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Business 100 Lecture Outline

- I. Liberal arts is the field of problem description; business is the art of problem solving within context of a limited resources and a price economy.
- II. Business is a cash cycle
 - A. Accounting systems are unable to recognize external social costs and social benefits so means must be found to alter the relentless cash cycle where the price economy doesn't directly solve the problem.
 - B. Planners can tamper with the national economic cash cycle by internalizing costs (workmen's compensation), subsidizing revenue (the farm program), or reducing costs through subsidies (interest subsidies or non-market loans).
 - C. Housing and urban development require more capital investment each year than any other industry and it has the longest cash cycle of any business, making it difficult to attract capital because of yield and high risk for total capital employed.
 - D. Therefore, housing has experienced more variety of institutional modification of the price system than any other segment of business.
- III. To improve housing environment one must change land development and construction techniques in a way consistent with the cash cycle of any enterprise and with the preference of the housing consumer. (High-rise dorms may provide the cheapest housing for students but it isn't necessarily compatible with the students idea of good housing).
 - A. Refer to page 139 and we can identify the components of a cash cycle which must be covered by rent which may or may not equal the ability to pay. In general people should not pay more than 20 to 25% of their income for total housing costs including utilities. The very low income group must pay considerably more at the expense of other necessities.
 - B. Page 142 identifies the types of behavior constraints on the actors (decision makers on both the supply and demand side).
 - C. Capital investment into real estate involves long periods of money at work over time as suggested by page 145. The flow is uneven and partially unpredictable depending on many factors (Multicon case).
 - D. Pages 155 & 156 indicate the variables which can be modified by government action in order to change the rent per month.
 - E. Today in Madison 22¢ per dollar of rent goes to real estate taxes, 25¢ to operating costs, and at least 40¢ to interest and principle. The break-even point is close to 85% of rent, sometimes higher. A vacancy rate of 5% leaves the building owner with a cash margin on sales of 10% and usually less.
 - F. As a rule of thumb rents need to be about 1.5% per month of total capital cost of the unit. A unit that costs \$10,000 requires \$150 a month rent. A savings of \$1,000 in land or construction costs could reduce rent as much as \$15.

- IV. The problem is those elements in land cost or construction costs most easily reduced are those things the consumer won't part with. Near the University land may cost \$2500 per unit while on the edge of town it might cost \$400 a unit; new materials and new techniques in construction may not produce a house or an apartment which looks like anything you have known even though it might save \$3,000.
- A. So the only thing to change is interest expense, principle payments, or real estate taxes. Since real estate taxes are the basic means of support for the cities which are already in fiscal trouble, the basic ploy is to finagle interest and principle.
- B. 235 & 236 define eligible families by income, determine the maximum they can pay as 25% of income and the government pays the difference between that and required cash rent. These projects are for non-profit sponsors or limited cash dividend sponsors and profits are controlled by means of certified cost programs, biannual audits, and specifications on building features and services.
- LC. 235 provides the same thing subsidy assistance for the purchase of a house but the subsidy designed to hold housing costs to 20% of income but not to reduce interest costs to less than 1%. Within this framework the cash cycle which at a profit within the ability to pay. The larger question remains as to what kind of city we should be building to minimize damage to the natural environment and the psychological development of the inhabitants.
- D. The cost of housing is no longer an issue for the poverty stricken. When you graduate from Business School you might enjoy a gross pay of \$10,000 a year to start. That suggests you can afford about \$200 a month for housing, thus you could afford to rent an apartment which cost \$13,000 to build or a home which cost maybe \$15,000, The smallest cheapest single family home in Madison sell new right now at \$18,000 and when you graduate they'll be at \$21,000. When you graduate carpenters will be making \$18,000 and plumbers \$25,000. The answers to that dilemma will be found with the engineers, the builder-developer, and the finance people - not among the theorists.

CIRCA 1960s

Proposed Course Outline
Real Estate Investment Commerce 180

Objectives of an Equity Investor

February 4: Motivation for equity investment and criteria for decision making
1. Use value
2. Current income
3. Future appreciation (speculation) (LECTURE)
4. Financial leverage
5. Estate Planning

February 8: Alternative forms of equity investment
1. Individual ownership
2. Partnership
3. Syndicate share (SELECTED PERIODICAL READING)
4. Closed corporation
5. Cooperative
6. Condominium
7. The real estate trust
8. Public real estate investment corporation

February 11-13 Estate Planning Consideration for Individual Real Estate Investment
1. Accumulation
2. Ease of management (ESTATE PLANNING by ECKHARD)
3. Current cash flow objectives
4. Testamentary distribution objectives
5. Ease of transfer
6. Sources of information

February 18-22 Industrial planning for Real Estate Investment
1. Productivity of location
2. Financial structure and form of investment
3. Noneconomic criteria for investment (INDUSTRIAL LOCATION TEXT)
4. Sources of guidance and data

Nonproductivity factors Influencing Investment Decisions

February 25-1 Federal Taxation and Real Estate Investment
and 1. General tax advantages of real estate ownership
March 4-8 2. Acquisition of property
3. Operation of investment property (COMMERCE CLEARING HOUSE)
4. Sale, exchange, or conversion of investment property
5. Tax aspects of mortgage financing
6. Taxation of business organization as equity holder in real estate

March 11-15 Influence of Lending Terms on Form of Equity Investment
1. Form of interest charge
2. Form of amortization (SELECTED PERIODICAL READING)
3. Premiums given to secure loan
4. Amount of loan available from various loan sources
5. Variations in lending terms and restrictions

Selected Cases for Student Analysis

- March 18-22 A Decision to Relocate or Expand Present Industrial Facilities (case in Michigan Economy, Its Potentials and Its Problems, by (W. Haber, Eugene McKean, M. C. Taylor), Published by W. Upjohn Institute for Research, 1959, P. 341-54 and Appendix D-operating the ABC Corporation in eleven Midwestern cities.
- March 25-29 A Decision to Finance an Industrial Factory Mortgage with a 100% Ratio Loan with an Insurance Company or to Lease, with Option to Buy, a Plant Facility Owned by a Small Community Development Corporation. (material from Northwestern Mutual Life Insurance Company and from Southern States' Resource Development Material)
- April 1-5 Investment in Commercial Property for Rental by an Individual (the Connor case which has estate planning considerations as well as financing problems)
- April 8-12 An Investment Decision to Sign a Longterm Office Building Lease for Office Space. (in addition to selected readings and text material in Leases by McMichael & O'Keefe, can assemble case materials from the Bockl building and Marine Plaza Building in Milwaukee. In addition to lease terms, case could involve questions of lease hold finance, expansion options, maintenance responsibility, and office layout and furnishing.)
- April 22-26 Financing the Westfield Shopping Plaza (case no. 9 from Cases in Real Estate Finance by James C. T. Mao)
- April 29-3 Shopping Plaza Case Continued with Readings in Retail Location, ULI Handbook Part II; ULI Technical Publications.
- May 6-10 Organization of a Real Estate Syndicate (case and forms from Casey Real Estate Forms and Investment Letter)
- May 13-17 Investment in a Residential Cooperative vs a Condominium (perhaps could obtain material from the Chicago Real Estate Management Firm which has sparked this kind of development)
- May 20-24 Philosophical Problems of Equity Investors
1. Quality vs short-term productivity (Segram Building vs Uris Building)
2. Maximum income vs social cost (a study of yields and problems of slum properties)
3. The Innovator vs the traditional lending pattern (the cluster subdivision)
- May 27-31 Decision to Invest in a Public Real Estate Investment Corporation (selected periodical readings and an analysis of the annual reports of Webb & Knapp or the Kratter Corporation)

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- ✓ Foreign Money Boosts U.S. Building - David B. Carlson - Forum, Feb. 1962: pp 83-85.
- ✓ The Low Cost of Fine Buildings - David B. Carlson - Forum, June 1961: pp 98, 195, 199
- ✓ The Threat to Real Estate Investment - Miles L. Colean - Forum, July 1961: pp 96-97
- ✓ Can Investment Builders Afford Good Architecture? - B. H. Friedman - Forum, Sept. 1961: pp. 94-97
- ✓ A New Break for Apartment Owners - Harold N. Vogel - Forum, Sept. 1961: pp. 132-33
- ✓ FHA: Apartments By Bureaucracy - Bernard Landis - Forum, March 1962: pp. 96, 97, 159.
- ✓ Those Unique and Ubiquitous Brothers Uris - ----- Forum, July 1962: pp. 84-5.
- ✓ The Unrealized Profits in Urban Renewal - David B. Carlson - Forum, July 1962: pp. 101, 102, 103, 160, 162.
- ✓ Now Architecture Has a New Client - Douglas Haskell - Forum, July 1962: pp. 110-11.
- \$25,000,000,000 in Building - Miles L. Colean - Forum, Oct. 1961: pp. 110-11, 189.
- ✓ Why Parks Live or Die - Jane Jacobs - Forum, Oct. 1961; pp. 144, 45, 196.
- Pei's Apartments Round the Corner - Walter McQuade - Forum, Aug. 1961: pp. 107 - 114.
- ✓ Building's No. 1 Contractor - David B. Carlson - Forum, April 1961: pp. 112, 113, 168, 172, 176
- Design for a New Housing Market: The Old - William C. Loring - Forum, March 1961: 119, 120, 121, 176, 184.
- Rebuilding: A New Business In Old Buildings - Russell Bourne - Forum, Feb. 1961: pp. 81, 163.
- Profits in "Nonprofit" Renewal - David B. Carlson - 103, 167, 170 - Forum, Feb. 1961.
- ✓ Hotel Architecture: A Management View - Roger P. Sonnabend - Record, Aug. 1962: pp. 127-131.
- ✓ Analysis Establishes Owner Requirements - ---- Record, May 1962: pp. 178 - 181.
- ✓ Planning Leads to Flexibility, Economy ----- Record, May 1962; pp. 182-184.
- The Case Against Modern Architecture - Lewis Mumford - Record, April 1962: pp. 155 - 162.
- ✓ Apartments - For Urban Redevelopment High-and Low-Rise Combined - William J. Conklin - Record, January 1962; PP. 97-100.
- New York's Old Financial District Gets New Skyscraper - Record, July 1961: pp. 141 -150.

