD INFORMATION

1. Which of the following best describes your present living arrangement? I live:

   [ ] Alone
   [ ] With my spouse only
   [ ] With one of my children in my home
   [ ] In the home of one of my children
   [ ] With my children and my spouse
   [ ] With a friend or friends
   [ ] With relatives other than my spouse and children
   [ ] Other, please specify: ____________________________

2. What is your present marital status? Are you:

   [ ] Single [ ] Married [ ] A widow or widower

3. Which of the following best describes your present housing type?

   [ ] I own a single family home or a duplex:
      [ ] in which I presently reside
      [ ] but do not presently reside there
   [ ] I own a condominium:
      [ ] in which I presently reside
      [ ] but do not presently reside there
   [ ] I rent an apartment
   [ ] I have a room in someone else's house
   [ ] Other, please specify: ____________________________

4. How long have you lived in your present home?

   [ ] Less than one year [ ] Five to ten years
   [ ] One to two years [ ] Ten to twenty years
   [ ] Two to five years [ ] More than twenty years

5. What is your age (your spouse's age)?

   Your Age _____ Your Spouse's Age _____

EXHIBIT 19 (Continued)

6. Are you:

[ ] Male [ ] Female

7. What is/was the main employment (work) for you or the head of your household over the years? (Example: auto worker, tool maker, clerk, lawyer, manager, carpenter, nurse, teacher, farmer, etc.)

____

8. If you need any help in moving about or walking at this time, do you:

[ ] Use a cane [ ] Use a wheelchair
[ ] Use a walker [ ] Need no assistance at all

9. Below is a list of activities that many of us have difficulty with as we grow older. Do you have: NO DIFFICULTY, SOME DIFFICULTY, or find you CANNOT DO these activities?

	NO DIFFICULTY	SOME DIFFICULTY	CANNOT DO IT
Cooking	[ ]	[ ]	[ ]
Shopping	[ ]	[ ]	[ ]
Housekeeping	[ ]	[ ]	[ ]
Personal care (bathing) . .	[ ]	[ ]	[ ]
Hearing on the telephone .	[ ]	[ ]	[ ]
Reading the newspaper . . .	[ ]	[ ]	[ ]
Taking medication	[ ]	[ ]	[ ]
Going up and down stairs .	[ ]	[ ]	[ ]
Taking care of personal finances	[ ]	[ ]	[ ]
Driving a car	[ ]	[ ]	[ ]
Walking more than two blocks	[ ]	[ ]	[ ]

10. In general, which of the following best describes your overall state of health?

[ ] Excellent (plenty of energy)
[ ] Average (good health - no problems and enough energy)
[ ] Fair (some health problems but able to live completely independently)
[ ] Need some care or assistance
[ ] Need full-time care and assistance

EXHIBIT 19 (Continued)

11. Do you currently use any of the following Community Support Services?

[ ] Kenosha Homecare, Inc.
[ ] Nutrition site meals
[ ] Mobile Meals - American Red Cross
[ ] Kenosha Visiting Nurse Association
[ ] Tele-Care Program or Life-Line
[ ] City Vans
[ ] No, do not use support services
[ ] Other, please specify: ____________________________

12. If you were to need help with activities of daily living, who would you depend upon? (Check as many as apply.)

[ ] Family
[ ] Friends
[ ] Church group
[ ] Could afford to hire people to help me in my home
[ ] Would prefer to use community support services in my home
[ ] Would prefer to live in a retirement facility where I could be closer to support services
[ ] Others, please specify: ____________________________

13. Retirement centers offer different plans to assist residents who need short-term or long-term nursing home care. If one of the following plans were available, which plan would you prefer?

[ ] I would prefer only to be assured of assistance from the retirement center staff in transferring to a nursing home, if and when needed
[ ] I would prefer assurance of priority entry to a nursing home which is associated with the retirement center, if and when needed
[ ] I would be willing to pay a significantly higher Entry Fee for a retirement center which would guarantee access to a nursing home bed, if and when needed, for the same Monthly Service Charge I was paying for my apartment. (Of course, doctors' fees, medications, special treatment, and extra meals would be charged separately.)
[ ] Other, please specify: ____________________________
____

EXHIBIT 19 (Continued)

14. There are many different reasons for moving into a residential facility designed especially to meet the needs of older adults. How would you rank the following reasons?

	VERY IMPORTANT	MODERATELY IMPORTANT	NOT IMPORTANT
a. For companionship with others of similar interests	[ ]	[ ]	[ ]
b. Freedom from the responsibility and maintenance of a single family home	[ ]	[ ]	[ ]
c. Availability of a nutritious meal in a full-service dining room	[ ]	[ ]	[ ]
d. Need for a special diet	[ ]	[ ]	[ ]
e. Security of knowing someone will check on me daily	[ ]	[ ]	[ ]
f. Security of 24-hour emergency assistance nearby	[ ]	[ ]	[ ]
g. Knowing supportive services such as house cleaning and personal care are available if needed	[ ]	[ ]	[ ]
h. Close to a nursing home to insure continuing care, if needed	[ ]	[ ]	[ ]
i. Close to a nursing home to visit my spouse or friends, if needed	[ ]	[ ]	[ ]
j. Near a hospital	[ ]	[ ]	[ ]
k. Other, please specify: ________________	[ ]	[ ]	[ ]

EXHIBIT 19 (Continued)

15. If you could choose a type of housing best suited for your current needs, would you:

[ ] Live in my own single family house.

[ ] Live in my own condominium.

[ ] Live in an a government subsidized apartment, such as Villa Nova, Tuscan Villas, or Lakeside Towers.

[ ] Live in a private apartment building, such as Imperial House, Wexford, or Capri, that rents to all age levels.

[ ] Live in a private apartment building that only rents to older adults.

[ ] Live in a private retirement center designed especially for older adults which provides supportive services as needed but has no nursing home on the premises.

[ ] Live in a private retirement center designed especially for older adults which provides supportive services as needed and has a nursing home on the premises.

[ ] Live with my children.

[ ] Live with a brother or sister.

[ ] Other, please specify: ______________________________

16. In the future, which of the following event(s) might trigger the need to move? (Check as many as apply.)

[ ] Health problem
[ ] Death of a spouse
[ ] Financial limitations
[ ] Friction with my relatives
[ ] Growing awareness of loneliness
[ ] Burden of home upkeep
[ ] Children moving away
[ ] Opportunity to sell home/farm
[ ] Selection of my name for vacant apartment at government subsidized elderly housing project
[ ] Other, please specify: ________________________

17. Have you given any serious thought to moving from your present home?

[ ] No [ ] Yes. For what reason? _________________

____

18. If yes, how soon would you want to move?

    [ ] In less than one year
    [ ] In one to three years
    [ ] In three years or more

- -

THE PROPOSED PROJECT
AND THE
RETIREMENT LIVING CONCEPT

St. Catherine's Hospital is considering the development of a private retirement living center in Kenosha which would not be subsidized by the government nor limited to any single religious denomination. The tentative location under consideration for the project is across from St. Catherine's Hospital and is adjacent to Pennoyer Park which fronts on Lake Michigan.

