An appraisal of Lafollette Apartments, 720 South 92nd Street, West Allis, Wisconsin. January 1, 1983

Landmark Research, Inc.
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1983

AN APPRAISAL OF

LAFOLLETTE APARTMENTS

WEST ALLIS, WISCONSIN

Landmark
Research
Inc.

AN APPRAISAL OF

LAFOLLETTE APARTMENTS
720 SOUTH 92ND STREET
WEST ALLIS, WISCONSIN

AS OF
JANUARY 1, 1983

PREPARED FOR
LAFOLLETTE PARK ASSOCIATES

PREPARED BY
LANDMARK RESEARCH, INC.

4610 University Avenue, Suite 105, Madison, Wisconsin 53705, 608-233-6400

Landmark Research Inc.

James A. Graaskamp, Ph.D., S.R.E.A., C.R.E.
Jean B. Davis, M.S.

June 17, 1983

Mr. Tom Neujahr
Urban Land Investments
301 N. Broom Street
Madison, Wisconsin 53703

Dear Mr. Neujahr:

Re: Appraisal of LaFollette Apartments

With this letter we are delivering an appraisal report of the LaFollette Apartments located at 720 South 92nd Street, West Allis, Wisconsin, owned by the LaFollette Park Associates.

The appraiser has determined Fair Market Value as of January 1, 1983, consistent with definitions required for appeal of the West Allis tax assessment of that date. As you know, Wisconsin tax law follows the unit rule which values the property at market rents, regardless of contracts to the contrary, and assuming cash to the seller regardless of trade practice to the contrary.

We have determined that Fair Market Value as of January 1, 1983, to be:

ONE MILLION TWO HUNDRED EIGHTY THOUSAND DOLLARS

($1,280,000)

assuming cash to the seller and assuming the buyer is able to obtain a mortgage loan of 12.5 percent for 25 years with a debt cover of 1.1

We have decided to leave the personal property assessment at $40,000 which we deducted from appraised value of the building including personal property of $1,320,000. The value of the land and building has utilized a full market comparison approach, a full income approach, and a cost approach of the assessor corrected for his omissions. We do not believe the cost approach is appropriate but felt it was important to demonstrate the inadequacies of the assessment.

Mr. Tom Neujahr
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Of course, the appraised value is subject to the statement of limiting conditions and assumptions included in the report. We compliment you on executing an imaginative redevelopment of this building which was formerly an eyesore and liability to the City of West Allis.

Should you have any questions, please contact us at (608) 233-6400.

Respectfully submitted.

James A. Graaskamp, Ph.D., SREA, CRE
Urban Land Economist

Jean B. Davis

Jean B. Davis, MS

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LIST OF EXHIBITS

I. BASIC APPRAISAL CONDITIONS

The content of an appraisal report is determined by the decision for which it will serve as a benchmark and by the limiting assumptions inherent in the property, data base, or other factors in the decision context.

A. The Appraisal Issues

The issues for which this appraisal will serve as a benchmark are the real and personal property assessments as of January 1, 1983 for LaFollette Apartments, located at 720 South 92nd Street, West Allis, Wisconsin.

Initially, the real property was assessed at $1,675,000 based upon a cost approach valuation of $1,651,000 (improvements = $1,484,400, and land = $166,700) and a market approach valuation of $1,682,640 based upon gross potential revenue of $205,200 (1 BR @ $300/month and 2 BR @ $400/month) and a gross rent multiplier of 8.2. The personal property was assessed at $40,000 based upon a doomage assessment because the assessor had no other cost information.

Upon a review of the assessment requested by the property owners and their representative, Landmark Research, Inc., the West Allis Assessor reduced the real property assessment to $1,422,000, using the gross potential revenue of $203,460, as estimated by the appraiser, and a gross rent multiplier of 7. The personal property assessment, which includes the cost of 57 ranges and 57 refrigerators, remained at $40,000 even though ranges and refrigerators are included in the comparable sale prices and gross rents used to derive the gross rent multiplier.

The following appraisal issues remain unresolved and are brought before the Board of Review of the City of West Allis on appeal:

1. The gross rent multiplier used by the West Allis Assessor is too high when compared with gross rent multipliers found in the market in and near West Allis. The gross rent multiplier (GRM) must be derived from the sales of properties of comparable size, rental units, operating expense ratios, and comparable financing and investment characteristics.

2. Traditionally, in the West Allis and greater Milwaukee area, ranges and refrigerators are included in the sales price and in the rents of unfurnished multifamily residential properties. To include the ranges and refrigerators in both the real and the personal property assessments is to unfairly double-count the value of this property. The personal property values should be subtracted from the market value of the project.

3. To properly use the cost approach, the appraiser must

keep in mind the cost to replace the existing facility with a unit of current utility rather than reproducton of what is. Moreover, the cost approach must reflect apartments built for the market rather than a project built to special government standards required as a condition of the subsidy and nonmarket financing. Therefore, a cost approach appraisal must ignore the excessive ceiling heights inherent in the two wings remodeled from old school buildings and use the new wing as typical of current replacement standards. Moreover, adapting these older buildings to residential use resulted in extra corridors and wasted space, reducing the rentable area as a percentage of building area significantly below that which is found in current replacements. The developers of LaFollette apartments were further required to provide an air conditioned community room with kitchen facilities and to provide security and life safety systems not found in market rate units. These differences between photo reproduction cost new and replacement cost must be recognized by the appraiser using the cost approach as physical depreciation, functional obsolescence, and in some cases, as economic obsolescence.

The Assessor made a token adjustment for physical depreciation but ignored substantial functional obsolescence when he used gross building area without adjustment for wasted space or features not required in market comparables.

B. Definition of Value

The definition of fair market value is taken from the 1980 Wisconsin Property Assessment Manual, Volume I, page 7-2:

Full and Market Value

The basis for the assessor's valuation of real property is found in s.70.32, (1) Stats., "Real property shall be valued by the assessor in the manner specified in the Wisconsin property assessment manual under s. 73.03 (2a), Stats., from actual view or from the best information that the assessor can practicably obtain at the full value which could ordinarily be obtained therefor at private sale." Numerous Wisconsin court cases have held that full value is equivalent to market value.

In the book "Real Estate Appraisal Terminology," market value is defined as: The highest price in terms of money which a property will bring in a competitive and open market under all conditions requisite to a fair sale. The buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus." Thus, the goal of the assessor is to estimate the full or market value of the real property.

There are certain conditions that are necessary for a sale to be considered a "market value" transaction. These are:

1. It must have been exposed to the open market for a period of time typical of the turnover time for the type of property involved.

2. It presumes that both buyer and seller are knowledgeable about the real estate market.

3. It presumes buyer and seller are knowledgeable about the uses, present and potential, of the property.

4. It requires a willing buyer and a willing seller, with neither party compelled to act.

5. Payment for the property is in cash, or typical of normal financing and payment arrangements prevalent in the market for the type of property involved.

"Real Estate Appraisal Terminology" also defines value as "The present worth of future benefits arising out of ownership to typical users or investors." What the investor is actually buying is the future income of the property. The users are typically purchasing the right to use the real property for personal satisfaction, shelter, or other benefits in the future. It is these future or anticipated benefits that give value to the property.

C. Property to be Appraised

The property to be appraised is known as the LaFollette Apartments located at 720 South 92nd Street in West Allis, Milwaukee County, Wisconsin. The property is legally described as:

LOTS TEN (10), ELEVEN (11), and TWELVE (12), excepting therefrom the West twenty-two (22) feet of LOTS TEN (10) and ELEVEN (11), and further excepting therefrom the East thirty (30) feet of LOTS ELEVEN (11) and TWELVE (12) and the North twelve (12) feet of LOT ELEVEN (11) in BLOCK FOUR (4), in ASSESSMENT SUBDIVISION NO. 71, being a part of the Southwest 1/4 of Section Thirty-three (33), in Township Seven (7) North, Range Twenty-one (21) East, in the City of West Allis, Milwaukee County, Wisconsin.

The proposed assessed value for the real property as of January 1, 1983 is as follows:

Key Number	Land	Building	Total
442 0081 004	$50,000	$376,600	$426,600

The proposed assessed value as of January 1, 1983, for the personal property which includes 57 ranges, 57 refrigerators, office equipment, lounge furniture, and yard equipment, is on the assessment roll at $12,000.

The assessments for 1983 are reported by the West Allis Assessor's office to be at 30 percent of full market value; the assessments on the subject property therefore convert to the following proposed 1983 full market assessed values:

	Land	Building	Total
	$166,700	$1,255,300	$1,422,000
Personal Property			40,000
Total Assessments			$1,462,000

D. Legal Right to be Appraised

The appraisal assumes the sale of the fee simple title of the subject property unencumbered by existing contracts which may allocate tangible and intangible property rights in such a way as to create going concern values. Moreover, the unit rule in Wisconsin requires the property be valued as a whole, as a single transaction, rather than a series of subdivided interests. This is stated in the 1980 Wisconsin Property Assessment Manual, Volume I, page 7-2:

> The bundle of rights can be split between private parties. When the rights are split between two or more private parties the assessor must still value the real

> property based on all of the rights. For example, when the owner leases real estate to a tenant, the owner transfers part of the bundle of rights, such as use of the property. Thus, the owner does not possess all of the rights during the lease period. In this situation the assessor does not value just the owner's rights or just the tenant's rights but all of the bundle of rights subject to statutory limitations.

In this case neither the contract rents permitted by HUD nor the favorable mortgage terms provided by HUD insured financing are transferable rights included in the fee simple title. Therefore, all elements related to Section 8 must be disregarded except recognition of the reality that artificially high rents, artificially low interest rates and arbitrary construction standards and government fees led to actual construction costs that would not have been feasible in the private market. Without governmental involvement, the rehabilitation of the abandoned school property would not have occurred as presently completed to the benefit of the citizens of West Allis, the elderly of West Allis, and the taxpayers - all of which are public benefits. What purpose is served by punitive real estate taxes incorrectly assessed which cause the project to operate at a deficit and eventually self destruct?