- ✓ Personnel Density - Frank. L. Whitney - Record, March 1961: pp. 155-158.
- Motor Hotels - ~~THE EXISTING SITUATION~~ - George Cline Smith - Record, July 1960: pp. 145 - 168.
- Union Carbide Building - ----- Record, Nov. 1960: pp. 156-162.
- ✓ Architectural Renaissance in FHA Apartment Housing - Neil A. Connor - Record, Oct. 1960; pp. 198 - 201.
- The Seagram Building - Arthur Drexler - Record, July 1958: pp. 139-147.
- ✓ The New Housing Industry - ----- House & Home, Jan. 1963: pp. 63-65.
- ✓ A Land Plan So Good the Town Threw It Out - House and Home, Jan. 1963: pp. 72-75
- Max Huntoon -
- 1963 Forecast: \$26.6 Billion for New Buildings - Miles L. Colean - Forum, Nov. 1962: pp. 113 & 182.
- In Urban Renewabl, Who Manages Urban Design? - Douglas Haskell - Forum, Sept. 1962: pp. 125, 126, 127, 140, 164.
- ✓ Hotel Building: The Boom That Refuses to Bust - Forum - Dec. 1962: pp. 88-90
-David B. Carlson-
- ✓ Working With Commercial Developers - Record, Oct. 1962: pp. 157 - 164.
- Apartments - House & Home - July 1961: pp. 132-174.
- Hawaii - Carl Norcross - House & Home - Aug. 1961; pp. 160-165.
- Nobody's Award Winners - House & Home. Oct. 1962: pp. 114-117.
- ✓ Use This Checklist to Study your Proposed Apartment Site - House & Home - Oct. 1960: pp. 99
- ✓ The New Frontier for Ho using Proposed By the President's Task Force on Housing Legislatio
House & Home - Feb. 1961: pp. 132 - 139.'
- ✓ How to Reduce the Risk in Land Buying and Land Development - Mayer Mitchell - House and Home - March 1961: pp. 125-129.
- The Big Benefits of Bigness - House & Home. March 1960: pp. 123-33
- America is Spe/nding More Money than Ever to Build More Apartments - House & Home - Oct. 1959: pp. 127-177.
- ✓ Money is the Big Problem: House & Home - Oct. 1959: pp. 177-185.
- ✓ Land - House & Home, June 1962: pp. 116-117
- Good Environment Stats with Good Site Planning - House & Home, July 1962: pp. 125-145.
- ✓ How to Put Across A Big New Housing Communiy in a Rural Small-Town Area - House & Home, Aug. 1962: pp. 106-112. - John Goldsmith -
- ✓ Needed: New Ideas for High-density Land Use - House & H_ome, April 1961: pp. 161-167.

The Case For P U D - Herman D. Ruth & Peter Walker - House & Home, Sept.1962: pp.122-135.

Realities of Today's Real Estate Investment - Miles L. Colean - Forum, April 1955:
pp. 125-126.

The Role of Depreciation - Forum, April 1955: pp. 127, 188, 194.

The Mortgage Pattern Predicament - Miles L. Colean - Forum, May 1955: pp. 128, 129, 184,
190.

Impotency of FHA Policies on Apartment Finance - Miles L. Colean - Forum, June 1955:
pp. 110, 111, 162.

Study Outline
for
Advanced Property and Casualty Insurance
Commerce 543 James A. Graaskamp

<u>Date-1966</u>	<u>Subject</u>	<u>Assignments</u>
Jan. 31-Feb. 4	<u>Insurance Contract & Claims</u>	
	a. Policy Drafting Techniques	Re 1-38; Pa 226-267
	b. The Fire Policy-Claims Adjustment	GW 41-57; (5-39 optional) ILJ - October, 1962, pp. 632-641
	c. Fire and Allied Lines-Semantics Problems	Lectures
Feb. 7-Feb. 11	<u>The Insured and the Loss Situation</u>	
	a. Duties Under the Contract	Re 227-278
	b. The Role of Risk Management	Fortune, "The Great Livonia Fire," Nov. 1953, (also a selected NFPB Bulletin)
	c. Negotiation of Claim Settlement	CPCU Annals, Fall, 1962, pp. 235-252
	d. Tax Treatment of Claim Proceeds	Lecture
Feb. 14-Feb. 18	<u>The Adjustor and the Claim</u>	
	a. Functions and Duties of the Adjustor	ILJ - February, 1965, pp. 69-72 Re 38-181
	b. Basic Adjustment Technique (Psychological and Legal)	ILJ - April, 1962, pp. 218-221 ILJ - May, 1962, pp. 282-287 ILJ - September, 1962, pp. 574-581
	c. Appraisal and Arbitration	ILJ - April, 1963, pp. 224-229 ILJ - March, 1964, pp. 157-167
	d. Company Claims Strategy	Lecture

Business 532
Introduction to the Management Process

Business Major Orientation

Student Faculty Board

REAL ESTATE

Prof. James A. Graaskamp
Chairman, Real Estate & Urban Land Economics

- I. The Real Estate Process
 - A. Real estate is artificially delineated space-time with a fixed reference point to land.
 - B. Land is a natural resource and public utility upon which the real estate process has an impact.
 - C. The real estate process involves the interaction of space-time consumer, space-time producers and public infrastructure agencies
 - D. The business of real estate is the conversion of space-time to money-time.
- II. Real estate decisions involve a management process from three viewpoints, all of which have two elements in common:
 - A. Cash cycle solvency
 - B. A collective interest in minimizing environmental impact
- III. The study of real estate involves analysis of the elaborate context into which real estate must fit, including:
 - A. Strategic and technical constraints on user
 - B. Strategic and technical constraints on producer or investor
 - C. Strategic and technical constraints on governmental agencies supplying services to real estate
 - D. Aggregate market trends
 - E. Selected merchandising targets
 - F. Legal-political constraints
 - G. Physical attributes of the site
 - H. Engineering attributes of improvements
 - I. Legal-political attributes of site, project, and community
 - J. Capital budgeting and financial analysis

- IV. In addition to the basic core of a BBA program, an undergraduate major requires:

Business 550 - The Real Estate Process

" 551 - Real Estate Finance

Plus: 9 credits of:

Outside Electives

Bus. 332 Problems in real estate and
casualty insurance law

Bus. 478 Urban transport economics

Bus. 552 Urban land economics (use
location, and succession)

Bus. 553 Urban Land economics
(housing

Bus. 554 Residential development
and management

Bus. 555 Commercial property
development and management

Bus. 556 Valuation of real estate

Bus. 557 Urban economics (structure
and dynamics)

Bus. 650 Urban land economics
(public policy)

Bus. 651 Urban economics
(public sector)

Soils 315 - Soils for land use
planning

Geol. 105 - Geology for engineers

CEE 450 - Surveying for nonengineers

Art Hist. 321 - Development of
modern architecture

Urb. & Rpl. 305 - Introduction
to the city

IES 300 - Environmental resources

Gen. Engr. 160 - Architectural
graphics

- V. Undergraduate jobs would be in mortgage finance, appraisal, management of commercial buildings, management of residential complexes, corporate real estate administration, institutional real estate investment

WHISPERING HILLS

Milwaukee, WI

Ax
catalogue

Tim Warner
Business 554

WHISPERING HILLS

Milwaukee seems to be trying to catch up with the rest of the country in a "condominium craze". With condominiums, everybody is supposed to make out better. The developers because they can offer units at a lower price than a comparable single family and indulge in more creative effort by providing a "total living environment." The buyer, because he has to pay less and thus can afford to buy. That's what the theory is, and sometimes it even works out that way.

The Milwaukee Chapter, #16, of the Society of Real Estate Appraisers estimated that of mid-September that there were more than 7,000 condominium units authorized or announced, and an estimated 2,300 units built or under construction, but only 1,570 sold. The committee analyzing the phenomena did not think well of the situation.