The program being considered by St. Catherine's would provide private apartments for individuals and couples, plus meal service for one or more meals in a large family dining room, the use of community rooms, planned activities and programs, and a resident manager who would schedule supportive services as needed and who would be available for 24-hour emergency assistance. Transportation would be provided for shopping and for other needs. All of these services would be included in the Monthly Service Charge. Retirement living emphasizes convenience, security, and freedom from the burden of home upkeep.

To answer the next few questions, please PRETEND for a moment that you have the need or interest in the residential facility described above. Your responses are IMPORTANT since they will be used in planning the proposed facility.

19. Are you familiar with this retirement living concept? (Please check as many as apply.)

    [ ] Yes, I have visited friends who live in retirement centers.
    [ ] I am familiar with Alexian Village and St. John's Tower in Milwaukee, Clement Manor in Greenfield, and/or Tudor Oaks in Muskego.
    [ ] I am only familiar with subsidized developments such as Lakeside Towers and/or Villa Nova.
    [ ] I am not familiar with this type of retirement living facility.

EXHIBIT 19 (Continued)

20. Which supportive services and facilities would YOU want to have included in your Monthly Service Charge and which of these would YOU want to have available on a separate fee basis? (The more services included in your Monthly Service Charge, the higher the charge.)

	INCLUDED IN MONTHLY CHARGE	AVAILABLE FOR A FEE AS NEEDED	NOT INTERESTED
House cleaning services	[ ]	[ ]	[ ]
Laundry service - linens	[ ]	[ ]	[ ]
Laundry service - personal	[ ]	[ ]	[ ]
24-hour emergency assistancee	[ ]	[ ]	[ ]
Personal care assistance	[ ]	[ ]	[ ]
Scheduled transportation for shopping and personal appointments	[ ]	[ ]	[ ]
Garage parking	[ ]	[ ]	[ ]
Cable TV outlets	[ ]	[ ]	[ ]
Tray service in my room when I'm ill	[ ]	[ ]	[ ]
Individual storage lockers within the building	[ ]	[ ]	[ ]
Laundry room with washer and dryer	[ ]	[ ]	[ ]
Organized social and recreational programs	[ ]	[ ]	[ ]

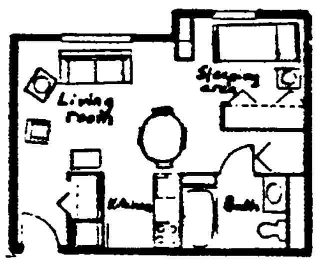
21. A larger apartment is more expensive than a smaller unit. Which is more important to you?

[ ] Having as much space as possible.
[ ] Keeping costs as low as possible.

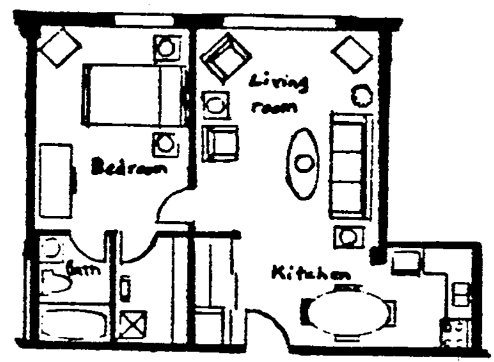
EXHIBIT 19 (Continued)

22. To answer the next question, please refer to the drawings. There are four floor plans presented:

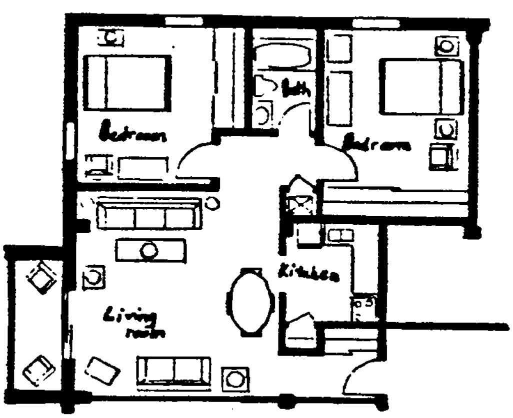
Plan A is a studio apartment with 1 bath (400 sq.ft.),
Plan B is a 1 bedroom apartment with 1 bath (600 sq.ft.),
Plan C is a 2 bedroom apartment with 1 bath (800 sq.ft.),
Plan D is a 2 bedroom apartment with 1-1/2 baths (830 sq.ft.)



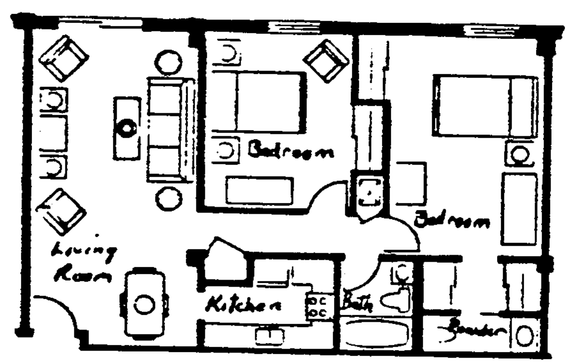
Plan A



Plan B



Plan C



Plan D

WHICH DO YOU PREFER?
[ ] Plan A
[ ] Plan B
[ ] Plan C
[ ] Plan D

EXHIBIT 19 (Continued)

23. How many persons would be living in your apartment?

- [ ] Just myself
- [ ] Just myself, but I would want room for an occasional guest
- [ ] There would be two of us
- [ ] There would be two of us, but we would want room for an occasional guest.

24. There will be a kitchen in each apartment for meal preparation. As currently planned, there also will be a central dining room for one or more daily meals. Which MEAL PLAN would you prefer included in your Monthly Service Charge?

- [ ] I'd prefer to have ONE MEAL PER DAY PROVIDED in the central dining room.
- [ ] I'd prefer to have TWO MEALS PER DAY PROVIDED in the central dining room.
- [ ] I'd prefer to have ALL THREE MEALS PER DAY PROVIDED in the central dining room.
- [ ] Other, please specify: ______________________________

25. After thinking about the concept of retirement living, as previously described, does this appeal to you as an alternative living arrangement?