II. PROPERTY PRODUCTIVITY

The combined profile of the attributes of the subject property and of buyer expectations suggests which property transactions qualify as comparable sales and the basis for estimating how much a buyer is willing to pay for the rights available to him.

A. Site Description

The site of the subject property is a former elementary school and school yard which occupies the northern half of the block bounded by the South 92nd Street boulevard on the west, South 91st Street on the east, West Schlinger on the north, and Walker Street on the south. The south border of the subject site has several single family residences and a separate vacant tax parcel owned by the plaintiff. The elderly project now located on the subject parcel is identified as 720 South 92nd Street even though the principal entrance faces east on 91st Street and is serviced by a drive-in-circle from that direction. A survey plan prepared on June 22, 1981, by Joseph Kroeninger indicates the parcel has 325 feet of frontage on South 92nd Street, 327 running feet on South 91st and a consistent depth of 490 feet for a total lot area of 81,174 square feet, or 1.86 acres. The site is serviced on three sides by sanitary sewer and gas. Storm water connections are available on both 92nd Street and Schlinger Street, as are water connections. Various survey details are available from the site map on Exhibit 1.

The neighborhood environment is basically residential although 92nd Street is a boulevard arterial which provides bus and pedestrian ties to neighborhood shopping facilities a few blocks to the north and the south of the site. Lack of mature trees as the result of street widening and Dutch Elm Blight makes the site highly visible, and a wing of the old school was demolished to enhance neighborhood open space and appearance.

Zoning for the site was originally intended to be residential RA-3, but this was altered by West Allis specifically for the LaFollette project to R-10, a planned residential district, in order to facilitate sale, salvage, and return of the property to the tax base. Traffic patterns on South 92nd Street were protected by negotiating placement of all parking and driveway access points on Schlinger Avenue and 91st Street.

In retrospect the site enjoyed very positive legal-political status because sale for redevelopment provided a favorable solution to several major community problems including a surplus school, the need for tax base, and the need for affordable housing for elderly residents of West Allis.

Landmark Research, Inc.

EXHIBIT 1

SITE PLAN

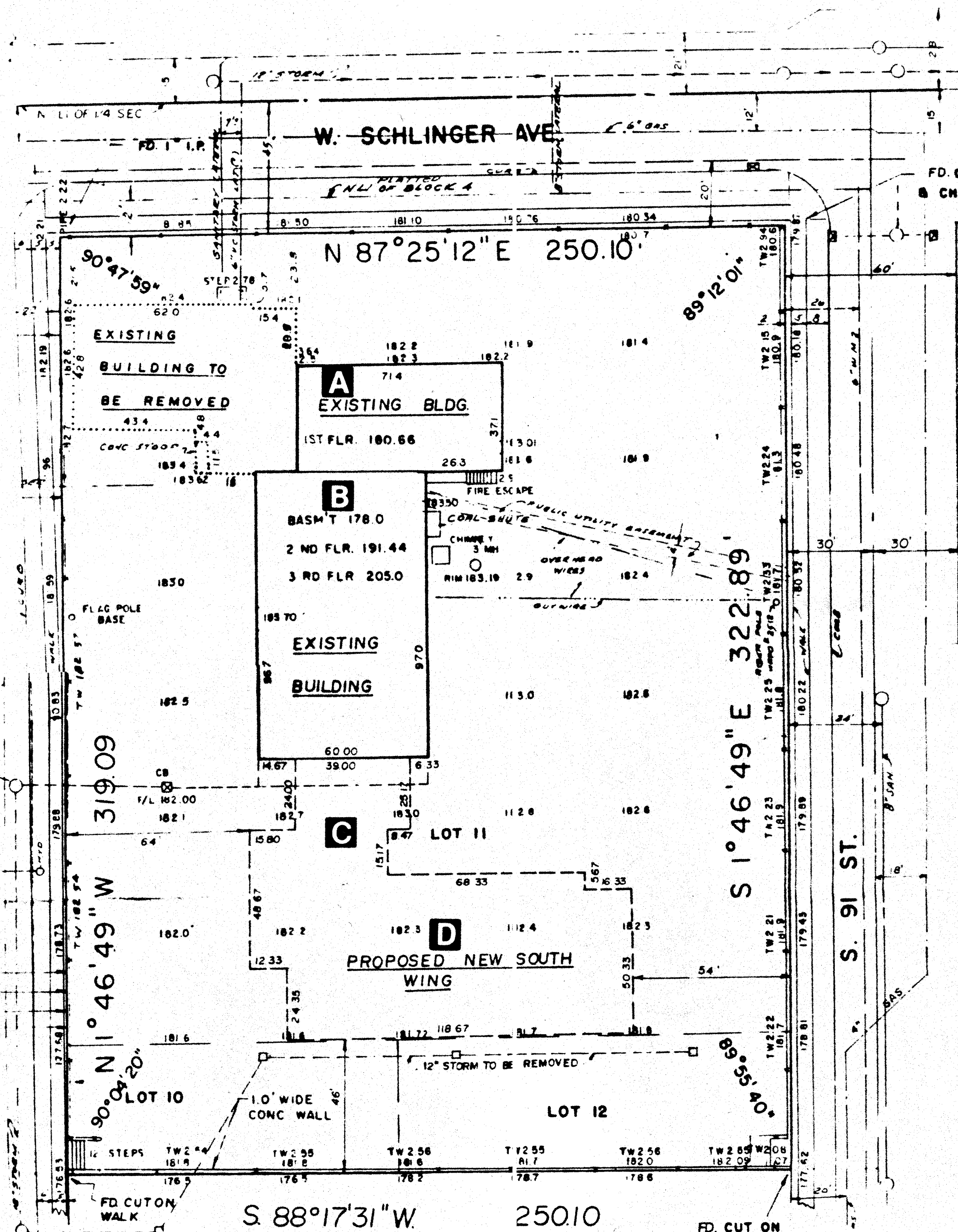
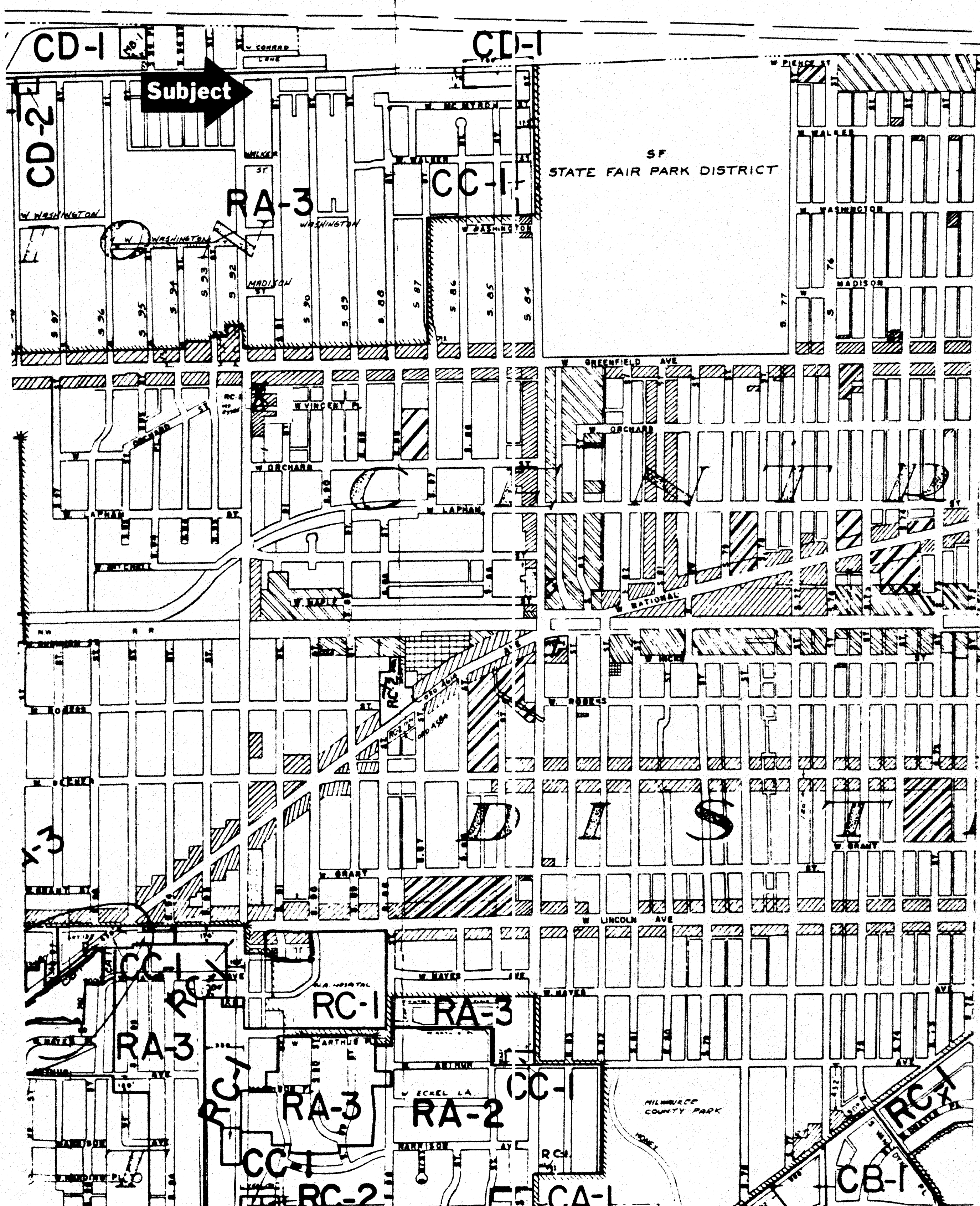


EXHIBIT 2

ZONING MAP



These site attributes are quite suitable for medium density multifamily housing for primarily single person households and, therefore, the current use is the highest and best use of the site.