Joseph Sileno made his reputation on Serafino Square. It was a genuine success in many ways. His newest entry in the condominium field is "Whispering Hills" a 280 unit project with 107 completed or under construction.

SLIDES

Our "search for order" starts as we approach the project which is located on Milwaukee's rapidly expanding northwest side. It is located on the southeastern corner of 76th and Brown Deer Road, between 72nd Street and 76th Street, directly south of the North Ridge Lakes development and ringed by other underway condominium projects.

1 As we turn off W. Brown Deer Road, we are confronted by the logo signs, "hoop-la" flags, and rather dowdy metal "open for inspection" signs and "decorated by Kunselmann-Esser" signs. They are rather tasteless "sense of arrival" attempts. We do note the buildings have a
2 ~~comely~~ comely appearance and there is evident attempt, even in November, at presenting a well landscaped facade.
3

There is really little arrival pretention or control other than red carpeting and directions to the display room as the plain entering stairs disappear up a hillside. On grade, we gaze over the site and note it has been plateaued and little real sculpturing of the earth
4-5 done. Mild indulgences and velde are the order.
6-7

8 The "Display Room" is in the garage structure at the rear of a "five-plex." The ambiance
9-10 of the display room is well done with tasteful

11-12 informational and mood-setting displays and
a sales-closing area.

13 There are three basic types of structures
14 representing different life styles: the five-
plex with five separate units off-each entry-
one bedroom, two bedroom, one fireplace and
dry bar, split level; two bedroom ranch and
two bedroom, one fireplace--dry bar--cathedral
ceiling split level ranging in price from
\$24,920 to \$29,990. The monthly maintenance
fee is programmed at \$35.50. This includes
a garage as mentioned above. The three story
elevator building (3) have four types of units:
15 one bedroom /den, two types of two bedroom and
a two bedroom/den unit. The prices vary with
floor and range from \$27,690 to \$35,920 and
includes an underground heated garage. The
monthly maintenance fee is established at
\$37.50. The townhouse units are of three types
16 and range from \$37,490 to \$38,990 including
17 garage and an additional \$25.65 per month for
maintenance. They are, basically, of a three
bedroom/one and a half bath design.

Each unit has wall to wall carpeting in
kitchen and bathrooms, total electric heat,
unitized air-conditioning and colored electric

range(self-cleaning), hood fan--refrigerator, dishwasher, and garbage disposal.

As we walk to the recreational building located at the mid-point of the site we note the arrangement of the buildings attempts to give intrasite long views and an outward direction where possible. With views of a school to the east, Northridge to the north, and the 76th Street--Brown Deer grade divide to the west little is accomplished by this. There are tasteful appointments: stairs, decorative outdoor lighting and sheltered patios, but little sense of created privacy. The earth-tone brick, rough cedar and natural colored buildings are well designed and constructed. Extra sound-proofing and Elastizell and light weight concrete floors further militate towards a reduction of the incumbent noise in a rather dense (16.5 units per acre) design. Interior vehicular and pedestrian ways are mixed on asphalt roadways.

The recreational building blends well and features saunas, lounges, card rooms, kitchens, and an olympic pool and patio area. This is an automatic membership homeowners association and so this is the domain of all residents.

30 In the five-plex units a central stair-
way provides access to the units which are
31-32 opulently decorated as these views of the living
33-39 room, dining room, bath, bedroom kitchen of the
35-36 display models shows. Baths are carpeted and
39 have one piece fiberglass enclosed tub and
shower units and vanities. There is no feeling
of the "lived in look" which a typical family
might relate to, only a much more status-con-
scious prospect would consider it. Care is taken
to leave units in the unfinished state so the
40 consumer can see exactly what they are buying.
Security consciousness is manifested in the
apartments and in the more separated units
hardware.

41 Common basements provide bulk storage areas
and house the more mundane mechanicals.

The overall project strives to and succeeds
in providing some honest tangible values in
excellent construction and interior design,
yet fails to achieve higher levels of excellence
in land planning and landscape architecture.
A cursory review of in site design principles
shows only the common touch. Little else has
been attempted. Marketing and merchandising
techniques are also rather simplistic, only

a good display area evidences some concern for this vital area. The setting of the units while well macro-area oriented appears to fall short in actual site selection and in execution. Milwaukee has a feverish condominium construction pace, this project will be towards the top of the list for what it does do, but in what it fails to do it exposes itself to more technically perfect offerings.

THREE FOUNTAINS - A SALES PROGRAM WITHOUT
INFRINGING ON THE RESIDENTS

BUSINESS 554



For: Prof. J. Graaskamp

By: Marc Magazine

INTRODUCTION

The purpose of this paper is to examine how a project deals with the merchandising of its units and at the same time does not allow its merchandising to interfere with families already living in the units. Thus the problem we will look at is two-fold: 1) How do you design a sales office, signs, and model units that satisfy the selling needs of the developer, and 2) how not to have the sales office, signs, and model units interfere with the families who live in the development.

The problem of pleasing the people already in the units becomes of more concern when we consider the subject development. It is Three Fountains, a condominium project in Denver, Colorado. It is a development of 210 units with 14 units left to sell. Its sales program is in its final stages and many of the new prospects come from word of mouth from satisfied homeowners according to their sales records. Thus making sure that someone doesn't have to look out their porch and see a 25 foot welcome sign helps this homeowner satisfaction.

The selling prices of the units left start at \$35,990 for a patio court unit, up to \$52,990 for a townhouse. Some of the earlier townhouses are now being resold for up to \$75,000. These prices dictate a sales program that should have class and be very tasteful.

Enclosed is a brochure for Three Fountains. Note on its cover the insignia for the project. As we go through the slides look how often it appears, thus always identifying to the prospective buyer the theme of the development. In this case the insignia is a pattern of water fountains that give a refreshing feeling. The brochure itself gives the prospective buyer everything he needs, floor plans, prices, features included, and other charges that are entailed when one decides to purchase. A discussion is also given describing the amenities of the project.

It should be mentioned before we start with the slides that pictures taken of the signs driving to the project did not come out. Due to the fact that buying a new roll of film and having it developed included \$140 worth of airfare, new ones could not be taken.

Driving into the Development

Slide 1: Driving into the development, this slide shows the theme of building design. All but one building is this dark color with wood and brick. Not all buildings are the same design but are the same basic color.

Slide 2: Although this building is exactly as the last, its purpose was to show the color scheme again.

Slide 3: This is the entrance. Note the simplicity yet effectiveness of the sign. It is shaped as the insignia. As mentioned before, slides of other signs coming into the project did not come out but no building looked into the signs. The red brick building is the one building out of scheme. When the project first opened it was planned to have more buildings like this but when they had problems selling this unit, they stopped building this type.

Slide 4: In the parking lot is parked the security vehicle to show prospects the security of the development.

Slide 5: This is the club house which borders the parking lot. In it is a party room and locker facilities for the swimming pool. Thus one of the large amenities is the first thing people see when they get out of the car.

Slide 6: Leading from the parking lot are these signs. Effective to attract the prospects yet small and simple enough not to bother the homeowners.

Sales Office

Slide 7: This is the sales office. It is behind the club house. Both the office and models are on the north end of the project; thus it is not intermingled with the homes that are already sold. Again the use of the insignias are effective. When the project is sold out this sales office will be turned into a card room for the homeowners.

Slide 8: When you walk in, displays are large and attractive. The distinct insignias are all over. The sales office is small, thus giving the one or two salesmen control of what is happening yet open so as not to make prospects feel crowded.

Slide 9: This is a model of the entire development. This allows the person to see the whole project without driving or walking all over.

Slide 10: This is a large display spelling out what is included. The insignia again is displayed in abundance.

Slide 11: Here is the same type of display concerning the Homeowners' Association.

Slide 12: A large display that is easy to look at and makes the units look big.

Slide 13: Finally a large display showing pictures of the Denver and mountain area.

Slide 14: Leaving the office the sidewalk easily directs traffic so as not to ruin the grass. The litter reminder sign is effective yet not distracting to the ground for those units in the background which are the closest ones to the models. Note that this is the back of the units and not the fronts.

Slide 15: This is the first model one comes to. The little stand at the right describes the basics of the unit. The stand is of wood to blend in with the tablet blue and white which is the project's color scheme for advertising.

Slide 16: Stand in detail.

Slide 17: When leaving the first model, the next ones are easily found.

Slide 18: When you must walk a little way, the path is simply defined and decorated pleasantly. Again the path

leading from models does not infringe on the land used by the existing homeowners.

Slide 19: Again the same type sign for the patio court models.

The Interior of the Models

Slide 20: This is one of the living rooms. The decorating is warm and looks like one's own home, in other words, livable. This decorating scheme is for the older prospects.

Slide 21: Here is a living area done for the younger clients. Again it is livable.

Slide 22: A dining room. Note the pictures and the chandelier. All models were decorated with a lot of money, but not gaudy.

Slide 23: Again a demonstration of detail in furnishing. These are real books and not fakes.

Slide 24: A bedroom. Again it looks livable.

Slide 25: Another bedroom decorated differently, but still tastefully.

Slide 26: Even the bathroom was spared no expense. Felt trimmed wallpaper and nice drapes.