- [ ] Yes, this would suit my needs now
- [ ] Yes, it looks interesting and I would explore it seriously for the future
- [ ] Yes, if and when needed
- [ ] Don't know, it would depend on _______________
- [ ] No, it's nice but not for me
- [ ] No, it's not for me

26. What do you like about this concept?

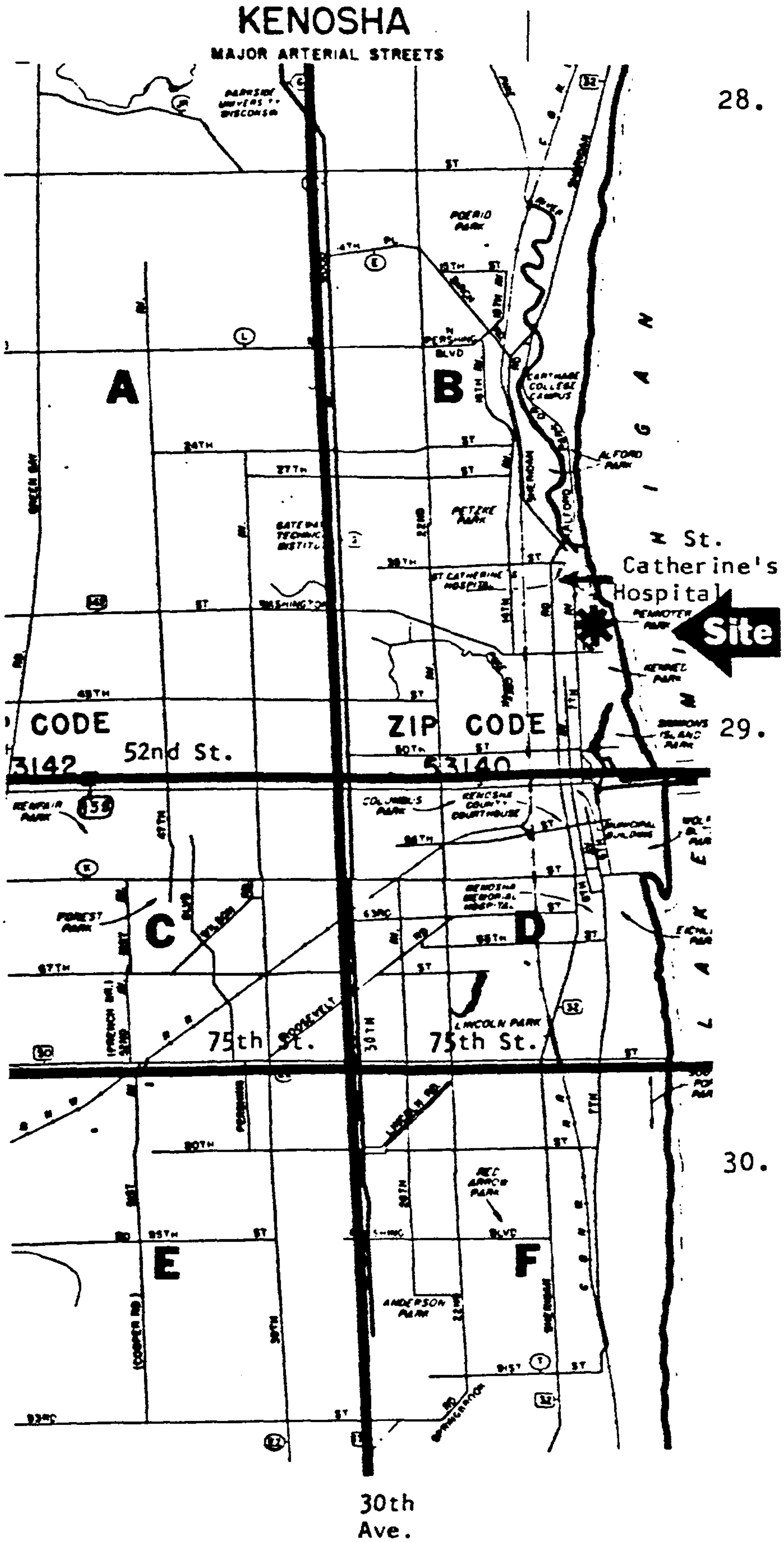
____

____

27. Is there anything you particularly dislike about this concept?

____

____



28. In what part of the City or County do you live: (Please refer to the map if you live in the City of Kenosha):

SECTION

[ ] A - City of Kenosha
[ ] B - City of Kenosha
[ ] C - City of Kenosha
[ ] D - City of Kenosha
[ ] E - City of Kenosha
[ ] F - City of Kenosha

[ ] Town of Pleasant Prairie
[ ] East of I-94 but not in Kenosha or Pleasant Prairie
[ ] In Kenosha County but west of I-94

29. What would be the best location for you in the City of Kenosha for a retirement living facility? (See Map)

[ ] Section A
[ ] Section B
[ ] Section C
[ ] Section D
[ ] Section E
[ ] Section F
[ ] I would not want to be in the City of Kenosha

30. The tenatively proposed site for St. Catherine's Hospital residential facility is shown in Section B of the map. If you wanted to move from your present home, would you consider moving to this area?

[ ] Yes [ ] No

EXHIBIT 19 (Continued)

31. What do you like about this location for the proposed residential facility?

____

____

32. What do you particularly dislike about this location?

____

____

33. Do you own/drive a car?

[ ] I own and drive a car
[ ] I do not own a car

34. If you own a car and were to move to the proposed retirement center, which of the following would you prefer?

[ ] A heated and secure underground garage (for a monthly fee)
[ ] A covered stall (for a minimum monthly fee)
[ ] A surface parking lot (no monthly fee)
[ ] I would sell my car and use public/private transportation as needed
[ ] Other, please specify: ___________________________

35. What mode of transportation do you use for shopping and errands?

[ ] I use my car
[ ] I use the bus
[ ] I use a taxi
[ ] I walk
[ ] I catch a ride with friends
[ ] My family drives me where I need to go
[ ] Other, please specify: ___________________________

EXHIBIT 19 (Continued)

36. Ideally, how close to your home would you want each of these facilities? Please check the distance that is best for you.