B. Site Improvements

Existing site improvements of the finished project include primarily wide expanses of sodded lawns, existing city sidewalks and curbs, and a new retaining wall along the 91st Street sidewalk frontage. There are new broad sidewalks to secondary entrances at the north and south wings running toward 92nd Street, as well as an open patio area facing South 92nd Street. The site plan provides 28 open parking stalls on concrete curbed asphalt parking area, broken up with several planting areas. There is a major drive and circle leading to a canopied main entrance sidewalk protected in the inner corner of the L formed by the new south wing and connector tower to the former school building.

C. Building Improvements

The current project consists of 55 elderly one-bedroom apartment units and one apartment with office space for the resident manager and goes by the name of LaFollette Park Apartments.

EXHIBIT 3

LAFOLLETTE APARTMENTS - UNIT MIX

UNIT TYPE	SIZE SF	1st FLOOR	2nd FLOOR	3rd FLOOR	TOTAL UNITS	NET LEASE-ABLE AREA
A	540	2	2	1	5	2,700
B	550	1	0	0	1	550
B (1)	706 (2 BR)	0	1	1	2	1,412
C	646	1	1	1	3	1,938
D	535	1	1	1	3	1,605
E	771 (2 BR)	1	0	0	1	771
E (1)	561	0	1	1	2	1,122
F	540	1	1	1	3	1,620
G	543	2	2	2	6	3,258
H	540	8	12	10	30	16,200
TOTAL		17	21	18	56	31,176 SF

Basically, the structure represents an intensive redevelopment of a former three story elementary school built in 1931 (Section B) and a portion of a two story north wing built in 1952 (Section A) together with a new three story wing (Section D) with 28 units built parallel with the south lot line. It is connected to the older structures with a circulation tower (Section C) featuring an elevator, fire stairs, and entrance lobbies. Basic floor areas in these four components are defined as follows:

Section A		
= (2 story school wing built 1952)		
2,649 SF x 2	=	5,298 SF (11.5%)
(fire escape) Corridor above Section A		
(partial 3rd floor) 6 ft. x 53 ft.	=	318 SF
Section B		
= (3 story school wing built 1931)		
5,820 SF x 3	=	17,460 SF (35.8%)
Section C		
= (3 story connector built 1982)		
1st floor 982 SF + 702 SF	=	1,684 SF
2nd floor 1,684 SF less 122 SF	=	1,562 SF
3rd floor 1,684 SF less 122 SF	=	1,562 SF
Section D		
= (3 story new addition built 1982)		
6,966 SF x 3	=	20,898 SF (52.7%)
Total		48,782 SF
		======

Although there are 48,782 square feet of gross building area, the mix of apartment units in Exhibit 3 produces only

31,176 square feet of net leaseable area for a low building efficiency ratio of 64 percent. In addition, reuse of the old school building where ceiling heights varied 10 to 12 feet required drop ceilings and partial closure of window areas so that the basic building envelope contains excessive cubage for the current use.

While the former school wings are masonry structures with reinforced concrete frames, their age cannot be entirely offset by intensive renovation and certain problems remain.

1. Walls - Drywall covered with thin paper; can't wash walls
2. Cement under carpet subject to deterioration
3. Vinyl tile pits easily
4. Exterior brick on building never sealed properly and has leaks. WHFA may require a seal; wasn't on original specs
5. Tuck pointing needs to be done on old center building

Section B also contains the original mechanical/furnace room as a recessed area a few steps down from the main corridor on the east side. There are fcur new sequenced hot water boilers, two water heaters, and two circulating pumps to provide a certain measure of reliability as well as operating efficiency. There is no water softener. Each apartment has a separate electric meter, but hot and cold water is provided as well as heat with the rent. There is a trash compactor on the first floor of the connector, with trash chute from trash rooms on floors above. The connector tower contains an elevator. There is a washer and dryer in a small laundry room on each floor of the new wing (Section D). All portions of the combined structure feature smoke alarms, an intercom system for emergency calls, sprinklers, fire doors between sections, hand rails and emergency lights for the hallways, bubblers mounted for the handicapped, and electric outlets and switches at hip level for easy access.

In addition to the special appointments required for elderly/handicapped tenants, Section 8 elderly housing also requires certain nonmarket spaces such as a community room with 1,265 square feet of floor space which might otherwise have been two additional income producing apartments. This community room has a full kitchen, two public bathrooms, and a storage room plus built-in air conditioning. Such a room is a necessity to reduce the tendency of the elderly to become isolated and alienated from general social contact. Because the community room is some distance from the north wing, and walking down long corridors may be physically uncomfortable and discourage the elderly from seeking companionship, two additional sitting areas have been provided on the first and second floors of the north wing. Patio areas have been provided off the community room and on the roof of the main entry lobby at the second floor level where the residents can discretely observe everyone coming and going. The mail boxes in the main lobby are also supported with a sitting area as an important point for social interaction.

Nevertheless, the elderly are expected to be independent and every unit has a full kitchen, closets, disposal, refrigerator, stove, and exhaust fan. Only the refrigerator and stove can be removed and considered personal property.

The exterior of Section B reveals a signficant reduction of window area which parallels the dropped ceiling within. The exterior of Section A has been resurfaced with new brick over its former block but also reveals the panellized windows necessary to adopt residential dimensions to a school building frame. The new wing has masonry bearing walls of red brick on concrete block and some steel I beam and lally column internal structure, but is basically wood joist and plywood framing systems. The structure is commonly termed mill construction, which is signficantly less heavy duty than the concrete frame of the old school. Cross sections of the three major wings reveal the variance in floor to ceiling height that exists between the old school building section and section D which was built to concurrent utilitarian apartment standards. This structural distinction is important in later appraisal analysis as it provides clear demonstration of the meaning of replacement cost standards when adjusting the cost approach for inherent functional or aging obsolescence of an over sized improvement, such as Section B. Photographs of project exterior are provided in Exhibit 4.

EXHIBIT 4

PHOTOGRAPHAPHS OF THE SUBJECT PROPERTY

Front view of 56 elderly apartment units. The middle part is the original school structure, built in in 1931; the left wing was added in 1952; the right 3-stroy addition was built in 1981-82.

Back view showing parking.

III. MARKET COMPARISON APPROACH TO VALUE

The preferred methodology for estimating fair market value is to rely on sales and rentals of properties comparable to the subject, presuming some adjustments for unique differences among the comparables relative to the subject.

A. The Gross Rent Multiplier

At issue is the validity and reliability of the gross rent multiplier used by the West Allis Assessor to estimate the fair market value of the LaFollette Apartments.

The gross rent multiplier must be carefully derived from sales of comparable properties which have comparable operating expense ratios. The increasingly high cost of utilities have caused property owners to shift this risk to the tenant whenever possible. In newer, individually metered properties, the tenant pays the heat and electricity and, therefore, the gross rent will be less than in a comparable property where the owner pays for the heat but then passes through this cost to the tenant in the form of a higher gross rent.

If the market rent in a one bedroom apartment is $325 per month with heat included, the same unit could rent for $300 per month if the tenant paid the heat which is estimated to average $25 per month over a year's time. The net operating income for the owner would be the same, in either case. But, if no adjustment was made in the annual gross rent, the resulting GRM would be overstated in the case where the tenant pays the heat.

For example, if a 36 one-bedroom unit apartment building sold for $920,000, the resulting gross rent multiplier, for each case, would be as follows:

Case A: Tenant pays heat and electricity
Annual gross potential revenue =
36 units x $300/mo. x 12 = $129,600
Sale Price = $920,000
GRM = 7.1

Case B: Owner pays heat and tenant pays electricity
Annual gross potential revenue =
36 units x $325/mo. x 12 = $140,400
Sale Price = $920,000
GRM = 6.6

If the owner pays the heat and the tenant pays the electricity in the subject property, the application of the incorrect GRM would lead to a distorted estimate of value. In the hypothetical case just described, a subject property with 36 one-bedroom units and rents of $325 per month would have an annual gross potential rent of $140,400. If the 7.1 GRM derived from an unlike property were applied, the value estimate would be:

7.1 x $140,400 = $996,840 (rounded, say $1,000,000)

whereas, in fact, the value estimate should be:

6.6 x $140,400 = $926,640 (rounded, say $930,000)

When used for assessment purposes, the overstatement of value by $70,000 would result in an overstated tax bill of $2,160 based upon the 1982 mill rate of .030858 per thousand of market value.

The second factor that has made the gross rent multiplier less reliable, if not used with adequate information and adjustments, is the financing. High interest rates have forced many sellers to provide financing to the buyer. When the seller provides below market interest rates, accepts a lower down-payment and/or other terms not provided by third party lenders, the seller must demand a higher selling price based upon the present value of the dollar received now when compared to the present value of the dollar received later.

Land contract terms can result in a sale price from 5 percent to 10 percent higher than it would have been with a cash transaction. In the hypothetical case, a cash price of $920,000 would be $966,000 to $1,000,000 given the terms of the land contract. These, with a gross annual rent of $140,400, the GRM, would be overstated if the land contract price was not adjusted to a cash price:

Cash Sale:	$920,000 ÷ $140,400 = 6.6
Land Contract:	$966,000 ÷ $140,400 = 6.9 $1,000,000 ÷ $140,400 = 7.1

Quotes from several appraisal authorities including the American Institute of Real Estate Appraisers and the IAAO reinforce the need to use GRM analysis with caution and knowledge of the property detail and financing parameters.

Alfred A. Ring, The Valuation of Real Estate, 1970, 2nd Edition, p. 145-147.