Slide 27: Again the elegance is displayed. Note the fluffy towels and the shower curtain. The carpet is also nice and in good taste.

Slide 28: The next four slides show the same kitchen and breakfast nook decorated in two different ways. First with a bright flowery color scheme.

Slide 29: Same kitchen with a more conservative look. If the prospect does not like one, chances are he will like and remember the other.

Slide 30: The flowery breakfast nook.

Slide 31: The more conservative one.

Slide 32: You're welcome.

CONCLUSION

It is my opinion that this development has succeeded in satisfying both the needs of a prospect and the desires of the homeowners. As mentioned before, the development is in a stage where satisfied homeowners supply most of the new prospects. By not upsetting them with their sales force, the homeowners are recommending other people to the development. This is not to say that this is the only reason why homeowners recommend Three Fountains, but it only takes one flaw for them not to.

Business 649
Recreational Land Development
Tuesday, June 1, 3:00 p.m.
142 WARF Building

- I. Real estate development covers a multitude of sins from duplexes to new towns. It covers a continuum from scientific farming to planning to construction to management to replacement.
 - A. Defining the following basic units:
 1. The real estate product
 2. A cash cycle enterprise
 3. The real estate enterprise
 4. The control of land to control a customer for services
 5. The real estate process
 6. Equilibrium achieved when consumer, producer, and public infrastructure all achieve solvency
 - B. Development strategies mix entrepreneurship and management
 1. Passive land speculation
 2. Creative land speculation
 3. Construction of land improvements
 4. Construction of finished space-time product
 5. Marketing and management of space-time product
 - C. As an organized undertaking, a development enterprise system:
 1. Sets goals and objectives
 2. Converts objectives to measurement criteria
 3. Searches for alternative market opportunities
 4. Selects specific opportunity most consistent with criteria
 5. Prepares a program to capture selected opportunities
 6. Constructs program intended to capture opportunity
 7. Provides on-going management of program
 8. Provides feedback and monitoring to modify goals, objectives, and criteria
 - D. As a cash cycle enterprise the real estate development is concerned with
 1. Relationship of receipts to outlays in amount and time
 2. Preparation of a budget to establish financial plan
 3. Risk is the variant between plans and realization
 4. Holding power for surprise potential
 5. Maximum potential loss factor
 6. Cash breakeven point for consumer, community, and development group
 7. Adequacy of future profit centers relative to present risk
- II. A 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.
 - A. Strategic objectives
 - B. Market trend opportunity areas
 - C. Selected merchandising targets
 - D. Legal-political constraints

- E. Ethical-aesthetic constraints
- F. Physical-technical constraints
- G. Cash-budgeting constraints

III. The form any enterprise takes is a concensus at a particular point in time between the forces outside the enterprise which can influence its behavior and the talents within the enterprise which can successfully direct its behavior toward their own goals.

A. The issues in this course can be divided among:

1. Those factors which society must control to survive in the foreseeable future
2. Those factors which the developer must control to survive in the future
3. Those factors which are negotiable to provide some equilibrium between long term social priorities and short term individual priorities
4. What is the relative contribution of protagonist-antagonist advocacy as opposed to synthesis by identification of common constraints and objectives among confronting viewpoints

B. Where will equity be found in the windfall-wipeout nature of "winner take all" which characterizes current land use regulation disputes.

769 Real Estate Encounters
Three credits intersession
May 28 - June 13 1985

Graaskamp & Matthews
222 Commerce

The purpose of this course is to provide the student with practical experiences in the art of real estate negotiations, and the processes of real estate hearings and real estate trials.

TEXTS:

1. Getting to Yes, Roger Fisher and William Ury, Penguin
2. You Can Negotiate Anything, Herb Cohen, Bantam Books.
3. Winning the Land Use Game , "A Guide for Developers and Citizen Protestors", Carolyn J. Logan, Praeger.
4. Handling Zoning and Land Use Litigation: A Practical Guide, Craig Peterson & Claire McCarthy, Michie.
5. Class Handouts

GRADES:

Classroom Assignments 50%

Takehome exam on some aspect of the course. 50%

WEEK ONE

Tuesday May 28 Art of Negotiations. Professor Norbert S. Jacker. Working lunch hour. Class day 9 to 5.

Wednesday May 29 Explanation of the Course; Assignment: Getting to Yes, Discussion. Class day 9 to 12.

Thursday May 30 Negotiations in Real Estate: Norm Flynn 9 to 10. Tapes and discussion 10 to 12. Handout

Afternoon small group preparation:

12 students to work on Board of Review presentation
9 students work on Odana Road store building for Plan Commission
9 students work on JC Penney building for Plan Commission
9 students work on apartment complex for Plan Commission

Friday May 31 Observations on the Art of Negotiations: How to Succeed in Negotiations. Herb Cohen Class day 9 to 4 Handout and You Can Negotiate Anything, Herb Cohen.

WEEK TWO

Monday June 3 The Hearing Process: Types of Hearings, Procedures, Rights, Parties Appearing at Hearings
1 to 2:30 Tom Klein, Madsen Development Corp.
2:30 to 4 Winning the Land Use Game , "A Guide for Developers and Citizen Protestors"

Tuesday June 4 Hearings before the City Plan Commission with Fred Arnold, Chair, City Plan Commission. Handout. Introduction remarks, Mr. Arnold. Concluding remarks, George Austin, Director City Planning Department
Class day 9 to 12
9 students work on Odana Road store building
9 students work on JC Penney building
9 students work on apartment complex
balance of students on City Plan Commission

Wednesday June 5 Richard Babcock
Class day 9-4

Thursday June 6 Hearing before the City Board of Review, Larry Lichte, City of Madison Board of Review. Observations on the hearing process. Readings and discussion

1 to 2 Presentation by Atty. Lichte
2 to 4 Hearings (12 students to work on Board of Review presentation)

WEEK THREE

Monday June 10 Observations on the Hearing Process
9 to 10:30 James Carley, Carley Capital Group
10:30 to 12 The Structure of a Lawsuit; Handling Zoning and Land Use Litigation: A Practical Guide.

Tuesday June 11 Handling Zoning and Land Use Litigation: A Practical Guide. Videotapes on Court Practices. Mock Deposition. Class day 9 to 12; tentative 1 to 4.

Wednesday June 12 Portions of a Trial: Testimony of the Expert Witness; Attorney Tom Ragatz; Professor James Graaskamp
Courtroom in the City-County Building
Class day 1 to 4

Thursday June 13 Summation. Professor James A. Graaskamp.
Class day 9 to 12.

Commerce 837 -- March 13, 1968

- I -- Next class at Wisconsin Center, March 20, Room ____ Real Estate for Retailing Seminar, 3:30-5:30 and 7:00-9:30. Sign-up list for dinner and cash bar.
- II -- Term paper--Subject matter can be divided between corporate real estate problems and retail real estate problems. These two subjects can then be further defined into marketing, finance, or physical design to serve a user purpose.
 - A. Corporate
 1. Marketing
 - a. Construction and sale of new towns
 - b. Marketing opportunities in urban renewal
 - c. Merchandising large buildings
 2. Finance
 - a. Federal corporate taxes--a subsidy to real estate
 - b. Alternative financing methods for industrial facilities
 - c. Sale and leaseback financing
 - d. Appraisal of income property
 3. Physical design
 - a. Office building and office layout
 - b. Industrial plant layout
 - c. Real estate law, public controls, and design
 - B. Retail
 1. Marketing
 - a. Theories of retail location drawing power
 - b. Theories of transportation and retailing
 2. Finance
 - a. Percentage leases
 - b. Shopping center development packaging
 - c. Retailing approach to banks and bank location
 3. Physical design
 - a. Theory of retail store design
 - b. Theory of shopping center design
 - c. General theory of urban land use planning
- III -- Comments on readings to date. The commodity in urban land economics is space in which to house urban activity. The space is artificially defined, generally as a manufactured item. One must house all kinds of activities so that real estate is a housing problem in the broadest sense.
 - A. Population growth and demolition have an impact on demand. But so do shifts in population from rural to urban, from core to suburban, from high density to low density housing.
 - B. Just as significant is the fact that space is environment and people are becoming more sensitive to both good and bad environment tilting the slope of economic obsolescence so that real estate is not so durable as it once was.

- C. We can build what we can finance. The problem is capital may not be adequate to build everything we might want and the rates of return relative to risk so not necessarily give financial priority to those things which have social priority.
 - 1. Mortgage money is inadequate because we are becoming capital shy and mortgage lending is the cheapest loan money available. Money goes elsewhere and savers go elsewhere with the result that we are experiencing disintermediation of the mortgage money market.
 - 2. Big scale equity money is seldom available except by a few capital pools such as the Rockefellers, the Guinness family, etc.
 - 3. More recently participation loans by insurance companies and building material suppliers are now possible.
 - 4. The idea today is to match a long-term real estate venture with negative cash flows with a stable corporate venture with excess cash flows: object subdivision.
 - 5. Result has been to recognize the lender as the risk-taker and therefore eligible to share in the profits of risk as well as in the rent on capital.
 - 6. As a corporation matures the rate of return on invested capital will fall suggesting that earnings should be paid out in dividends at the cost of future corporate power of alternative investments are possible which were once marginal.
 - 7. As corporate management matures after a period of expansion, they seek to memorialize their successes in brick and mortar and image-building campaigns.
- D. If capital is in short supply, so is managerial talent. A lot of young men enjoy large responsibility because there are so few people who are sophisticated in matters of real estate finance and development. The most successful real estate firms are those which have borrowed their management know-how from other fields. A retail marketing man, a mortgage lender, and an industrial engineer and perhaps a CPA make a wonderful combination.
- E. Successful real estate involves a combination of capital budgeting, critical path programming, cash flow forecasting and the valuation of cash flows.