	WITHIN WALKING DISTANCE (2 blocks)	WITHIN 1 MILE FROM HOME	WITHIN 2 MILES FROM HOME	DOES NOT MATTER
Bus Stop	[ ]	[ ]	[ ]	[ ]
Grocery store	[ ]	[ ]	[ ]	[ ]
Drug store	[ ]	[ ]	[ ]	[ ]
Medical offices	[ ]	[ ]	[ ]	[ ]
Dental offices	[ ]	[ ]	[ ]	[ ]
Nursing home	[ ]	[ ]	[ ]	[ ]
Shopping center	[ ]	[ ]	[ ]	[ ]
Bank and/or Savings and Loan	[ ]	[ ]	[ ]	[ ]
Recreational facilities	[ ]	[ ]	[ ]	[ ]
Library	[ ]	[ ]	[ ]	[ ]
Churches	[ ]	[ ]	[ ]	[ ]
Hospital	[ ]	[ ]	[ ]	[ ]
Other, please specify:				
_______________	[ ]	[ ]	[ ]	[ ]

37. People often have a number of sources of income. Which of the following are your main sources of income now? (Please check as many as are appropriate.)

[ ] Salary/wages
[ ] Social security
[ ] Pension/Annuity
[ ] Assistance from family members
[ ] Assistance from community
[ ] Interest/dividends on investments
[ ] Income rental property
[ ] Other, please specify: ____________________________

38. IF YOU OWN A HOME, what price do you think it would sell for today? Would it sell for...

[ ] Less than $40,000
[ ] $40,000 to $50,000
[ ] $50,000 to $60,000
[ ] $60,000 to $70,000
[ ] $70,000 to $80,000
[ ] $80,000 to $90,000
[ ] $90,000 or more

How did you arrive at this figure? ______________________

____

39. Do you still have a mortgage on your home?

[ ] Yes [ ] No

For statistical purposes only, we need to know your TOTAL annual income for 1982. (Note: There is no way of knowing your identity.)

40. What was your (and your spouse's) TOTAL ANNUAL gross income for 1982?

[ ] Less than $12,500
[ ] $12,500 to $15,000
[ ] $15,000 to $20,000
[ ] $20,000 to $25,000
[ ] $25,000 - $30,000
[ ] $30,000 - $35,000
[ ] $40,000 or more

41. What percentage of your gross income would you consider to be a reasonable Monthly Service Charge for your retirement apartment which would also include all utilities (except phone), a daily meal, scheduled transportation, 24-hour emergency assistance, and the use of community rooms?

[ ] less than 30 percent
[ ] 30 to 40 percent
[ ] 40 to 50 percent
[ ] 50 percent or more

42. Are you able to pay your current ordinary living expenses each month without going into savings?

[ ] Yes
[ ] No
[ ] Occasionally need to go into savings for ordinary living expenses
[ ] Occasionally need to go into savings for major purchases, taxes, or emergencies

EXHIBIT 19 (Continued)

43. The payment plan being considered includes a one-time Entry Fee which may be partially refundable when you leave and a Monthly Service Charge.

The Entry Fee is applied to financing the construction costs which, in turn, reduces the amount of the mortgage required and the monthly interest and principal payments. A higher Entry Fee can permit a lower Monthly Service Charge. In most cases, the resident will obtain money for the Entry Fee payment from the sale of a home or from savings.

How much would you be willing and able to pay as an Entry Fee to live in the proposed retirement center.

[ ] Under $15,000

[ ] $15,000 - $20,000

[ ] $20,000 - $25,000

[ ] $25,000 - $30,000

[ ] Over $30,000

44. As currently envisioned, the Monthly Service Charge would include the apartment of your choice with all utilities provided, except telephone; a daily meal served in the main dining room; a 24-hour emergency response and building security; scheduled opportunities for transportation; and social and leisure time activities.

If your Monthly Service Charge included all of the items listed above, what would you be willing and able to pay each month:

[ ] Under $600

[ ] $600 - $650

[ ] $650 - $700

[ ] $700 - $750

[ ] $750 - $800

[ ] Over $800

EXHIBIT 19 (Continued)

45. Sound fiscal management requires that the payment plan include both a partially refundable Entry Fee and a Monthly Service Charge. Some people prefer to pay a higher Entry Fee and a lower Monthly Service Charge while others prefer a lower Entry Fee and a higher Monthly Service Charge. A typical one bedroom apartment in a retirement center might have the following alternative combinations. Please indicate which combinations would be most suitable for you:

[ ] A partially refundable Entry Fee between $10,000 and $20,000 could result in a Monthly Service Charge between $800 and $725.

[ ] A partially refundable Entry Fee between $20,000 and $30,000 could result in a Monthly Service Charge between $725 and $650.

[ ] A partially refundable Entry Fee between $30,000 and $40,000 could result in a Monthly Service Charge between $650 and $575.

[ ] A partially refundable Entry Fee between $40,000 and $60,000 could result in a Monthly Service Charge between $575 and $425.

[ ] Could not afford any of these.

46. The refund policy for the proposed facility is in the planning stage. The proportion of the Entry Fee which would be refundable when you leave would also affect the amount of the Monthly Service Charge. Which of the following refund policies would be acceptable to you?

[ ] A NO REFUND policy which would REDUCE the Monthly Service Charge (as described in Question 45) by approximately 10%.

[ ] A FULL REFUND policy which would INCREASE the Monthly Service Charge (as described in Question 45) by approximately 10%.

[ ] A PARTIAL REFUND policy which would help keep the Monthly Service Charge at the levels described in Question 45.

[ ] Other, please specify: ______________________________

EXHIBIT 19 (Continued)

47. If this retirement living concept appeals to you as an alternative to your present living arrangement, when would you seriously consider a move?

[ ] I would like to seriously explore the possibility of moving to St. Catherine's proposed retirement center now.
[ ] I might consider living in such a facility in a year or so.
[ ] I might be interested, but I would want to wait to see how others liked it first.
[ ] I would be interested ONLY if something happened to me so that I needed the extra help with daily living activities.
[ ] I would never be interested in such a facility. If never, why? Please specify: ____________________
____

48. If you currently live in your own home, is the sale of your house critical to your decision and/or readiness to move into the planned retirement center?

[ ] Yes, the house would have to be sold before a final decision could be made to move
[ ] No, the decision to move is not necessarily dependent upon the sale of my house
[ ] The house would not be sold even if I decided to move to the planned retirement center
[ ] Other, please specify: ______________________________

Additional Comments: ____

____

____

IF YOU WOULD LIKE TO LEARN MORE ABOUT THE PROJECT AS IT EVOLVES, PLEASE CHECK THE APPROPRIATE BOX <u>ON THE ENCLOSED RETURN POSTCARD</u> AND RETURN IT TO US.

Remember: DO NOT SIGN the questionnaire. Please return the questionnaire in the postage paid envelope as soon as possible.

THANK YOU FOR YOUR HELP!