> The gross income multiplier as a device to convert monthly or annual gross income into a sum of market value has gained popularity as a rule of thumb and as an index of value. Like all rules which are based on the law of averages, the gross income multiplier can serve a useful purpose when applied intelligently and with care.
>
> At the outset, it should be realized that the use of the gross income multiplier cannot and should not be considered as part of the income or capitalization approach to value. To capitalize, means to convert the estimated net income anticipated over the remaining economic life of the subject property into a sum of present value. The gross income multiplier does not give weight to amounts of operating expense ratios, or to variations in the remaining economic life of properties. In fact the user of the multiplier assumes that all properties within a given classification, such as residential, commercial, or industrial, are identical in operating characteristics and in their economic age-span of remaining productive life....
>
> As indicated, in the hands of an informed person the multiplier may prove a useful aid in approximating prevailing market value. The professional appraiser, however, is well advised to use this valuation tool with caution for the following reasons: First, the multiplier converts into value gross rather than net income. It is entirely possible that a property which produces a comparable gross income may yield inadequate or even no net income because of excessive operating or maintenance cost due to faulty construction or inequitable contractual commitments written into long-term lease agreements. In either case the existence of gross income gives an illusion of value that could not be justified by an expert appraiser. It is for this reason that users of the gross income multiplier should pay heed to the saying, "The

accountant can estimate our gross, but only God can give us our net."

Second, the use of the multiplier assumes uniformity among properties in their operating ratios. Even among residential properties, where operating experience supports claims for relative constancy of expense outlays, individual properties may vary significantly from the norm as the result of differences in construction, quality of insulation, kind of heating, amount of built-in equipment, equity of property taxation, and other causes.

Third, consideratin of remaining economic life appears entirely ignored. It is a rare coincidence that properties selected as index sales are identical in relation to effective age, and a rarer coincidence still that the subject property should be of the same age as those of the index sales. Uninformed use of the gross multiplier would ascribe equal value to properties of equal income even though one may be in the last stages of its economic life and the other in new condition. It may be argued that such properties are not comparable; but be that as it may, the gross income multiplier never provides for adjustment of differences in properties which are by nature heterogeneous in character.

Fourth, care must be taken not to adjsut the gross income, nor the "raw" market prices, paid for comparable properties for age, condition, or location of the sale property. To do so will overadjust for physical functional, or economic factors which both the renters and the investors have already considered in the price paid for rental and in the purchase amount offered for the property in its "as is" condition.

With these limitations in mind, the gross income multiplier may be used as a straw in the bundle of straws to which the appraiser clings in formulating and justifying his final judgment of market value.

Paul F. Wendt, Real Estate Appraisal Review and Outlook, 1974, p. 179.

The basic assumption in the use of gross-rent multipliers as a means of establishing most probable selling prices is that properties with the same gross income will have the same net-income expectancy or future cash flow to the investor and hence will have the same dollar value per dollar of expected future cash flow. This underlines the most important criterion in the use of this technique; namely, that the properties must be similar in their future cash-flow expectancy. This in turn implies that the ratio of net income to gross income should be the same and that properties should have the same outlook for gross income and expenses, including property taxes. Viewed in this light, it can be seen that the gross-multiplier method is a variation of the market-comparison technique of valuation. The use of the gross-multiplier method makes is possible to compare properties which are otherwise similar, but may be of varying size or quality and have different gross dollar incomes.

John W. Reilly, _The Language of Real Estate_, 1977, p. 202-203.

GROSS INCOME MULTIPLIER - A useful rule of thumb for estimating the market value of income-producing residential property. The multiplier is derived by using comparable sales divided by the actual or estimated monthly rentals in order to arrive at an acceptable average. By multiplying the estimated rent of the property under consideration by the multiplier, one can compute a rough estimate of the property's market value. Only a rough estimate of value is thus produced because the gross rent does not allow for variations in vacancies, uncollectable rents, property taxes, management, and similar unpredictable circumstances. To be most accurate, the estimate should generally be based on unfurnished rentals. The use of the gross income multiplier, sometimes called the gross rent multiplier, has slowly been going out of use during the last ten years in recognition of the fact that it is a very crude guideline that does not take into consideration the tax ramifications of different possible investors and does not recognize alternate methods of financing.

E. Roger Everett, William N. Kinnard, _A Guide to Appraising Apartments_, 1979, p. 45.

As a broad generalization, it is neither necessary nor desirable to adjust the sale prices of the comparable sales prior to developing the multiplier. Since the multiplier represents a relationship between value (sale price) and whichever gross income is employed, it may normally be assumed that differences in locatins and property features are automatically included. Rentals tend to be affected by the same market factors and forces influencing price, and generally in the same way. This, of course, presumes that there is an indeed direct relationship between total income and sales price; that is what a multiplier is. The appraiser must be aware, however, that there are two factors which can cause multipliers for otherwise similar apartments to vary. These are: 1) differences in expense ratios and 2) differences in the type and amount of services provided in the rent.

Two properties having identical net operating incomes and sales prices may produce different income multipliers. This can occur when one has utilities paid by the tenant and the other has utilities included in the rent. Such sales cannot be appropriately used unless either the rental is adjusted to the same basis as the subject property before calculating the multiplier or the multiplier developed is adjusted to reflect the difference. Similarly, income multipliers developed from sales of properties with abnormally high or low operating expense ratios cannot be applied directly to the income of a subject property which has (or is presumed to have) a normal or typical expense ratio. These situatins clearly point to the need to examine not only the physical, but also the economic characteristics of comparable sales. It also points up one of the major weaknesses of Gross Income Multiplier analysis, and in fact the entire Direct Sales Comparison Approach, when adequate detail cannot be discovered concerning comparable sales.

American Institute of Real Estate Appraisers, The Appraisal of Real Estate, 1978, p. 287.

The comparison process also concerns economic comparability. Income properties are sometimes compared on a gross multiple basis. For example, in appraising a standard apartment building, analysis of comparable sales may show that such sales have been made at a fairly uniform multiple of the gross income. This could be carried through and applied to net income. But at that point the process is more properly considered as part of the income approach, whereas comparisons of gross income may sometimes be used as a part of the market data approach.

A gross income or gross rent multiplier (GRM) is a factor reflecting the relationship between its sale price or value and the gross annual income of real estate. For a residence, it is computed on the basis of monthly income, but for all other types of property it is on the basis of annual gross income; for example, properties selling for $100,000, with an annual gross of $20,000, are selling at five times the gross, indicating that a GRM of 5 may be applied to the gross annual income of a closely comparable property to convert that gross to a value estimate. Similarly, a residence selling at $30,000 with a rental value of $200 per month reflects a GRM of 150 computed on the basis of the gross monthly rental.

Since the GRM relates value to gross income rather than net incvome, its use is valid only for types of properties that are:

1. Reasonably consistent in net-to-gross-income operating ratio, and
2. Sell with sufficient frequency in the market to produce a discernible GRM pattern.

IAAO publication, <u>Property Assessment Valuation</u>, 1977.

GROSS RENT MULTIPLIER - The use of the gross rent multiplier (GRM) requires certain assumptions. The first is that the highest and best use of the property will not change over the remaining economic life of the property. It is also assumed that the property will remain rented at a constant rate with no unusual vacancy factor. A further assumption is that the subject property and the comparables are truly comparable in that they are subject to the same market influences, are competitive with one another, have similar operating expenses, and have similar utility and amenities. It is finally taken for granted that any differences in the subject and comparables are reflected in the rents of each property.

The GRM gives a simple, direct estimate of value and eliminates the complex adjustments of the direct sales comparison method. However, there are limitations in the use of GRMs. Before they can be derived, a volume of sales and rental data is needed on the same properties. The GRM does not allow for abnormal physical deterioration, unusual operating expenses, or differences in zoning. The GRM's application to single-family residential properties has doubtful validity because amenities of owner occupancy may not be reflected in the rentals as they would be in sales.

B. Comparable Sales

Sales of comparable multifamily residential properties in West Allis and surrounding communities transacted from 1981 to the present were analyzed. Actual or projected annual gross rents at the time of sale and sale prices and terms were confirmed by the buyer, property manager or an appraiser familiar with the property. See Exhibit 5 for a summary of the sales analyzed.

SALE #1

This 16-unit apartment building built in 1978 is located across the street from the subject property. A cash sale occurred on May 9, 1983, for $400,000. These small one-bedroom, one-bath units have separate and private entries and the building has a partial basement. The tenant pays heat and electricity. When the rent is adjusted for heat paid by the owner, the resulting adjusted gross rent of $65,280 and a cash sale price of $400,000 yields a GRM of 6.13. The full market assessment on this property as of January 1, 1983 is $438,667 which yields a GRM of 6.7.

SALE #2

This older, three-story building has an elevator to serve 62 units. The actual gross at time of sale on May 5, 1983 was $206,220; the cash sale price of $1,000,000 yields a GRM of

4.85. The landlord pays heat in this older building, hence the low GRM.

SALE #3

The West Allis Assessor used the asking price of $2,700,000 for Cherokee Villa in Greenfield as of May 28, 1982 to justify a GRM of 8.2. The property did not actually sell until almost a year later on April 29, 1983 for $2,339,000. Though the terms were not revealed, the sale is not a land contract transaction. Cherokee Villa has underground parking for the townhouses and detached garages for the one-bedroom units; central air conditioning, dishwashers and a pool are also included. Both in size and amenities, these units are superior to the subject property.

Since the tenant pays the heat and the electricity, the gross rent must be adjusted to reflect the heat provided by the owner. Gross potential rent at the time of sale and adjusted for heat costs is $374,280 with a GRM of 6.25.

SALE #4

The 104 one and two bedroom units built in 1972 now known as Quail Hollow in Greenfield were sold October, 1982, for $2,700,000 on a land contract. Three-quarters of the units have dishwashers and a patio/balcony is provided. A pool is also a part of the complex.

The gross potential rent of $416,400 at the time of sale and an unadjusted land contract price of $2,700,000 yields a GRM of 6.48. Assuming that seller financing increases the cash price approximately 5 percent, an adjusted sale price of $2,565,000 yields a GRM of 6.16.