IV -- Feasibility analysis for any real estate is basically establishing a chain of relationships which generates rental revenue, expenses, and net income. The feasibility problem is either discovering the proper ratios for disaggregating available blobs of data or for definition of desirable aggregates by projecting from particulars.

- A. The supermarket problem is one of reducing aggregate population, income, and traffic patterns to sales per store per line figures from which we can derive gross rent-paying

capacity, net income, and available capital budget for facilities.

1. There is no problem in getting census data and family income information. The problem is knowing how to disaggregate this into a PTA and then to predict how many of these potential customers and dollars will be attracted to a particular store. Kane is arguing that these ratios can be derived by studying existing store patterns both spatially and monetarily. Spatial patterns lend themselves to mapping--to analysis of urban geography as modified by man-made barriers such as streets and visual blocks.
2. The problem of working from the particular could be reversed this way: the site would permit a 25,000-sq. ft. store which would cost \$400,000 to construct with land. An investor on a sale and leaseback would expect an overall net rate of return of 8% per annum or \$32,000 and operating cost might be 4.5% per annum including taxes, so we need 12.5% or \$50,000 a year rent. If our gross margin is such that we can spend 4% of sales on occupancy costs, then we need a minimum sale of \$1,250,000. The question then becomes what kind of consumer base must we have to meet this minimum and does it exist around the selected site.

B. Kane lists a variety of methods of determining the spatial ratio of the PTA:

1. Riley's law
2. Trading area analogy
3. Competition surveys
4. Newspaper circulation
5. Gravity models
6. A variety of maps are available from city planning departments, traffic departments and title companies.

C. The most important part of population projections is the are of excluding data which does not represent effective buyers for a particular product. Madison is an excellent example because population growth is due to annexation, college enrollment, and in-migration of families with children so that the 0-9 age group is expanding far more rapidly than is expalined by the birth rate. Census data of community population must always be disaggregated.

D. Given population one needs income average per capita or per family and then a ratio of income spent on a given line of goods such as retail food. The question is then how adequately served is this market. In a given market, everybody is eating as best they can so an additional store generally means a redistribution of sales among existing retail areas. The same is true of most retail uses so that analysis of the retail location within the urban context is only the first step.

E. Given a potential retail location, there remains the competitive problem of attracting customers, putting them in

a buying mood and then exploiting this susceptibility with the right mix of goods and service.

1. Attraction is a matter of convenience, accessibility, and product differentiation.
2. The buying mood is illustrated by all the tricks of environmental design in a Kohl's store or the closed mall shopping center. Physical design is stressed in the Handbook and will be played down here.
3. The mix of goods and service is meat for the marketing department.

F. Note what Kane has to say about making sales volume estimates. Here he begins with the particular in terms of number of employees and then adjusts by sales ratio per employee.

1. Also note the inference of shopping environment power in the need to inspect facilities.
2. Analyze competition relative to traffic patterns and community capital budget plans for highways, new schools, and sewers.
3. Saturation is a function of total weekly food store potential, total sales area of existing supermarkets, actual sales per sq. ft., and break-even point per sq. ft.
4. Note the emphasis on store differentiation, the development of quasi-monopoly advantages.

V. All of the above items are screening criteria to eliminate alternative sites from unnecessary costs of development research. A significant element of feasibility analysis is learning how to exclude alternatives as quickly as possible. Once you have excluded alternatives and reduced the choice to one or two locations, then the problem of careful revenue estimating begins. Hence Kane puts this part last as it should only follow some preliminary screens and tests. Read Chapters 12, 13, and 14 carefully.

- A. PTA-STA per capita sales method--first the total market then the share space ratio experience of previous stores.
- B. Zone projections are also possible, using quarter-mile radii additions with adjustments for natural topography crimps, etc.
- C. The subtractive method.
- D. For next week remember to bring your maps to class and be sure you have read Part Four of Kane.

Class Session #1
BUSINESS 847

I. Administrative detail

- A. Apology
- B. Textbook distribution - make checks payable to Real Estate and Construction Club - \$10.00 including "Corporate Real Estate" and "Sale and Leasebacks"
- C. Format of course:

Basic material of the course is contained in the reading assignments for which there will be a final exam weighted at 40% of semester grade.

Two short problem sets to be written out and handed in will be weighted at 20% of semesters grade. A research paper on a specialized aspect of industrial real estate or finance is required and will be weighted at 40% of the semester grade.

- D. RED #3 & #5 refer to anthologies of general Real Estate Department material on the reserve shelf. In addition there is a binder labeled 847 with readings specially selected for this course.

II. Basic characteristics of real estate.

- A. The layman concept of real estate is that of land, brick and mortar, and a mystical entrepreneurial technique of wild-catting and confidence games. Anybody is an expert because we all stand on real estate everyday. Small facts are no substitute for big rumors and success is directly proportional to political clout.
- B. Although in real estate, like most everything else, I would rather be lucky than smart but being smart increases the probability of being lucky more than once and remaining solvent between each lightning bolts of success.
- C. First of all the essence of real estate is empty space, not material solids. Real estate is ~~not~~ created as soon as we differentiate some spade from the natural voids in which we live.
 - 1. Rolling a rock in front of a cave artificially differentiates space and creates real estate.
 - 2. The first improvement of ~~pr~~roperty is a surveyors monument, whether it is a pylon on the Nile or a plat in ~~in~~ the court house identifying some condominium space in the sky.
- D. It is not the enclosure~~x~~ but the space enclosed that is valuable. Land provides a locus, a surface with which to reference a volume of space and improvements provide a means of providing that space with desired attributes such as shelter, ~~=~~esthetics, privacy, or whatever is necessary with the activity to be enclosed.
- E. Real estate is therefore space to house all manner of activities, agricultural, domestic, commercial, industrial, or recreational. Any business operation must be housed in some manner or other and ~~xxxxxx~~ the form of this housing relates to the functions performed. Therefore in industrial real estate we are concerned with the decision making process for selecting a method of housing any given corporate activity.

III.

- III. The basic business strategy is to convert cash to goods for sale to accounts receivable and back to cash. Cash gives you flexibility to change your activities to meet the times, to respond to risk and opportunity. The longer the cycle of cash to cash the greater the risk and the higher the profit required. Inventory turnover and receivable turnover and working capital turnover relative to marginal sales opportunities are the basic measures of efficiency. Capital payback is often measured in months and not more than five years.
 - A. In this traditional view of the commercial cycle, real estate is about the worst investment you can make as it is the fixed asset with the longest payback period, the most inflexibility, the highest cost and the least marketable of any resource in the commercial-industrial cycle.
 - B. On the other hand more people have become millionaires because of real estate than any other single business enterprise and two-thirds of the nation's wealth is represented by real estate assets. Indeed more than one-half of all the new capital created from savings each year is reinvested in real estate.
 - C. This course is going to attempt to reconcile this apparent contradiction by using corporate real estate as an excuse to talk about real estate in general.
- IV. Since real estate is a capital asset it follows that its use in business should be essentially a rational process in decision making. In general the corporate real estate manager must take the view of a user of property and establish his own criteria for evaluating alternatives.
 - A. The objectives of his organization are unique in many ways and therefore his criteria must be generated internally. He operates more like a feasibility analyst than an appraiser or broker. He is constantly attempting to judge the likelihood of satisfying corporate objectives given certain limiting constraints in any specific situation involving housing of the firm.
 - B. For many years the corporate real estate function was a staff function rather than a line position. More recently many corporations have discovered their real estate mistakes have been more profitable than their marketing successes and therefore real estate is regarded as a dynamic tool in corporate strategy.
 - 1. Illustrate with Panny strategy
 - 2. Illustrate with paper-box plant near Disneyland
 - C. Real estate operates within a context of much that is outside its borders and only in part by means of investments within its own turf it is possible to profit tremendously by doing nothing and letting others do everything. Unlike any other investment asset land is indestructible and does not often waste away from neglect, it is virtually fixed in supply, and the need is a multiple function of the population density.
 - D. Each site is unique and immovable and cannot be precisely duplicated. Free enterprise is the art of creating imaginary or real monopolies and the nature of land makes each site a potential monopoly.