C. <u>Model Used for Calculation of Effective Demand</u>

According to the 1980 Census, there are 2,971 elderly in Oshkosh who are 75 years or older. Of these, approximately 2,117 elderly live in non-subsidized housing and are not in nursing homes. (See Appendix for adjustments made to sample and population base.) As discussed previously, it is assumed that the most probable immediate users of the proposed congregate facility will be found in this segment of the population.

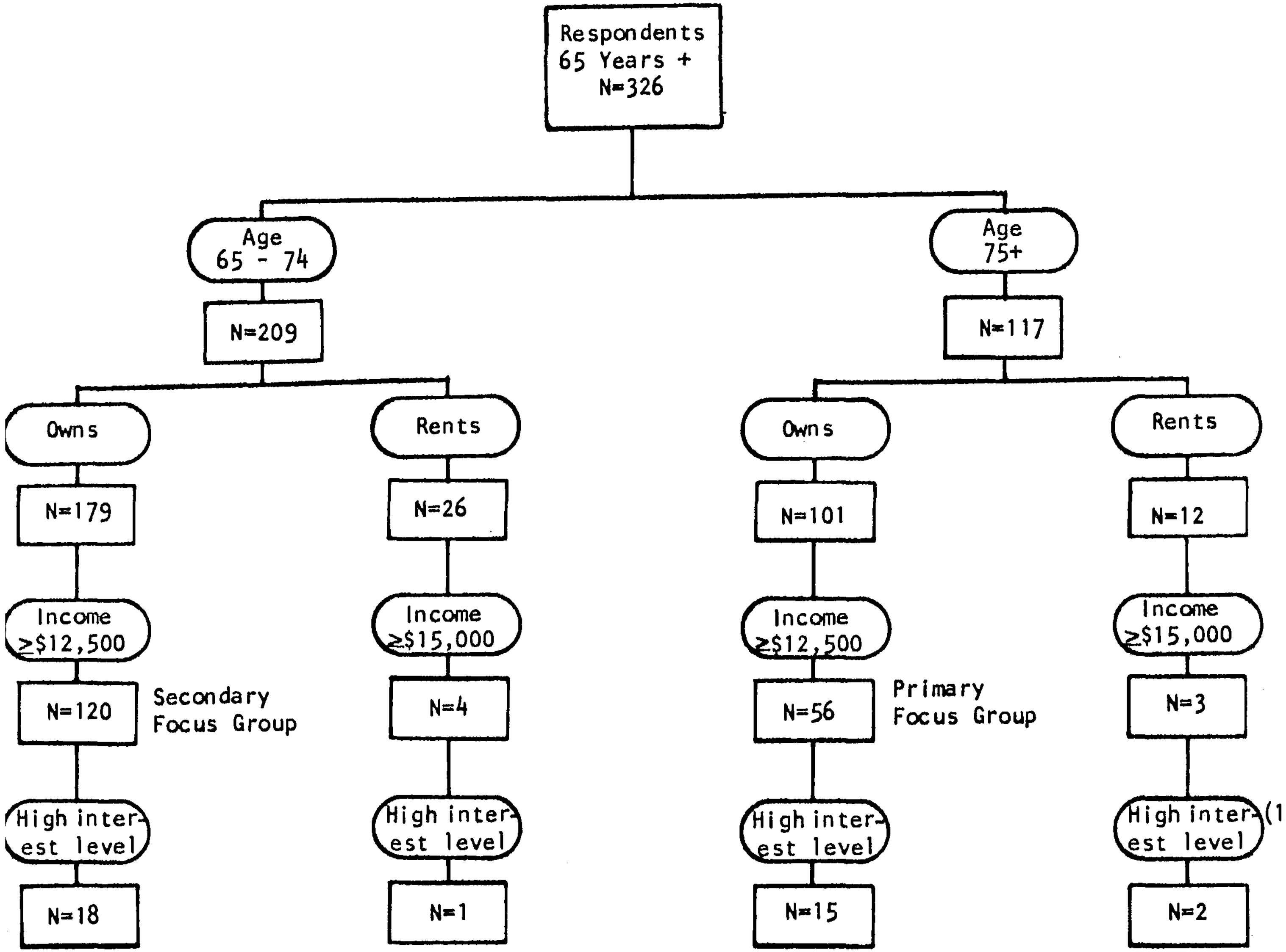
From the survey sample, in general, and the primary focus group, in particular, estimates can be made about the potential market for the proposed facility. Given the nonprobabilistic judgement survey sample used (necessitated by the cautious, conservative nature of the Oshkosh elderly) it can be assumed that the sample contains a somewhat higher proportion of potential users than exists in the total Oshkosh 75 + year old population.

Only those people with an interest in or curiosity about the proposed facility would respond to the newspaper advertisement, would sign up at a meeting to receive a questionnaire, and/or would be a part of a captive audience such as on the Simeanna waiting list or a current resident there.

Even though an annual income of $10,000 and homeownership are considered minimum income/asset thresholds for eligibility in Carmel Residence, there will be some in this group who will be unwilling to put the necessary cash into an entry fee and there will be some in lower income levels who have assets beyond the levels disclosed in the questionnaire. Questions regarding entry fees were eliminated to avoid prejudicing potential users so tolerance levels are not known. Also there will be a few elderly in the secondary focus group (65 to 74 years) (see Exhibit 12) who will be ready to move into the facility in the near future. And, of course, there will be those who meet all of the income/asset/age qualifications of the primary focus group and yet will choose an alternative facility.

It must be remembered that no matter what segment of the sample is analyzed, the majority of respondents who found the concept of congregate living appealing, (Question #26) would consider a move to such a facility ONLY IF SOMETHING HAPPENED TO ME...(Question #35). The trigger event most likely to precipitate such a need for the total sample and for the primary focus group would be the following:

SCREENS USED TO SUBSET MOST PROBABLE USERS
OF PROPOSED RETIREMENT CENTER



(1) High degree of interest in project is defined as those who answered Question #47 with a 1, 2, or 3 response. These respondents are interpreted as having serious interest now or interest in a year or so. See questionnaire in Appendix for exact wording of the question.

EXHIBIT 20 (Continued)

EXHIBIT 20 (Continued)

TOTAL SAMPLE All respondents	PRIMARY FOCUS GROUP 75 + and homeowners	
		Income > $10,000
N = 170	N = 27	N = 19
Health problems 62%	82%	100%
Death of a spouse 21%	33%	42%

(Multiple answers possible - See Appendix for all responses.)

An analysis of Question #35, "If this congregate living concept appeals to you as an alternative to your present living arrangement, when would you seriously consider a move?", reveals that only a small fraction of those interested would consider a move in the near future.