SALE #5

Park Side Plaza, a brick veneer building located at 11616 W. Greenfield in West Allis is considered by the West Allis Assessor to be extremely representative of the market and the subject property. The 36 unit apartment structure built in 1978-79 was sold for $915,000 on August 31, 1982 with a 1st and 2nd mortgage used for financing. The buyer reported the rents for the four efficiencies as $265 per month and for the 32 one-bedroom, one-bath units as $3[illegible]5 per month with the tenant paying heat and electricity. When the rents are adjusted for utilities, the annual gross potential rent is $144,240 and translates to a GRM of 6.34. The units include stoves, refrigerators, sleeve air conditioning, carpet, surface parking, and have a partial basement. On the whole, the building is newer than the rehabilitated subject property and is located near a park, but it is extremely comparable to the subject with a sale date close to the assessment date of January 1, 1983. The 1983 assessment for this property is $896,700 or 98 percent of its sale price. Based on the rents supplied by the owner, the GRM based upon the 1983 assessment is 6.2.

SALE #6

The sale of 1900 E. Capitol Drive, a 27 unit apartment structure built in 1956, took place on July 15, 1982 for $920,000 on a land contract. The West Allis Assessor reported the projected 1982 annual grcss rent to be $137,000 but the buyer reported the rents to be $360 per month for the one-bedroom units and $410 per month for the two-bedroom units at the time of sale. Garage rent is extra at $25 per month. The annual gross rent for this mix cf one and two bedroom units is approximately $124,740 and could be no more than $132,840 if all of the units were two bedrooms at $400 per month. The resulting GRM is 7.38. Terms of the land contract were not revealed, but if the cash equivalent price if 90 percent of the land contract price, the resulting GRM would be 6.6 not, 6.7 as reported by the Assessor.

SALE #7

The 48-unit apartment structure at 4333 N. Oakland in Shorewood was built in 1969 and sold for $1,600,00 on June 3, 1982 on a land contract. The 6 one-bedroom and 42 two-bedroom units have a full basement and garage parking is available for $30 per month extra. The rents at the time of sale were $335 for the one bedroom units and $405 to $425 for the two bedroom units for a total annual gross potential rent of $233,280. The resulting GRM, based upon a nominal land contract sale price of $1,600,000, is 6.86. The rents were increased by $50 per unit within the following year which leads to the speculation that the existing rents at the time of sale were less than market. Based upon projected annual gross potential rents of $262,080 realized after the sale date, the GRM would be 6.1.

Since this is a land contract sale, the terms of which were not available, one must also solve for the GRM which would result if the cash equivalent price were calculated. If 95 percent of the land contract price or $1,520,000 is used as the cash equivalent price, the GRM would be 6.5 or 5.8 depending upon whether the actual rents at the time of sale or the projected rents achieved within a year of the sale are used. Thus, the GRM which must accurately reflect the relationship between the cash sale price and the buyer's expectations of the property's gross rent potential is in the range of ~~6.0~~ 5.8 to 6.5.

SALE #8

The 16-efficiency units located at 2076 South 83rd Street in West Allis sold for $278,432 cash to the seller in March 1982. The 1983 assessment of $278,333 recognizes this sale price. The units are furnished; therefore, the gross potential revenue must be adjusted downward to make this sale more comparable to the subject and to the other properties sold. The building has a full basement and a security system. The adjusted gross potential rent of $42,720 yields a GRM of 6.52.

SALE #9

The 20-unit two-bedroom, one-bath units located at 4614 South 1st Street in Milwaukee sold for $500,000 on a land contract August 31, 1981. Rents at the time of sale were reported to be $305 per month for large 1,300 square foot units or a low .24 per square foot per month. The annual gross rent of $73,200 yields a GRM of 6.8. When the land contract sale price is adjusted downward by 5 percent for terms, the approximate cash sale price of $475,000 and rents at $73,200 yield a GRM of 6.48.

SALE #10

The 150-unit apartment complex, Harbor View located in St. Francis was built in 1971-72 and was sold on July 21, 1981 for $3,900,000 with a five year land contract. The projected annual gross potential rents at the time of sale was $585,000 with the 75 one-bedroom units renting for $300 per month and the 75 two-bedroom units for $350 per month. These units include a full basement in each building; one half of each basement contains living units and one half is used for storage and laundry. The apartments are reported to be air-conditioned.

The nominal land contract price of $3,900,000 and gross rent of $585,000 yield a GRM of 6.67; when the land contract price is adjusted for cash at 95 percent of $3,900,000 the resulting GRM is 6.33.

Sales of 8-unit apartment buildings are not included in the list of comparables because this type of income property is purchased by a subset of small investors who have noneconomic motivations for purchasing these units, inconsistent with the knowledgeable buyer requirement of fair market value. According to brokers in the area, the small investor who wants pride of ownership and the tax shelter of income property is the typical buyer. Such buyers frequently pay too much for the opportunity to proudly drive by and show off their apartment building; the transaction often results in negative cash flow which the investor has to cover from other resources. The GRMs for these properties tend to be higher and during the early 1980s the range has been from 7 to 8. But these GRMs cannot be applied to larger apartment buildings because the buyers for larger properties operate an economic premise that the project can break even and produce a cash income in excess of debt service. A review of the comparable sales suggests a GRM of 6.2 to 6.5 for the subject property.

EXHIBIT 5

COMPARABLE APARTMENT SALES IN

THE GREATER MILWAUKEE AREA

Revenue higher when utilities included ∴ Price/Revenue = GRM. all revenue goes up, GRM goes down

	NAME AND/OR ADDRESS	YEAR BUILT	TOTAL NUMBER OF UNITS	UNIT MIX	APPROXIMATE SIZE OF UNIT (SF)	UTILITIES INCLUDED IN RENT	ACTUAL RENT/MONTH AT SALE	ADJUSTED [1] RENT/MONTH	ADJUSTED ANNUAL GROSS POTENTIAL RENT	Unadj. gross annual income	Unadj. GRM
✓	1 621 S. 92nd Street West Allis	1978	16	16-1 BR, 1BA	501	Tenant pays heat and elec.	$315	$340	$ 65,280	60 480	6.61
	2 2121 E. Capitol Drive Shorewood	1931	62	4-studio, 1 BA 54-1 BR, 1 BA 4-2 BR, 1 BA	N/A 550 N/A	Cooking gas, heat.	4 @ $225 54 @ $255-$300 4 @ $325	----	$206,220	same	4.85
✓	3 Cherokee Villa 4100 S. 43rd Street Greenfield	1976	84	56-1 BR, 1 BA 28-2 BR, 1-1/2 BA	700 1,200	Tenant pays heat and elec.	30 @ $310 26 @ $325 28 @ $395-$405	$335 $350 $425-$435	$374,280	347400	6.45
LC. ✓	4 Quail Hollow 8100 Forest Home Greenfield	1972	104	84-1 BR, 1 BA 20-2 BR, 1 BA	N/A	Heat.	$320-$330 $370	----	$416,400	385 × 12 × 27 = 124,740	6.48
✓	5 Park Side Plaza 11616 W. Greenfield West Allis	1979	36	4-efficiency, 1 BA 32-1 BR, 1 BA	370 600	Tenant pays heat and elec.	$265 $315	$285 $340	$144,240	133,680	6.85
oddball LC →	6 1900 E. Capitol Drive Milwaukee	1956	27	Some 1 BR Some 2 BR	N/A	Heat.	$360 $410	----	$124,740	7.38 using W.A. assessors income $137,000 GRM = 6.7 + $9524 nominal = cash GRM 6.4	
L.C.	7 4333 N. Oakland Shorewood	1969	48	6-1 BR 42-2 BR	N/A	Heat.	$335 $405-$425	----	$233,280	6.86 LC,	
	8 2076 S. 83rd Street West Allis	1967 (reported by owner)	16	16-studio	N/A	Heat.	$225 [2] $260	$205 $240	$ 42,720	6.52	
L.C	9 4614 S. 1st Street Milwaukee	1964	20	20-2 BR	1,300	Heat.	$305	----	$ 73,200	LC 6.1	
	10 Harbor View 3725-95 Denton Drive 4145 S. Lake Drive 4155 S. Lake Drive St. Francis	1971	150	75-1 BR 75-2 BR	504 768	Heat.	$300 $350	----	$585,000		

[1] Adjusted rent includes monthly heat at $20, $25, $30 for efficiency, 1-BR and 2-BR, respectively; excludes monthly electricity at $5, $10, $15, for efficiency, 1-BR and 2-BR respectively.

[2] Apartments are furnished, therefore an allowance of $20 per month is made for furniture.