847 Class Topics

I. Review elements of feasibility analysis

1. A creative process of identifying attributes, positive and negative, in an effort to match components to produce a net positive total
 - a. Flat barren farm site at Pleasant View Golf Course
 - b. High density for low unit costs versus rapid absorption of land for low holding costs
 2. The time line of development is a common thread. Present value of cash returns to capital costs is the ultimate criterion.
 3. Feasibility analysis is the creative process (direct creativity by attribute listing) use Fantus example of factory location.
 4. Description by attribute is a way of analyzing real estate interests and financial plans.
 - The mortgage / with equity participation
 - The low ratio mortgage
 - The high ratio mortgage
 - The high ratio insured mortgage
 - The high ratio mortgage with insured rental income
 - The high ratio mortgage with equity participation
 - The land contract with equity forfeiture
 - The option or call
 - Analysis by analogy with the corporate financial structure
 5. Wells Fargo Bank classification of bank loans by attributes - 86 attributes which can be combined into different securities as a means of analyzing quality-profitability of the loan portfolio.
- II. Each attribute of a real estate investment might be classified as an item in the capital budget, the critical path of development, revenue, expense, and tolerance for surprise.
1. Capital budget includes offsite improvements, onsite improvements, structure, interior and mechanical, land, and professional fees.
 2. Critical path is concerned with time sequence, duration, and distinction between a capital expenditure and an operational expenditure.
 3. Revenue is not only concerned with rent but also shared expenses, escalation increases, and derivative concessions. In source and application analysis it would include equity commitment, short and long term borrowing, deposits held, etc.
 4. Expenses include operating cost, interest cost and the addition money cost of concessions.
 5. Intangible opportunity cost and personal cost or risk.
 6. Risk - the fixed immobile resource located in a shifting, transitory energy field.
 7. The problem for measuring yield where there is a progressive commitment and progressive withdrawal and variable income and little prospective predictability and no assured productivity.

Management Analysis- Real Estate Problems

Final exam

Monday, May 26, 1969

Prof. J. A. Graaskamp

I. Write on one of the following questions: (33%)

1. Why are real estate decisions somewhat differentⁱⁿ character than other business decisions in the view of Prof. Arthur Weimer ~~and~~ *as found in* the Harvard Business Review?

OR

2. Why are corporations returning to real estate investment and ~~the~~ amending corporate policies and organization structure in regard⁺ to real estate management?

II. Write on one of the following questions: (33%)

1. Briefly discuss alternative methods of comparison evaluation of alternative sites for a new industrial facility for a major corporation, including determination of feasibility for the projected investment.

OR

2. Briefly identify and describe the ~~major concerns of~~ *important provisions in* a lease ~~of~~ *contract* office space for a major sales office facility.

III. Write on one of the following questions: (33%)

1. Identify and briefly discuss the three approaches to value which form the approved appraisal format for income or investment property, indicating the typical application and potential pitfalls of each method.

OR

2. Discuss the strategy, considerations, and possible pitfalls of industrial park development.

Business 847

Summer Problem 1969

Office buildings cost \$32 per sq. ft. complete with all tenant improvements, design fees, and indirect charges during construction. Of this cost 40% can be allocated to mechanical equipment components. These components have a 15 year useful life and are 90% depreciable while the balance of the structure cost can be depreciated for a useful life of 40 years.

Land costs \$5 per sq. ft. and improvements to land can not exceed a gross area ratio of 3 to 1. 300 sq. ft. of land is required for an outside parking stall plus \$300 for paving with a useful life of 5 years. Multi-level inside parking or ramp parking costs \$3,000 per parking stall and has a 40 year useful life. An office building should have at least one parking space per 400 sq. ft. of rentable area. Only 80% of the gross square footage in a building is rentable.

Money is available for office construction under two options:

Option #1 - A loan for 75% of total cost for 8 1/2% interest amortized in 20 years.

Option #2 - A loan for 90% of total cost for 9% interest plus 4% of gross as participation for 30 years

Market rent for office space is \$7 a sq. ft. and operating expenses run \$1.20 per sq. ft. of gross area while taxes run \$1.00 a sq. ft. of gross space. The smallest site available is 25,000 sq. ft. but additional land can be purchased in 10,000 sq. ft. increments. Describe an office project which would be feasible and would return 15% on after-tax basis if held for ten years and sold for its original cost. You may assume that taxes will be held constant because of escalator clauses in the lease but you may make assumptions on the rate of increase in rents and expenses and you may stage the project if you wish, assuming that the market cannot absorb more than 40,000 sq. ft. of rentable space in one year.

Financial-Office Design Problem - 1970

Office buildings cost \$20 per gross square foot of floor area for all structural items and including all tenant improvements, design fees, and indirect charges during construction. One can reduce structural costs by \$4 per gross square foot if the building is only two stories high. However, it is necessary to add an additional \$10 per gross square foot for mechanical equipment excluding elevators. Investment in mechanical equipment cannot be built in modules less than what is necessary to serve the gross area of at least three times of a single floor gross area. Elevators cost \$10,000 each per floor; there must be a minimum of two elevators and an additional elevator for each 10,000 square feet in excess of the first 30,000.

For purposes of tax depreciation structural costs have a useful life of 40 years and are 100% depreciable while mechanical items including parking outside parking paving have an average useful life of 10 years and are 50% depreciable.

Land costs \$5 per square foot and the ratio of gross building area to land area cannot exceed a ratio of more than three to one.

400 square feet of land is required for an outside parking stall plus \$300 per stall for paving and landscaping, a cost which can be depreciated on the same basis as mechanical equipment. As an alternative an inside parking ramp stall costs \$2,500 per unit, no additional land is required, and it has the same useful life as the structure. An office building should have at least one parking space per 500 square feet of rentable area and the use of the stall is included in the rent schedule. Only 50% of the gross square footage in an office building can be considered rentable.

The current market rent for office space is \$7 a square foot and operating expenses run at \$1.50 per square foot of rentable area. Real estate taxes run at \$.20 per square foot of land per year plus \$.30 per square foot of gross building area.

The smallest site available is 15,000 square feet but additional land can be purchased in 10,000 square foot increments. Assume real estate taxes will be held constant because of escalator clauses in tenant leases. Make any reasonable assumptions on the rate of increase in rents and expenses that you wish. You may stage your project if you wish because the market cannot absorb more than 40,000 square feet of rentable space in this price range in one year.

Money is available for office construction under two options:

Option 1 - A loan for 75% of total cost for 8 1/2% interest amortized in 20 years. Default point not to exceed .85.

Option 2 - A loan for 90% of total cost for 8 1/2% interest plus 3% of gross as participation for 30 years. Default not to exceed .90.

Describe an office project which you think would be feasible, prudently financed, and would return 15% on an after-tax basis if held for at least 7 years and then sold for its original cost, under existing income tax rules.

UNIVERSITY OF WISCONSIN SCHOOL OF BUSINESS

Real Estate Investment Teaching Model

Instructions For Use of the Coding Form

1. One character or number for each blank. Decimal points, "X's", "-s" may not be altered or written over.
2. Your personal Social Security number must appear in the space provided. The last two digits will be used to fill your coding sheet, punched cards and output.
3. "Cards 2" indicates the number of component cards (1-5)
"Cards 3" indicates the number of mortgage cards (1-4)
4. Starting Year - when component is to begin depreciating (1-10)
5. % Depreciable - (.00 - 1.00) ie. 00% - 100%
6. Useful Life - number of years component may be depreciated (0-99)
0 indicates that its not depreciated.
7. Depreciation Method - 0 - not depreciable
1 - sum of years digits
2 - straight line
3 - 1.5 x straight line declining balance
4 - 2.0 x straight line declining balance
8. Original Cost - \$XXX - rightmost digit must be in rightmost blank on form.
9. Information in Student's Name, Project Description, Component Description, and Mortgage Description fields will appear as they are coded.
10. All dollar amounts must be coded in the rightmost portion of the allowed space - do not include dollar signs (4).
11. Growth rates are constant annual rates. 5% growth rate = .05
-5% growth rate = -.05
12. All pertinent figures must be coded except Beginning and Ending Years for mortgages. If mortgage term is longer than ten years or is not refinanced, place a 10 in the column "Ending Year".
13. Indicate full amortization term of mortgage in column "Term".
14. Extraordinary expenses can be deductions for high vacancies in first year or commissions for leasing space, etc.
15. The Staging Multiplier will adjust gross rent, expenses, and real estate taxes to indicate the ratio of increase in rentable area. Indicate year increase is to take effect in "Staging Year".
16. Staging of Component Investment and mortgages is accomplished by indicating a starting year for an addition same as the Staging Year.