A summary of the results from the total sample and the primary focus group are as follows:

EXHIBIT 20 (Continued)

	TOTAL SAMPLE All respondents	PRIMARY FOCUS GROUP 75 + years, homeowners	
			Income > $10,000
	N = 170	N = 27	N = 19
Serious now	6%	7.5%	5%
Might in a year or so	14%	26%	32%
Might, but wait and see	3%	7.5%	10.5%
Only when & if	53%	44%	42%
No response	17%	15%	10.5%
Never	7%	0%	0%
	100%	100%	100%

A potential market exists, but apparently only a fraction of that market is ready to move immediately.

Unpredictable events, in the form of a growing awareness of health problems and the heightened recognition of the need for assistance, hold the key to the long term effective demand for units in the proposed Carmel Residence.

To make inferences from the sample results to the population the following calculations are made:

EXHIBIT 20 (Continued)

	SAMPLE	OSHKOSH POPULATION
Age $\geq$ 75 years	54	2,117
Homeowners	31	
Homeowners who responded to income question	27	
Homeowners with income $\geq$ \$10,000	19	
Application of Ratio	$\frac{19}{54}$ = 35%	2,117 x 35% = 741 Primary potential market for Carmel Residence

Of the 741 elderly Oshkosh residents who are 75 years or older, own a home, and have an income > $10,000, and who constitute the primary potential market for Carmel Residence, only a fraction will need and/or desire to become a resident at the proposed facility.

It is assumed that over the next five years the proposed Carmel Residence can expect to capture from 15 percent to 20 percent of the potential elderly market. A five year frame is used because today's 75 year old will become more and more vulnerable to the health problems that will trigger the need for a congregate living facility. The proposed project must be scaled to meet this very specialized demand.

If 20 percent of the potential market can be captured over five years, the rate per year would be four percent; if 15

EXHIBIT 20 (Continued)

percent of the potential market can be captured, the annual capture rate would be three percent.

Therefore, given the estimated capture rates and a potential market of 741 persons, the following number of units could be absorbed in the first year:

ANNUAL ABSORPTION RATE FROM PRIMARY POTENTIAL MARKET

	3%	4%
Units Absorbed per Year	22	30

This conclusion is supported by a review of the survey results from the primary and secondary focus grups indicate the following interest in moving into a congregate living facility:

	PRIMARY FOCUS GROUP	SECONDARY FOCUS GROUP
	N = 19	N = 24
Serious - now	N = 1	N = 1
Might - 1 year or so	N = 6	N = 3
Might - wait and see	N = 2	N = 1
If and when needed	N = 8	N = 15
No response	N = 2	N = 4

A total of 316 questionnaires were mailed and 170 were returned; when adjusted to exclude Simeanna residents, the totals are 237 mailed and 130 returned. The 107 of this group who did not return the questionnaire are considered not interested in the concept for a multitude of reasons. The 237 potential respondents are considered representative of the elderly population in Oshkosh who are not in subsidized housing or in nursing homes.

As previously discussed, by the nature of the sample selection process, the sample is skewed toward those most interested in the project. In the primary focus group (N=19) there are seven people who are inclined to move to the proposed facility in the near future. When those who are interested but will wait and see if they like the facility are included, the number increases to nine individuals who represent the sample effective demand for Carmel Residence in the first year. When those who are serious now or might be in a year are combined from both age groups, there are 11 who can be considered serious candidates for the facility. Based on the sample results, several estimates of the absorption rate follow:

EXHIBIT 20 (Continued)

MARKET SEGMENT		ANNUAL ABSORPTION RATE
Primary Focus Group		
Serious and Might - 1 year	N = 7	3.0%
Serious, Might - 1 year, and Might - wait and see	N = 9	3.8%
Primary & Secondary Focus Groups		
Serious and Might - 1 year	N = 11	4.6%

Thus, the estimated five year capture rate of 15 percent to 20 percent of the potential market is substantiated by the survey sample results.

The primary market in Oshkosh needs only 22 to 30 units in Phase I. However, even the conservative estimate of 22 must be supplemented by the secondary market outside of Oshkosh which in the case of Evergreen Manor is 33 percent of their total occupancy.

Therefore, the consultant recommends that Lutheran Homes of Oshkosh build no more than 30 units in the first phase of construction to serve both the primary and secondary markets identified above. Given an even rate of absorption the first year, Lutheran Homes of Oshkosh will have to carry one-quarter of the inventory for almost one year. If 30 units are built in

6. Final stage was to write up a series of specifications or profiles on tenants, product design and components, and a cash flow analysis of the entire project from the viewpoint of the developer so he could see how much money there was to make. Then he would know that the city knew the financial aspects of the project. Developers were then asked to bid.

B. In the case of Santa Maria, three developers bid and the city picked Ernest Hahn to build the project. There was no demolition or site acquisition before the start of the EMAS. The entire project was done within a four year period. For the first six months of complete operation, June 1976 through December 1976, sales were approximately 15.6 million and is 70% leased. The Mall did 4.9 million, Sears - 6.9 million, and a local department store - 3.7 million.

V. Generalized Format of Merchandising Report Summary

Cash flows ultimately depend on sales or rental revenues and further refinements of the frontdoor-backdoor approaches depend on establishing an explicit set of assumptions about the geographical market area, the user segment within that market area, and so on. All you buy in a real estate investment is a set of assumptions about the market. Therefore, the analyst should provide and identify a marketing assumption checklist for the reader:

A. Definition of geographic and demographic market

1. Primary trade area to be served
2. Profile of prospects by current location, status, income, etc. in primary carefully segmented area.
3. Secondary trde area to be served
4. Profile of prospects by current location, status, income, etc. in secondary carefully segmented area.

B. Definition of principal competitors

1. Existing supply
2. Prospective supply with timeline advantage
3. Competitive standard package of project features
4. Unique features of successful competitors
5. probable cause of unsuccessful competitors
6. Merchandising appeals of competitors
7. Definition of market penetration and competitive gap

IV. A good example of modeling market data through segmentation and survey for renovation in a small community is a project by Gruen Gruen + Associates for Santa Maria, California. The study was begun in 1972. Project is operating as the Santa Maria Town Center with retail sales ahead of forecasts.

A. The Gruen's were able to convince the redevelopment agency to avoid any physical planning until a detailed analysis of the demand for alternative services that could attract people back to the downtown area was done. This EMAS study (economic market analysis study) flow chart is in Exhibit 21 and had the following outputs:

1. First, a full analysis of economic data and retail data was utilized to generate information about the type of tenancies that could realistically be expected to penetrate downtown markets.