EXHIBIT 5 (Continued)

	SALE PRICE AND DATE	SALE TERMS	GROSS RENT MULTIPLIER (GRM)	GRM WHEN LAND CONTRACT ADJUSTED FOR CASH	AVERAGE PRICE PER UNIT	AMENITIES	SOURCE OF INFORMATION	GRANTOR/GRANTEE	Price/Bdrm
1	$ 400,000 5/9/83	Warranty Deed	6.13	----	$25,000	Carpet, A/C sleeve, disposal, range, refrigerator, hood, partial basement, individual entrys.	John Murphy, Appraiser	B. Weickhardt/ D. Mullet	400,000 / 16; 25,000/bdrm * 1978 - 5 yrs
2	$1,000,000 5/5/83	Warranty Deed	4.85	----	$16,129	Refrigerator, range, elevator,- (3-story building).	Saul Weinberg John Murphy, Appraiser	Annison Apt./ Saul Weinberg 1931	1,000000 / 66; 15,152/bd. (small 1bd) 1931 - 52 yrs.
3	$2,339,000 4/29/83	Not Land Contract Purchased by Ltd. Partnership	6.25	----	$27,845	Carpet, range, refrigerator, central A/C, disposal, dish-washer, pool, underground parking for townhouse, detached garage for 1 BR.	John Murphy, Appraiser Cherokee Villa Ltd. Partnership	Douglas F. Dowd/ Cherokee Villa Ltd. Partnership	2339000 / 112; 20,884/bd. * 1976 - 7 yrs.
4	$2,700,000 10/82	~~Not~~ Land Contract (see p. 29)	6.48	6.16	$25,962	Carpet, A/C sleeve, refrigerator, range, pool, surface parking, 3/4 have dishwashers, patio/ balcony, laundry (commercial).	Decade Investments	Decade Investment	2,700,000 / 124; 21,774/bd. LC undy.
5	$ 915,000 8/31/82	1st and 2nd mortgage	6.34	----	$25,417	Stove, refrigerator, A/C sleeve, carpet, surface parking, partial basement.	Harold C. Bolter W. A. Assessor	Elliot & Dohnal/ Harold C. Bolter	915000 / 36; 25,417/bd. * 1st & 2d mortg 1979 - 4 yrs.
6	$ 920,000 7/82	Land Contract	7.38	6.64	$34,074	Refrigerator, range, laundry, (comm.) garage is $25/month extra, some surface parking.	Badger Realty (Joanne) W. A. Assessor	/Sher- Broadway Realty	920000 / 40; 23,000/bd. L.C. undy 1956
7	$1,600,000 6/3/82	Land Contract	6.86	6.52	$33,333	Carpet, range, refrigerator, A/C sleeve, garage parking, $30/mo. extra, full basement, laundry, (comm.).	Mr. Blankstein	Blankstein Enterprise	1600000 / 90; 17778/bd. L.C. undy 1969
8	$ 278,432 3/82	Warranty Deed	6.52	----	$17,402	Furnished, carpet, range, refrigerator, full basement, laundry (comm.), security.	LeRoy C. Styre John Murphy, Appraiser	LeRoy C. Styre, Wm. Radonski	278432 / 16; 17402 furnish
9	$ 500,000 8/31/81	Land Contract	6.83	6.50	$25,000	Carpet, range, refrigerator, surface parking, laundry (comm.).	John Murphy, Appraiser Harry Lee Martin, Sr.	Harry Lee Martin	500000 / 40; 12,500 1967 1964
10	$3,900,000 7/21/81	Asked $4,000,000 20% down, 5 yr L.C., Seller said sale was slightly less.	6.67	6.33	$26,000	Surface parking, full basement, A/C unit, refrigerator, range.	John Murphy, Appraiser Harborview Manager	Bruce Styza/ Century Inv. Fund VI	3900000 / 225; 17333 1971

error

cash = 95%

cash = 90%

cash = 95%

cash 95%

good income

speculative

range of value/bedroom in complexes w/ 1 bdrm. units = $15,152 → $25,417

highs are those in which

C. Comparable Market Rents

A survey of current market rents in the greater Milwaukee area revealed the pattern of rents for one bedroom units found in Exhibit 6. Based upon this information, the rents found in recent comparable sales (see Exhibit 5), and rents for two-bedroom units as reported in the SREA Milwaukee County, Chapter 64 Apartment Rental Study 1983, the following market rents were estimated for the LaFollette Apartments. (See Exhibit 7.)

D. Estimate of Value Using the Gross Rent Multiplier

Given the estimated potential gross rent of $203,460 for the subject proeprty, the range in value, using the market comparison approach with a GRM, is estimated to be:

$203,460 x 6.3 = $1,281,798 or $1,282,000

$203,460 x 6.5 = $1,322,490 or $1,322,500

The sale (#5) believed to be most comparable to the subject by both the appraiser and the assistant assessor produced a GRM of 6.34; when applied to the subject, the value estimate is $1,290,000. Since rents include use of refrigerators and stoves as well as outdoor furnishings, so does the value derive from the GRM. Therefore, the real estate value is the balance after deducting the personal property of $40,000.

EXHIBIT 6

RENTAL COMPARABLES FOR LAFOLLETE APARTMENTS

SREA PAGE	LOCATION	TYPE	MONTHLY RENT	SIZE	RENT/ SF	HEAT	ELECTRIC	HOT WATER	APPLIANCES INCLUDED	OTHER AMENITIES
56	Alverno Pool Apts. 3728 S. 43rd St Milwaukee	1 BR, 1 BA	$330	700	.47	Owner	Tenant	Owner	Range, ref., dish-washer, A/C-sleeve	Outdoor pool, clubhouse, 1 outdoor pkg., extra pkg. @ $8, dry sauna
57	Hawley Terrrace 429 S. Hawley Rd Milwaukee	1 BR, 1 BA	$310-325	515	.60-.63	Owner	Tenant	Owner	Range, ref., disposal, A/C-sleeve	1 outdoor pkg., no pets, HBO available
58	Woodland Court Apts. 3963 S. 76th St Milwaukee	1 BR, 1 BA	$326	750	.43	Owner	Tenant	Owner	Range, ref., disposal, A/C-sleeve	1 outdoor pkg., extra pkg. @ $13
61	The Hills S. 100th & W. Morgan West Allis	1 BR, 1 BA	$295-335	610-640	.48-.52	Owner	Tenant	Owner	Range, ref., disposal	Outdoor and indoor pkg., extra pkg. @ $13, pool
		442 units: 67 1 BR, 1 BA; 249 2 BR, 2 BA; 126 3 BR, 1.5 BA								
62	Lincoln Crest Apts. 2054 S. 102nd St West Allis	1 BR, 1 BA	$335	750	.45	Owner	Tenant	Owner	Range, ref., dish-washer, disposal, A/C-sleeve	2 outdoor pools, 2 tennis courts, basketball, elevators, security lobby, 1 indoor pkg., extra pkg. outside @ $10
		330 units: 165 1 BR, 1 BA; 165 2 BR, 1.5 BA								
63	Piccadily Apts. 10105 W. Cold Spring Greenfield	1 BR, 1 BA	$350	740	.47	Owner	Tenant	Owner	Range, ref., dish-washer, disposal, A/C-sleeve	Pool, clubhouse, 1 outdoor pkg., exra pkg. @ $8, no pets
65	English Meadows Apts. 6450 W. English Meadows (65th & Layton) Greenfield	1 Br, 1 BA	$370-380	720-799	.48-.51	Owner	Tenant	Owner	Range, ref., dish-washer, disposal, A/C-central	Pool, outdoor pkg., garages available @ $25
66	Cherokee Villa Apts. 4100 S. 43rd St Greenfield	1 BR, 1 BA	$310-325	700	.44-.46	Tenant	Tenant	Tenant	Range, ref., dish-washer, disposal	Pool, 1 outdoor pkg/unit, 1 indoor pkg/unit
70	Briarwick Apts. 9050 W. Waterford Sq Greenfield	1 BR, 1 BA	$380	650+	.58	Owner	Tenant	Owner	Range, ref., dish-washer, disposal, A/C-sleeve	Pool, clubhouse, outdoor pkg., $20 for indoor pkg., extra pkg. outdoor @ $8, sauna, exercise room and pool tables in clubhouse, small pets allowed

EXHIBIT 7

LAFOLLETTE APARTMENTS
MARKET RENTS
POTENTIAL GROSS REVENUE - INCLUDES HEAT
TENANT PAYS ELECTRICITY

UNIT SIZE (SF)	RENT/SF/MO	MONTHLY RENT PER UNIT	NUMBER OF UNITS	ANNUAL REVENUE
535 - 1 bdrm	.560	$300	3	$ 10,800
540 - 1 bdrm	.555	300	38	136,800
543 - 1 bdrm	.555	300	6	21,600
550 - 1 bdrm	.555	305	1	3,660
561 - 1 bdrm	.555	310	2	7,440
646 - 1 bdrm	.49	315	3	11,340
706 - 2 bdrm	.46	325	2	7,800
771 - 2 bdrm	.43	335	1	4,020
TOTAL				$203,460

E. West Allis Assessment and GRM

When the potential gross rent for the West Allis Apartments is compared with the 1983 assessed value, at full market value the resulting pattern of GRMs are similar to those found in the market place. The range is from 5.13 to 7.04.

Although some of the gross rents are those in place in 1982, it is doubtful any rents decreased over the year. It is more likely some of the rents are understated, which would result in an overstated GRM. See Exhibit 7A.

Landmark Research, Inc.

EXHIBIT 7A

GROSS RENT MULTIPLIERS DERIVED FROM 1983 WEST ALLIS ASSESSMENTS

SALE NO.	NAME/ADDRESS	TOTAL NUMBER UNITS	UNIT MIX	RENT	ADJUSTED [1] RENT	ADJUSTED GROSS POTENTIAL RENT	WEST ALLIS ASSESSED VALUE FULL MARKET	GROSS RENT MULTIPLIER
1	6120 W. Burnham	8	8 - 1 BR	$210-265 4 @ $285 4 @ $250 (11-82)	----	$22,800 $25,680 (11-82)	$158,333 (6-82) $158,333 (3-83)	6.94 6.17
2	1712 S. 115th Ct	8	8 - 2 BR	$355	$385	$36,960	$236,333	6.39
3	9103 W. Becher	8	8 - 1 BR	$250	$275	$26,400	$180,333	6.83
4	621 S. 92nd St	16	16 - 1 BR	$315	$340	$65,280	$438,667	6.70
5	Park Side Plaza 11616 W. Greenfield	36	4 eff. 32 - 1 BR	$265 $315	$285 $340	$144,240	$896,700	6.22
6	2076 S. 83rd St	16	16 eff.	$225- 260	----	$46,560	$278,333	5.98
7	2103 S. 72st St	16	16 - 1 BR	$219- 250	----	$45,000	$316,666	7.04
8	Garden Pool Apt. Dakota, Montana & S. 106th Sts.	136	90 - 1 BR 46 - 2 BR	$295 315	---- ----	$421,920 $497,760	$3,700,000	7.43
9	Alpine Court 12333 W. Oklahoma	81	70 - 1 BR 11 - 2 BR	$350-390 $440	---- ----	$368,880	$2,300,000	6.24
10	Lincoln Crest 2014 S. 102nd St (to 2092)	330	12 - 1 BR 174 - 1 BR 144 - 2 BR	$305 $330 $370	---- ---- ----	$1,372,320	$8,660,000	6.31
11	French Quarter 9707 W. National (9627, 9707, 9743, 9701, 9723)	156	113 - 1 BR 43 - 2 BR	$340 $380	---- ----	$657,120	$4,400,000	6.70
12	The Hills 3409 S. Wollmer	442	67 - 1 BR 282 - 2 BR 93 - 3 BR	$295-335 $360 $405-425	---- ---- ----	$1,942,680	$11,850,000	6.10
13	Typical 8 Unit (e.g.) 1616 S. 116th St 1634 S. 116th St 1744 S. 116th St	 8 8 8	 8 - 2 BR 8 - 2 BR 8 - 2 BR	 $340-350 $340-350 $340-350	 $365-375 $365-375 $365-375	 $35,520	 $236,333 $236,333 $236,333	 6.65 6.65 6.65
14	Greenfield Park 1751 S. 115th Ct	30	30 - 2 BR	$475	$495	$178,200	$1,230,000	6.90
15	Heritage House 11515 W. Cleveland	144	143 - 1 BR 1 - 2 BR	$333	----	$575,424	$3,750,000	6.52