UNIVERSITY OF WISCONSIN SCHOOL OF BUSINESS

Real Estate Investment Teaching Model

July, 1969



Card 1	Student's Name	Social Security Number	Course & Section #'s	Project Description	Cards 2 3
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67		X -- -	X - X		X X

Card 2	Component Description	Starting Year	Percent Depreciable	Useful Life	Depreciation Method	Original Cost
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67	X X X X X	X X	X X X .	X X X X X	X X X X X	X X X X X X X
	X X X X X	X X	X X X .	X X X X X	X X X X X	X X X X X X X
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	X X X X X	X X	X X X .	X X X X X	X X X X X	X X X X X X X
	X X X X X	X X	X X X .	X X X X X	X X X X X	X X X X X X X

Card 3	Mortgage Description	Principal Amount	Monthly Payment	Interest Rate	Start	End Or Pay-off	Term	Bonus Interest Rate	Refinanced By Mortgage #
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67		X	X	X .	X X	X X X	X	X .	XX X X X
		X	X	X .	X X	X X X	X	X .	XX X X X
		X	X	X .	X X	X X X	X	X .	XX X X X
		X	X	X .	X X	X X X	X	X .	XX X X X

Card 4	Gross Rent	Rental Growth Rate	Expenses	Expense Growth Rate	Capitalization Rate	Income Tax Rate	Staging Multiplier
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67	X X X X	X X X .	X X X X	X X X .	X X X X .	X X X X .	X XX
	R E Taxes	R E Tax Growth Rate	Extraordinary Expenses	Project Value Rate of Growth	Vacancy Rate	Working Capital Interest	Staging Year
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67	X X X X	X X X .	X X X X	X X X .	X X X X .	X X X X .	X X X X X

BUSINESS 851 - Course Outline

REAL ESTATE ADMINISTRATION: PUBLIC AND CORPORATE INSTITUTIONS

I. Course Description

The programming, procurement, management, or disposal of real estate space required for public institutions such as hospitals, cities, churches, governmental agencies, and large corporate enterprises requiring real estate peripheral to principal activities or possessing surplus fixed assets in real estate. Primarily intended for the public administration major or real estate major interested in public service or broad corporate management. Prereq. Bus. 550 or 705. 2 cr.

II. Format of Presentation

The course will weight equally lecture, readings, and a research paper:

50-minute mid-semester exam -	100 points
50-minute final exam -	100 "
Research project -	200 "

The research paper will be individually tailored and the topic should be selected by Monday, June 23 and approved in writing.

III. Required Textbooks: (Available from Room 118)

Managing Corporate Real Estate, Howard F. McCloy, American Management Association, Inc. 1967. (Included in mimeo packet)

Industrial Real Estate, William Kinnard, Jr., 2nd Edition, Society of Industrial Realtors, Chicago, Illinois 1972.

Uniform Standards for Federal Land Acquisitions, Interagency Land Acquisition Conference, 1973. (Included in mimeo packet)

IV. Subject Area Outlined:

A. Corporate Real Estate Activities

1. Establishing real estate management systems
2. Forecasting space need changes
3. Site selection strategies
4. Capital budgeting alternatives for real estate
5. Selection of professional expertise
6. Disposal of surplus private property

B. Public Agency Real Estate Administration

1. Establishing real estate management systems
2. Acquisition of property by eminent domain
3. Construction and management of real estate for public purposes

C. Indices of Real Estate Administration Performance

1. Internal cost effectiveness
2. External cost impact
3. Corporate citizenship

Real Estate Administration - Syllabus

Week #1

Tues-Wed.

June 17-18

INTRODUCTION TO REAL ESTATE MANAGEMENT SYSTEMS

- A. Managing Corporate Real Estate, Howard F. McCloy Mimeo
- B. Rules Governing Real Estate Transactions Mimeo
- C. Existing Corporate Trends In Real Estate Handout
- D. "Corporate Real Estate Management," Donald Blue,
Corporate Real Estate Development & Management, Mimeo
Presidents Publishing House, Inc. N.Y. 1971

Thurs. June 19 INTRODUCTION TO CORPORATE AND INDUSTRIAL REAL ESTATE

- A. Chapters 1 and 2, Industrial Real Estate, Text
William Kinnard
- B. "A Mountain," Encounters With the Archdruid, Mimeo
John McPhee, pp. 3-75

Week #2

Mon. June 23

SITE SELECTION AND SPACE DEFINITION

- A. Chapter 3, Industrial Real Estate Text

Tues. June 24 CAPITAL BUDGETING FOR CORPORATE REAL ESTATE

- A. Review Chapter 5, Industrial Real Estate Text
as necessary
- B. Review modified internal rate of return as necessary.

Wed. June 25 FINANCING ALTERNATIVES

- A. Chapter 17, "Aids to Industrial Development" Text
Industrial Real Estate
- B. "Leasing or Owning Real Estate - Which Approach
Will Maximize the Profits of Your Company," Handout
Robert Ellis, Coldwell, Banker & Co.
- C. Chapter 9, Industrial Real Estate Text

Thurs. June 26 CORPORATE LEASING

- A. Chapter 10, "Industrial Real Estate Leases," Text
Industrial Real Estate
- B. See Appendix 10A and 10B for lease agreements
- C. "Lease Negotiation Using a Time-Sharing Computer," Mimeo
by J. Peter Williamson & R.S. Bower, AIM Mar. '67

Week #3

Mon. June 30

CORPORATE AND PUBLIC LEASING - CONTINUED

- A. Specimen lease from General Electric Mimeo
- B. "To Lease or Not to Lease?" George Marrah, Mimeo
Financial Executive, October 1968

Tues. July 1	SELECTION OF PROFESSIONAL EXPERTISE	
	A. "Criteria Used by Corporate Real Estate Managers to Select Independent Appraisers," C. Hayden Green, <u>The Appraisal Journal</u> , Apr. '75	Mimeo
	B. "Appraising for the Corporate Real Estate Department," E. C. Larkin, <u>The Real Estate Appraiser</u> , July-Aug. 1973	Mimeo
Wed. July 2	SELECTION OF PROFESSIONAL EXPERTISE (CONTINUED)	
	A. Chap. 6, "Marketing Industrial Space," <u>Industrial Real Estate</u> , pp. 175-223	Text
	B. <u>Specimen listing agreement</u>	Mimeo
Thurs. July 3	SELECTION OF ARCHITECTURAL-PROFESSIONAL EXPERTISE	
	A. "Statement of the Architects Services," <u>AIA</u>	Mimeo
Mon. July 7	DISPOSAL OF SURPLUS INDUSTRIAL PROPERTY	
	A. Chap. 11, "Rehabilitation and Conversion of Industrial Real Estate," <u>Industrial Real Estate</u>	Text
	B. "From Piano to Forte," <u>Progressive Architecture</u> , Feb. 1975	Mimeo
Tues. July 8	THE PROBLEM OF RELOCATING CORPORATE EMPLOYEES	
	A.	
	B.	
Wed. July 9	MEASURING PERFORMANCE OF CORPORATE REAL ESTATE ADMINISTRATION	
	A. Lecture only	
Thurs. July 10	50-MINUTE EXAM	

BUSINESS 851 - Course Outline

REAL ESTATE ADMINISTRATION: PUBLIC AND CORPORATE INSTITUTIONS

I. Course Description

The programming, procurement, management, or disposal of real estate space required for public institutions such as hospitals, cities, churches, governmental agencies, and large corporate enterprises requiring real estate peripheral to principal activities or possessing surplus fixed assets in real estate. Primarily intended for the public administration major or real estate major interested in public service or broad corporate management. Prereq. Bus. 550 or 705. 2 cr.

II. Format of Presentation

The course will weight equally lecture, readings, and a research paper:

50-minute mid-semester exam -	100 points
50-minute final exam -	100 "
Research project -	200 "

The research paper will be individually tailored and the topic should be selected by Monday, October 3 and approved in writing.

III. Required Textbooks: (Available from Room 118)

1. Managing Corporate Real Estate, Howard F. McCloy, American Management Association, Inc. 1967. (Included in mimeo packet)
2. Uniform Standards for Federal Land Acquisitions, Interagency Land Acquisition Conference, 1973. (Included in mimeo packet)
3. Optional: Industrial Real Estate, William Kinnard, Jr., 2nd Edition, Society of Industrial Realtors, Chicago, Illinois 1972.

IV. Subject Area Outlined:

A. Corporate Real Estate Activities

1. Establishing real estate management systems
2. Forecasting space need changes
3. Site selection strategies
4. Capital budgeting alternatives for real estate
5. Selection of professional expertise
6. Lease negotiation
7. Purchase negotiation
8. Disposal of surplus private property

B. Indices of Real Estate Administration Performance

1. Internal cost effectiveness
2. External cost impact
3. Corporate citizenship

C. Public Agency Real Estate Administration

1. Establishing real estate management systems
2. Acquisition of property by eminent domain
3. Disposition of public property

V. Five Modules of Study

1. Asset management in corporate framework
 2. Corporate acquisition and disposition
 3. Public administration of real estate assets
 4. To be selected by students from list below
 5. To be selected by students from list below
-
1. Personnel relocation procedures
 2. Plant relocation procedures
 3. Corporate ethics and land resource management
 4. State facilities management and planning
 5. Municipal real estate management
 6. International real estate problems of the corporation
 7. Corporate strategy for eminent domain losses

Syllabus by Module

Module #1

- A. Managing Corporate Real Estate, Howard F. McCloy
- B. Rules Governing Real Estate Transactions
- C. Existing Corporate Trends in Real Estate
- D. "Corporate Real Estate Management," Donald Blue, Corporate Real Estate Development & Management, Presidents Publishing House, Inc., New York 1971
- E. Chapters 1 and 2, Industrial Real Estate, William Kinnard
- F. Chapter 3, Industrial Real Estate
- G. Chapter 17, "Aids to Industrial Development"
- H. "Leasing or Owning Real Estate - Which Approach Will Maximize the Profits of Your Company," Robert Ellis, Coldwell, Banker & Co.