2. With a lead on tenancies, the Gruen's worked with an architect to provide sketches of alternative architectural styles and concepts to show residence in survey to see what type of treatments might strike the most positive response. (See Exhibit 22.)

3. The EMAS should then be able to indicate the kind of tenancies that could survive downtown, suggest their dollar sales potential, and indicate at a preliminary level a design scheme.

4. At the same time, back door financial studies are done from rents from capital budgets to discover what would be feasible for the private developer and what components may need to be subsidized by the public.

5. Appraisers use the EMAS and suggested tenant mix as the basis for their value estimate in the after condition.

EXHIBIT 21

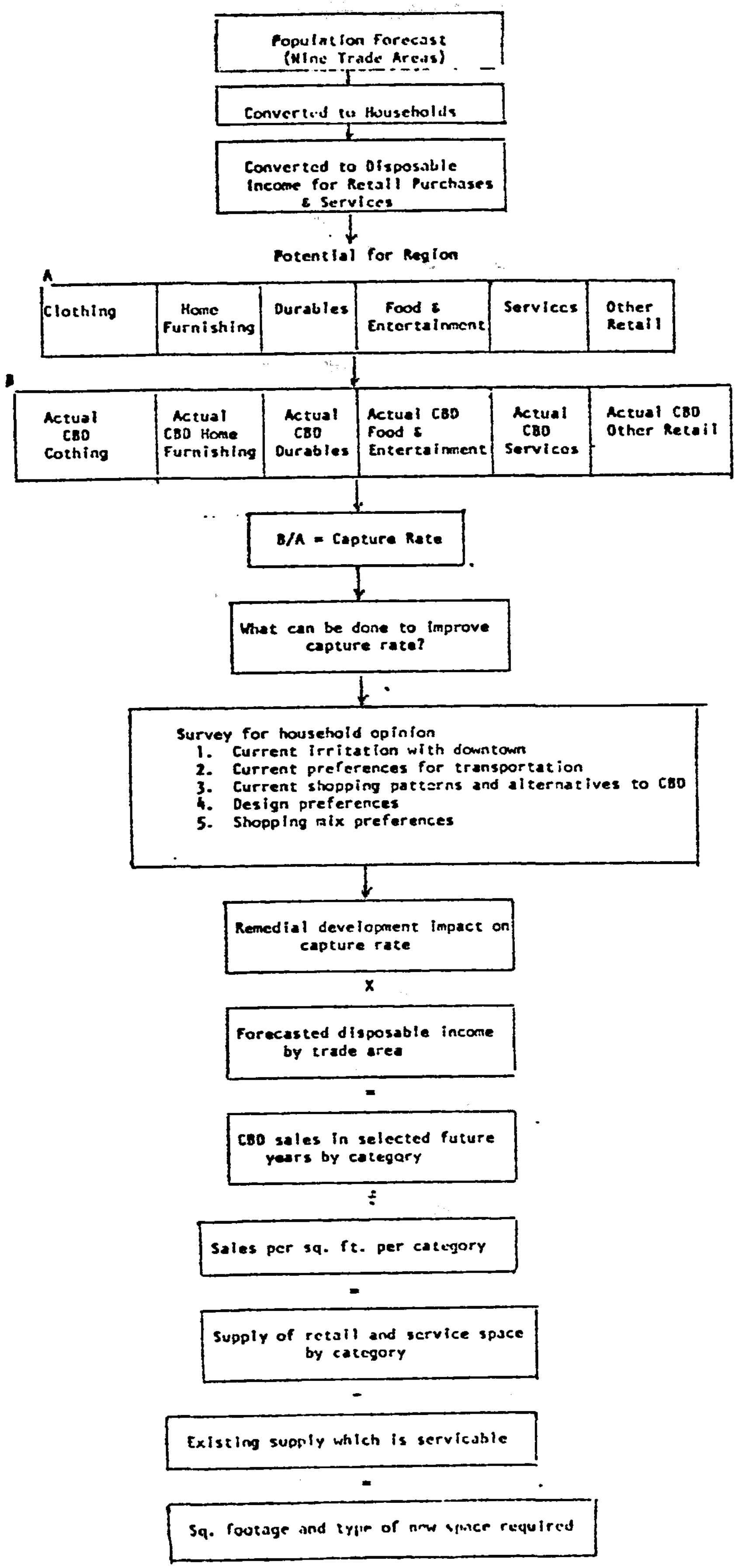

Population Forecast (Nine Trade Areas)
Converted to Households
Converted to Disposable Income for Retail Purchases & Services
Potential for Region
A
Clothing
Home Furnishing
Durables
Food & Entertainment
Services
Other Retail
B
Actual CBD Cothing
Actual CBD Home Furnishing
Actual CBD Durables
Actual CBD Food & Entertainment
Actual CBD Services
Actual CBD Other Retail
B/A = Capture Rate
What can be done to improve capture rate?
Survey for household opinion
1. Current irritation with downtown
2. Current preferences for transportation
3. Current shopping patterns and alternatives to CBD
4. Design preferences
5. Shopping mix preferences
Remedial development impact on capture rate
X
Forecasted disposable income by trade area
=
CBD sales in selected future years by category
÷
Sales per sq. ft. per category
=
Supply of retail and service space by category
-
Existing supply which is servicable
=
Sq. footage and type of new space required

Exhibit 22

Excerpt With Permission From
Economic & Market Analysis Study for Downtown Santa Maria

Prepared for City of Santa Maria Redevelopment Agency
by Gruen Gruen + Associates

Thus, the relationship between survey derived indications of satisfaction and current expenditure patterns were sufficiently significant to warrant the use of survey responses to suggest the change in relative preferences that would be caused by an appropriately developed new shopping agglomeration in downtown Santa Maria. However, the rapid deterioration of this relationship with distance suggested that it be used very cautiously in Trade Areas 5 through 9. Therefore, in addition to considering the percentage of respondents who made no complaints, we also analyzed into the following three categories all the comments that were made in response to the interview question concerning the reasons for not shopping in downtown Santa Maria:

1. Complaints about physical deficiencies of the existing downtown that we have assumed the redevelopment will alleviate. (Remediable complaints)

2. Complaints concerning limited selection such as requests for a department store or more stores. (Remediable complaints)

3. Complaints about prices, the lack of a supermarket or other contemporar situations that we do not think the redevelopment programs will alter. (Irremediable complaints)