IV. INCOME APPROACH TO VALUE

In the absence of comparable sales the income approach is preferred (Dane County Circuit Court, Judge George R. Currie's instruction to the Madison Board of Review Case No. 140-201, Wild Inc., relator, relative to the VIP Plaza office building, now known as the James Wilson Plaza.) The cost approach is the least preferred method and is also difficult to apply as will be discussed in a later section of the appraisal.

As stated in the 1980 Wisconsin Property Assessment Manual, Volume I, page 9-4:

> Value can be defined as "the present worth of anticipated future benefits." While this is true of all approaches to value, this definition is particularly useful in applying the income approach. The income approach is the conversion of anticipated future benefits (income) into an estimate of the present worth of the property. This conversion process is called capitalization. The income approach can be used when there are no comparable sales. <u>It also can be used by the assessor because it represents the way investors think when they buy and sell income property in the market</u>.

The eight steps in applying the income approach are:

1. Estimate potential gross income
2. Deduct for vacancy and collection loss
3. Add miscellaneous income
4. Determine operating expenses
5. Subtract operating expenses to derive net income
6. Select the correct capitalization method
7. Derive the capitalization rate

8. Apply the capitalization rate to net income to arrive at a value estimate

In all of these steps the assessor must be aware of what is happening in the market. All of the information needed for the income approach is either obtained or verified by what the assessor finds in the marketplace.

A. Estimation of Revenue and Expenses

The market rents obtained and verified in the West Allis market place are used to estimate the potential gross income of the subject property as shown in Exhibit 7.

A minimal vacancy rate of 1 percent is used to cover revenue lost due to turnover and collection losses.

Actual and projected operating expenses for the subject, a review of the Institute of Real Estate Management (IREM) operating expense ratios and our general knowledge of the operation of apartment buildings suggests an operating expense ratio of 45 percent of potential gross revenue including real estate taxes which are estimated to be 20 percent of gross in West Allis. The net operating income for the subject property is $110,780. See Exhibit 8 for a break-down of estimated operating expenses.

B. Financing Assumptions and Equity Requirement

The debt cover ratio is preferred over the loan to value ratio because the lender's first concern is to cover the debt

EXHIBIT 8

LAFOLLETTE APARTMENTS

ESTIMATED OPERATING EXPENSES
Adjusted to Market Conditions

	Actual	Market
Administrative Expenses 5% of gross revenue [1]	$27,778	$10,173
Maintenance 6% of gross revenue	12,651	12,651
Utilities 10% of gross revenue [2]	20,589	20,589
Property Insurance 1.4% of gross revenue	2,836	2,836
Payroll Taxes & Insurance 2.2% of gross revenue	4,420	4,420
Total Operating Expenses Before Real Estate Taxes	$68,274	$50,669
	(34% of gross before R.E. taxes)	(25% of gross before R.E. taxes)

[1] It is assumed that a market project would not have the intensiveness of management needed by the elderly.

Gross revenue is assumed to be $203,460, based upon current market rents.

[2] LaFollette Apartments has been advised by WHFA that $20,589 is not an adequate allowance for utilities. The elderly use more heat than the typical renter and since the units are assumed to be market-rate units, no adjustment is made in the current utility costs estimate.

service with an adequate cash flow from operations. A debt cover ratio of 1.10 best replicates the current lender expectations for apartment projects.

A 12.5 percent interest rate for a 25 year is a most optimistic rate as of January 1, 1983, given the risk of a 1.1 debt cover requirement.

A modest return of 2 percent cash-on-cash expected in the market is a proxy for the tax shelter, inflation hedge, and other benefits, tangible and intangible, that the investor expects from purchase of the property. He would expect a higher cash-on-cash return immediately if these other benefits were not available.

Exhibit 9 combines the debt and equity requirements to arrive at an estimate of value of $1,300,000, including income from refrigerators and stoves. The real estate value would be $1,260,000.

EXHIBIT 9

LAFOLLETTE APARTMENTS

INCOME APPROACH ESTIMATE OF VALUE

UNIT SIZE (SF)	RENT/SF/MO	MONTHLY RENT PER UNIT	NUMBER OF UNITS	ANNUAL REVENUE
535 - 1 bdrm	.560	$300	3	$ 10,800
540 - 1 bdrm	.555	300	38	136,800
543 - 1 bdrm	.555	300	6	21,600
550 - 1 bdrm	.555	305	1	3,660
561 - 1 bdrm	.555	310	2	7,440
646 - 1 bdrm	.49	315	3	11,340
706 - 2 bdrm	.46	325	2	7,800
771 - 2 bdrm	.43	335	1	4,020
POTENTIAL GROSS REVENUE				$203,460
Less Vacancy @ 1%				(2,030)
Effective Gross Revenue				201,430
Operating Expenses (45% of gross)				(90,650)
Net Operating Income				$110,780
Income Available for Debt Service (Assume debt cover ratio of 1.10)				100,700
Mortgage available @ 12.5% interest, 25 year term (constant = .13084)				$769,700
Cash Throw-Off ($110,780 - $100,700)				$ 10,080
Cash on Cash Rate = 2% Equity Available				504,000
Value				$1,273,700
Say				$1,300,000

EXHIBIT 10

RELATIONSHIP OF GROSS RENTS TO
GRM IF RENTS REDUCED BY 2%

RENT/ MONTH	RENT/ SF/ MONTH	GROSS RENT	GRM VALUE OF $1,280,000	GRM VALUE OF $1,422,000
$303	.55	$203,460	6.3	7.0
297	.54	199,390	6.4	7.1
291	.53	195,400	6.6	7.3
285	.52	191,500	6.7	7.4
179	.51	187,700	6.8	7.6
274	.50	183,900	7.0	7.7
268	.49	180,200	7.1	7.9

V. THE COST APPROACH

The cost approach, based upon the principle of substitution, assumes a prudent, knowledgeable buyer will pay no more for a property than the cost of producing a comparable substitute. Although the cost approach is the least preferred method by the Wisconsin Courts, the cost analysis can serve as a rough check against the estimates of value derived via the income and the market comparison approaches.

The basic steps in the cost approach are:

1. Estimating the land value.

2. Estimating reproduction cost or replacement cost new as appropriate.

3. Estimating accrued depreciation, and functional/ economic obsolescence, if any.

4. Subtract the accrued depreciation and loss in value due to obsolescence from the estimate of the cost new to arrive at the present value of the improvements.

5. Add the present value of the improvements to the estimated land value for the total property value.

To clarify the definition of replacement cost and reproduction cost and to establish the proper cost analysis methodology for a rehabilitated structure such as the LaFollette Apartments, the following quote is offered:

> Reproduction cost represents the cost of an exact replica of the structure...This is not necessary when using replacement cost because the functional obsolescence is eliminated by using current materials, design and workmanship. [1]

Using the cost approach described in the Property Assessment Manual for Wisconsin Assessors, the West Allis Assessor arrived at a mix of reproduction/replacement cost new of $1,617,276 or $33.13 per square foot of the 48,782 gross square feet of building without recognition that the old school buildings produce surplus floor area and surplus volume in terms of high ceilings relative to best use as an apartment building. Such conversions require adjustments for functional obsolescence and inherent age of underlying structure.

The Assessor did a careful job of measuring the existing building, of noting the size (albeit oversized relative to replacement) and type of construction materials used. His selected unit cost new of $33.15 per square foot is reasonable and acceptable. The Assessor then adjusted for an overall average depreciation allowance of 10 percent because 50 percent of the total structure is, on the average, a 40 year old shell of a 1931 school building with a small 1952 wing. Based upon 48,782 square feet, the average building value, depreciated, was estimated to be $29.84 per square foot or $1,455,600.

The Assessor's estimate of land value at $166,666 or $166,700, rounded is reasonable and acceptable. This translates to approximately $2 per square foot or $3,000 per apartment unit.

The appraisal issue is the incompleteness of the cost approach used. The Assessor used a blend of the replacement cost new and the reproduction cost new. Some adjustment was made for the obsolete ceilings heights of 10, 12, and 16 feet found in the existing buildings which were rehabilitated. The Assessor solved for cost new using 10 foot ceilings throughout the building, both for the old and new wings. The wing built new in 1980-81 represents the more functional and new standard for ceiling heights of 9 and 8 feet; therefore, to eliminate all functional utility due to excessive ceiling heights in solving for replacement cost new, the Assessor should have used no more than 9 feet as the average ceiling height throughout for a new building designed to replace the old. If the Assessor was solving for reproduction cost new he should have determined the cost of a replica of the existing buildings and then deducted for the functional utility inherent in the excessively high ceilings.