Table 10 presents the percentage of respondents making remediable complaints. These complaints were used in conjunction with the information about the relationship between the indications of satisfaction discussed above to adjust the present indicators of the proportion of expenditures on various items in downtown Santa Maria (the S variables originally presented in Table 4) to reflect the increase in consumer preferences for downtown Santa Maria that would result from the completion of a sales optimizing redevelopment program. We did not think the evidence warranted using these percentages of remediable complaints (%RC) directly by adding them to the previously revealed preference percentages (S1970) to get a new percentage (S1975, 1980, 1985). Instead, we adopted the following rules to get the new estimates of this preference variable:

	Trade Areas 1 through 4	Trade Areas 5 through 9
For Clothing	$\% RC \times .964 + S_{1970}$	Use % RC instead of S_{1970}
For Home Furnishings	$\% RC \times .861 + S_{1970}$	Use % RC instead of S_{1970}
For Other Retail	$\% RC \times .017 + S_{1970}$	$1\% + S_{1970}$

Table 10

Percentage of Respondents Making Complaints
About Remediable Features of the Present Downtown
(Complaints About Physical Problems
or Inadequate Selection of Stores and Goods)

Trade Area	% Remediable Complaints
1	62.7
2	53.8
3	65.8
4	53.3
5	19.3
6	22.2
7	14.3
8	20.0
9	10.2

Source: Gruen Gruen + Associates telephone survey

Computations following these rules permitted us to develop the estimates of maximum percentage effective preference or penetration presented below in Table 11. The insertion of these percentages in the sales estimate generating equations we have been using throughout permits us to make the forecasts of potential sales summarized in Table 12. The forecast sales potential of almost $42 million in 1975 would have downtown Santa Maria capturing 26.4% of the region's sales. By 1985 potential sales climb to almost $58 million in spite of the fact that our model has downtown Santa Maria's share of the region's sales dropping slightly to 25.4%.

Table 11

Estimated Maximum Effective Preference (S)
or Percentage Penetration Possible
After Appropriate Redevelopment

Trade Area	Clothing	Home Furnishings	Other Retail
1	76.2	74.5	19.9
2	74.3	69.1	10.4
3	76.3	72.2	12.9
4	56.9	53.0	8.6
5	19.3	19.3	2.1
6	22.2	22.2	1.5
7	14.3	14.3	1.6
8	20.0	20.0	2.8
9	10.2	10.2	1.5

Source: Gruen Gruen + Associates

Exhibit 22 (Continued)

Estimated Downtown Santa Maria Future Sales Potential
(In Thousands of Dollars)

Trade Area	$ Available In Region 1975	Potential $ Sales in NDP 1975	$ Available In Region 1980	Potential $ Sales in NDP 1980	$ Available In Region 1985	Potential $ Sales in NDP 1985	% of Regional Sales to NDP
1	21,347	12,520	23,950	14,047	26,764	15,693	58.6
2	9,159	4,940	10,665	5,753	12,369	6,673	53.9
3	15,852	8,916	18,705	10,521	22,956	12,912	56.2
4	6,759	2,806	7,949	3,300	9,473	3,933	41.5
5	19,676	2,756	22,963	3,217	26,613	3,728	14.0
6	18,030	2,854	20,878	3,305	24,042	3,806	15.8
7	9,065	942	10,920	1,135	13,106	1,362	10.4
8.	25,355	3,729	31,043	4,566	38,198	5,618	14.7
9	33,589	2,527	42,857	3,224	53,925	4,057	7.5
Total	158,831	41,990	189,931	49,068	227,447	57,782	

Source: Gruen Gruen + Associates

EXHIBIT 22 (Continued)

Table 30

Proportion of Expenditures in Downtown

Trade Area	% Clothing	% Home Furnishings	% Other Retail	% Service
1	15.9	20.5	18.8	33.3
2	22.6	22.8	9.5	35.9
3	13.1	15.5	11.8	28.0
4	5.7	7.0	7.7	5.3
5	5.4	4.5	1.1	4.0
6	2.9	0.9	0.5	1.8
7	2.5	1.5	0.6	0.6
8	6.6	5.0	1.8	3.5
9	2.0	0.6	0.5	0.6

Source: Gruen Gruen + Associates telephone survey

Table 31

Banking, Repair, Beauty Parlor/Barber Shop and Similar Services Obtained Downtown By Consumers of Differing Incomes

Household Income	% Generally	% Occasionally	% Seldom
Under $7,000	43.7	22.9	16.0
$7,000-10,000	43.3	20.0	36.7
$10,000-15,000	60.7	12.5	26.8
Over $15,000	61.5	21.2	17.3

Source: Gruen Gruen + Associates downtown survey

C. Establishment of merchandising strategy logic

1. Competition

- Standard product
- Price and quality
- Competitive edge opportunity

2. Positioning strategy

- Sales themes
- Name and byline
- Site and unit features
- Strong sales points

3. Construction and architecture

- Sales area
- Models
- Entrance and signs
- Project amenities
- Roads and paving
- Site plan
- Construction schedule

D. Definition of prospect target for subject property

1. Recommendations on site location
2. Recommendations on site linkages and dynamics
3. Recommendations on building types and numbers
4. Recommendations on basic unit features
5. Recommendations on basic unit options
6. Recommendations on level of quality
7. Recommendations on basic price targets

E. Structuring the feasibility report

Ultimately the budget established for analysis and the need to communicate the findings represent a severe constraint on the feasibility process. Priorities and critical assumptions necessary to achieve the desired outcome must be separated from the great mass of detail and presented tersely.

1. Format of the report should rely on three elements:

   a. An executive summary which tersely identifies alternative courses of action and recommendations as to how client can make the choice.

b. A basic reference document which includes all the detail analysis.

c. A collection of reports by contributing professionals incorporated by reference.

2. To be terse the executive summary should depend on:

a. Simple charts of choices of alternative outcomes

b. Simple flow charts

c. Specific criteria used to measure "liklihood of success"

3. Statement of limiting conditions should first begin with a definition of the word "feasible": (as per Institute of Appraisal Terminology Handbook), and then state that it was the purpose of the study to define the context of the situation and the parameters within which a solution might be found to fit the major constraints with a reasonable liklihood of success. It should carefully point out that the generalist has made a series of explicit assumptions which may, nevertheless, need confirmation by more detailed study best done by specialists. The statement of limiting conditions should further emphasize the constraints and objectives placed on the study by identifying who:

a. Defined the constraints
b. Defined success
c. Provided the data and assumptions
d. Permitted key assumptions to remain untested for economy or speed
e. Accepted assumptions of conditions of uncertainty
f. Assembled proforma financial statements and projections
g. Executed feasibility confirmation of key assumptions with aid of specialists
h. Placed limitations on use and confidentiality