The major flaw in the cost approach used by the Assessor is the use of the 48,782 square feet to solve for the replacement cost of a 56-unit apartment building which has a net leaseable area of 31,176 square feet. This represents a building efficiency ratio of 64 percent, a ratio well below industry norms for apartment buildings. Park Side Plaza, a 36-unit apartment building, considered to be very comparable to the subject property has a building efficiency ratio of 88 percent with a net leaseable area of 23,080 square feet and a gross building area of 26,140 square feet. Even with a less efficient ratio of 80 percent, the LaFollette Apartments would need a gross building area of only 38,970 square feet to accommodate 56 units with a total net leasable area of 31,176 square feet.

Because the linking of the buildings into one apartment building required excessive corridor space and stairwell and because HUD required a community room for the elderly, the present design of the rehabilitated building is not efficient and would not be replaced with the same design to achieve the same utility.

Taking the West Allis Assessor's reproduction/replacement cost new as the base, several adjustments must be done to arrive at an accurate and reliable estimate of the present value of the LaFollette Apartment. To build 56 apartment units with a net leaseable area of 31,176 square feet or an average of 557 square feet per unit, the structure would need to have 38,970 square feet of gross building area to achieve a building efficiency ratio of at least 80 percent, a generous estimate. At 85 percent efficiency the gross building area would need to be only 36,678 square feet and if the efficiency of Park Side Plaza were to be matched, the gross building area would need to be only 35,427 square feet.

The following adjustments must be made to the Assessor's reproduction value new of $1,617,276:

Functional Obsolescence

Low Building Efficiency Ratio

Cost to build a 48,782 SF building @ $33.15/SF =	$1,617,276	
Cost to build a 38,970 SF building @ $33.15/SF =	1,219,856	
Functional obsolescence due to inefficient building		$ 325,420

Excessive ceiling heights [1]

38,970 SF * 10' ceilings =	389,700 square feet	
38,970 SF * 9' ceilings =	350,730 " "	
Excess space due to ceiling heights	38,970 square feet	
Functional obsolescence @ $1.50/square feet of excess space	$1.50	$ 58,185

[1] A building with costs of $33.15 per square foot with 10 foot ceilings would have a cost per square foot of $3.32. If the ceilings were reduced to 9', the cost savings, based upon $3.32 per square feet would be $129,380. Because the marginal utility of the next square foot is less than the average cost per square foot, an allowance of $1.50 per square foot is used.

Physical Depreciation

Cost to build a 38,970 SF building @ $33.15/SF =	$1,291,856	
Overall depreciation of 10% used by the Assessor	.10	
		$ 129,186
Total Deductions for Accrued Depreciation and Functional Obsolescence		$ 512,791
Present Value of Improvements $1,617,276 - $512,791 =		$1,104,485
or a $28.34/SF for a 38,970 SF building	SAY	$1,104,500

To complete the value estimate using the cost approach, the present value of the building, and the site improvements are added to the land value.

Present value of the building	$1,104,500
Present value of site improvements $32,00 less 10% depreciation	28,800
Land Value	166,700
Total Value of Land and Building	$1,300,000

The cost approach theoretically represents the maximum value a buyer might pay to produce a comparable substitute. It should only be used as a check on the value estimates which take into consideration available financing, consumer preferences, and other factors which shape buyer behavior.

VI. VALUE CONCLUSION

The market comparison approach, using the gross rent multiplier as the unit of comparison, suggests a value range of $1,282,000 to $1,322,500. This value includes the stoves and refrigerators which are typically sold with an apartment building, but should be deducted for a tax assessment on land and building, and should be taxed as personal property. This suggests a range of $1,245,000 to $1,285,000.

The income approach indicates a fair market value of $1,300,000 based upon investor expectations of a cash-on-cash return of 2 percent with financing requirements which include a debt cover ratio of 1.10 and 12.5 percent interest for a 25 year term. The gross rents used to calculate the net operating income assume the presence of stoves and refrigerators as part of the rental unit, and so again the real estate contribution is $1,260,000.

The cost approach when properly adjusted for physical depreciation and functional obsolescence suggests a cost to replace plus land costs of $1,300,000. This value does not include the cost new less depreciation of a stove and a refrigerator for each unit.

It is the opinion of the appraisers that the highest probable price and fair market value of the subject property herein described as of January 1, 1983 is:

ONE MILLION TWO HUNDRED EIGHTY THOUSAND DOLLARS

($1,280,000)

assuming cash to the seller with a debt cover ratio of 1.10 at 12.5 percent interest for a 25 year term with a cash-on-cash return to the investor of 2 percent. This price indicates a GRM of 6.3. In this instance the personal property would remain at $40,000.

STATEMENT OF LIMITING CONDITIONS

1. Contribution of Other Professionals

- The appraiser did not conduct any engineering analysis of the structure components or of the site, of costs to replace, or of other engineering factors.

- The revenue and expense information is taken from the budget information from Wisconsin Housing Finance Authority (WHFA) and actual accounting records provided by LaFollette Park Associates. Since the records of the management firm (sponsor) are monitored by WHFA and periodically audited prior to review for WHFA rent adjustments, Landmark Research, Inc., did not reconstruct expense factors other than as noted in the report.

- Sketches in this report are included to assist the reader in visualizing the property. These drawings are for illustrative purposes only and do not represent an actual survey of the property.

- The appraiser assumes no responsibility for matters which are legal in nature nor is any attempt made to render an opinion on the title. The property has been appraised as if title to the subject property were in fee simple, legal ownership with no regard-for mortgage loans or other liens or encumbrances.

2. Facts and Forecasts Under Conditions of Uncertainty

- All inforamtion regarding property sales and rentals, financing, or projections of income and expense is from sources deemed reliable. No warranty or representaion is made regarding the accuracy thereof, and it is submitted subject to errors, omissions, change of price, rental or other conditions, prior sale, lease, financing, or withdrawal without notice.

- Information furnished by others in this report, while believed to be reliable, is in no sense guaranteed by these appraisers.

3. Controls on Use of the Appraisal

- Values for various components of the subject parcel and improvements as contained within the report are valid only when making a summation and are not to be used independently for any purpose and must be considered invalid if so used.

- Possession of this report or any copy thereof does not carry with it the right of publication nor may the same be used for any other purpose by anyone without the previous written consent of the appraisers or the applicant, and in any event, only in its entirety.

- Neither all nor any part of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales, or other media without the written consent and approval of the authors, particularly regarding the valuation conclusions, and the identity of the appraisers, or of the firm with which they are connected or any of their associates.

CERTIFICATE OF APPRAISAL

We hereby certify that we have no interest, present or contemplated, in the property and that neither the employment to make the appraisal nor the compensation is contingent on the value of the property. We certify that we have personally inspected the property and that according to our knowledge and belief, all statements and information in the report are true and correct, subject to the underlying assumptions and limiting conditions.

Based upon the information and subject to the limiting conditions contained in this report, it is our opinion that the most probable price, as defined herein, of this property as of January 1, 1983, is:

ONE MILLION TWO HUNDRED EIGHTY THOUSAND DOLLARS

($1,280,000)

assuming cash to the seller with a debt cover ratio of 1.1 with a market loan rate of 12.5 percent for 25 years.

James A. Graaskamp, Ph.D., SREA, CRE

Jean B. Davis

Jean B. Davis, MS

6/20/83

Date

J A M E S   A.   G R A A S K A M P

PROFESSIONAL DESIGNATIONS

SREA, Senior Real Estate Analyst, Society of Real Estate Appraisers

CRE, Counselor of Real Estate, American Society of Real Estate Counselors

CPCU, Certified Property Casualty Underwriter, College of Property Underwriters

EDUCATION

Ph.D., Urban Land Economics and Risk Management - University of Wisconsin
Master of Business Administration Security Analysis - Marquette University
Bachelor of Arts - Rollins College

ACADEMIC AND PROFESSIONAL HONORS

Chairman, Department of Real Estate and Urban Land Economics, School of Business, University of Wisconsin
Urban Land Institute Research Fellow
University of Wisconsin Fellow
Omicron Delta Kappa
Lambda Alpha - Ely Chapter
Beta Gamma Sigma
William Kiekhofer Teaching Award (1966)
Urban Land Institute Trustee

PROFESSIONAL EXPERIENCE

Dr. Graaskamp is the President and founder of Landmark Research, Inc., which was established in 1968. He is also co-founder of a general contracting firm, a land development company, and a farm investment corporation. He is formerly a member of the Board of Directors and treasurer of the Wisconsin Housing Finance Agency. He is currently a member of the Board and Executive Committee of First Asset Realty Advisors, a subsidiary of First Bank Minneapolis. He is the co-designer and instructor of the EDUCARE teaching program for computer applications in the real estate industry. His work includes substantial and varied consulting and valuation assignments to include investment counseling to insurance companies and banks, court testimony as expert witness and the market/financial analysis of various projects, both nationally and locally, and for private and corporate investors and municipalities.

J E A N B. D A V I S

EDUCATION

Master of Science - Real Estate Appraisal and Investment Analysis, University of Wisconsin

Master of Arts - Elementary Education, Stanford University

Bachelor of Arts - Stanford University (with distinctions)

Additional graduate and undergraduate work at Columbia Teachers College and the University of Wisconsin

PROFESSIONAL EDUCATION

Society of Real Estate Appraisers

Appraising Real Property	Course 101
Principles of Income Property Appraising	Course 201

American Institute of Real Estate Appraisers

Residential Valuation (formerly Course VIII)

Certified as Assessor I, Department of Revenue, State of Wisconsin

PROFESSIONAL EXPERIENCE

With a significant background in education, practiced in California, Hawaii and Wisconsin, Ms. Davis is currently associated with Landmark Research, Inc. Her experience includes the appraisal and analysis of commercial and residential properties, significant involvement in municipal assessment practices, and market and survey research to determine demand potentials.