Module #2

- A. Chapter 10, "Industrial Real Estate Leases," Industrial Real Estate
- B. See Appendix 10A and 10B for lease agreements
- C. "Lease Negotiation Using a Time-Sharing Computer," by J. Peter Williamson & R.S. Bower, AIM March 1967
- D. Specimen lease from General Electric
- E. "To Lease or Not to Lease?" George Marrah, Financial Executive October 1968
- F. "Criteria Used by Corporate Real Estate Managers to Select Independent Appraisers," C. Mayden Green, The Appraisal Journal April 1975
- G. "Appraising for the Corporate Real Estate Department," E. C. Larkin, The Real Estate Appraiser, July-August 1973
- H. "Statement of the Architects Services," AIA
- I. Chapter 11, "Rehabilitation and Conversion of Industrial Real Estate," Industrial Real Estate
- J. "From Piano to Forte'," Progressive Architecture, February 1975

Tues. July 1 SELECTION OF PROFESSIONAL EXPERTISE

- * A. "Criteria Used by Corporate Real Estate Managers to Select Independent Appraisers," C. Hayden Green, The Appraisal Journal, Apr. '75 Mimeo
- * B. "Appraising for the Corporate Real Estate Department," E. C. Larkin, The Real Estate Appraiser, July-Aug. 1973 Mimeo

Wed. July 2 SELECTION OF PROFESSIONAL EXPERTISE (CONTINUED)

- A. Chap. 6, "Marketing Industrial Space," Industrial Real Estate, pp. 175-223 Text
- B. Specimen listing agreement Mimeo

Thurs. July 3 SELECTION OF ARCHITECTURAL-PROFESSIONAL EXPERTISE

- * A. "Statement of the Architects Services," AIA Mimeo

Mon. July 7 DISPOSAL OF SURPLUS INDUSTRIAL PROPERTY

- * A. Chap. 11, "Rehabilitation and Conversion of Industrial Real Estate," Industrial Real Estate Text
- * B. "From Piano to Forte'," Progressive Architecture, Feb. 1975 Mimeo

Tues. July 8 THE PROBLEM OF RELOCATING CORPORATE EMPLOYEES

- A.
- B.

Wed. July 9 MEASURING PERFORMANCE OF CORPORATE REAL ESTATE ADMINISTRATION

- A. Lecture only

Thurs. July 10 50-MINUTE EXAM

Thurs., July 10	NQ CLASS	
Mon., July 14	MID-SEMESTER EXAM	
July 15-17	GENERAL SERVICES ADMINISTRATION MANUAL	
	A. Chapters 1,2,3 on property acquisition	Mimeo
	B. Chapters 4 & 5 on lease acquisition and administration	Mimeo
Mon., July 21	GOVERNMENT ACQUISITION THROUGH EMINENT DOMAIN	
	A. "Eminent Domain: A Kaleidoscopic View, Sidney Z. Searles, Real Estate Law Journal Winter 1973	Mimeo
Tues., July 22	VALUATION AWARDS	
	A. <u>Uniform Appraisal Standards for Federal Land Acquisitions</u> , Interagency Land Acquisition Conference 1973	Handout
Wed., July 23	RELOCATION COMPENSATION	
	A. <u>Relocation Assistance Handbook</u> , Chap. 1-4	Mimeo
Thurs., July 24	FEDERAL DISPOSAL OF REAL PROPERTY	
	A. <u>Disposal of Surplus Real Property</u> , General Services Administration	Mimeo
Mon., July 23	MUNICIPAL REAL ESTATE ADMINISTRATION	
	A. "Real Property Inventory and Management System for Municipal Law Departments, Jeffrey A. Rich	
	B. City of Madison Real Estate Department description, Warren Kenney	Mimeo
Tues., July 24	IMPACT ANALYSIS FOR PUBLIC & CORPORATE DECISIONS	
	A. Selected readings from <u>Environmental Impact Handbook</u>	Mimeo
Wed., July 25	ECONOMIC-SOCIAL IMPACT ANALYSIS	
	A. Chap. 13, "Impacts of Growth: An Analytical Framework & Fiscal Example," <u>Management & Control of Growth</u> , Vol. II, ULI	Mimeo
Thurs., July 26	REAL ESTATE & GROWTH CONTROL	
	A. "Capital Facilities Planning as a Growth Control Tool & A Case Study of Metropolitan Washington, D.C." <u>Management & Control of Growth</u> , Vol. II ULI	Mimeo

Corporate and Public Real Estate Administration

- I. Mixture of majors and non-majors may cause some overlap of the first day.
 - A. Refer to course outline and five module format.
 - B. Selection of two modules by next week.
 - C. Selection of term paper topic from remaining topic modules.
 - D. Primary reliance on mimeos rather than text.
- II. Real estate as a peripheral aspect of enterprise management.
 - A. Asset management.
 1. Working capital preferred to fixed capital.
 2. Mobility preferred to fixed location.
 3. Adaptability preferred to technical specialization.
 - B. Liability management.
 1. Command of capital by intimidation.
 2. Command of capital by contract.
 3. Command of capital by debenture.
 4. Command of capital by equity.
 5. Command of capital internally generated.
 - C. Profit management.
 1. Spread between asset productivity and liability costs.
 2. Asset appreciation.
 3. Improvement of market position.
 - D. Matching of liability cost to asset productivity to maintain profit spreads.
 1. Degree of control v.s. severity of exposure to laws.
 2. Control a function of ownership form.
 3. Exposure a function of liability compared to change in assumptions.
- III. Real estate is a major asset of both private and public enterprises and yet is the most undermanaged or poorly managed assets of most enterprises.
 - A. Definition of real estate.
 - B. Real estate is an artifact, a manufacture commodity, and a sub-system enterprise.
 1. Space-time equals money time.
 2. Space-time is derived from attributes of functions to be housed.
 3. Money-time is derived from money management objectives relative to space-time costs.
 - C. Real estate business is the providing the service or expertise to convert space-time to money-time.
 - D. Each outlay for real estate is a revenue profit center to some other enterprises and therefore at some point economy of scale and risk acceptance lead to inhouse real estate expertise.
 - E. Three basic clusters of enterprise, consumers, private production sector, and public infrastructure.
 1. Social ethic requires real estate decisions which permit each to operate at solvency.
 2. Environmental ethic requires efficient utilization of finite resource.
 3. Legal ethic creates private property to encourage husbandry and therefore advance efficient use of resources.

IV. Real estate is a corporate responsibility.

- A. Chief administrative officer
- B. Treasurer.
- C. Secretary-Council.
- D. Divisional responsibilities.
 - 1. Market
 - 2. Production
 - 3. Service
 - 4. Administration
- E. As opportunity costs of capital have shifted for maturing cooperations, real estate has shifted from staff service function to profit center divisions, and from custodial administration to growth management.
 - 1. Space-time equals future commodities speculation.
 - 2. Money-time equals money market speculation.
 - 3. Time is the common component and relates to the planning horizon on the enterprise which is a function of basic corporate goals.
 - 4. Private enterprise relates to maximizing values of net receipts.
 - 5. Public enterprise relates to minimizing present values of net outlays.

BUSINESS 851 - SITE SELECTION FACTORS

- I. Strategic components of site selections
 - A. Weight loss-weight gain product
 - B. Marketing position
 - C. Labor negotiation position
 - D. Personnel administration
 - E. Regulatory framework
 - F. Capital budgeting
 - G. Rate of return
- II. Location and general rate of return model
 - A. Net income/net invested capital before and after relocation
 - B. Unit input and revenue per unit of product
 - C. Site comparison on basis of units of input
 1. Labor
 2. Raw material
 3. Transportation
 4. Occupancy cost
 5. Management cost
 6. Training cost
 - D. Net invested capital
 1. Land cost
 2. Building cost
 3. Machinery cost
 4. Moving cost-plant and material
 5. Moving cost personnel
 6. Training cost personnel
 7. Lost income and extra cost of move
 8. Adjustment for salvage value
 9. Adjustment for capital cost subsidies
 10. Adjustment for training cost subsidies
 11. Income tax advantages
- III. Mobility of capital is the ultimate labor negotiation strategy
 - A. All fringe benefits are ultimately forms of profit sharing
 1. demographic components of costs (medical, pensions, vacation time)
 - B. Indirect community role in labor negotiations
 - C. Compatibility of multiple industries
 - D. Community quality as a competitive edge for personnel recruitment
 1. Labor union vs. professional
 2. Hardware vs. software output
 3. Clean industries vs. dirty industries
 - E. Community attitude towards regulation

ADVANTAGES OF CORPORATE ENTITY

1. Marginal tax rate reduction
2. Acquisition of existing depreciation and tax basis
3. Exchangeable units real estate trust, etc.
4. Divisible units for gift allocations
5. Multiple classes of stock to retain control
6. Multiple classes to shift equity buildup of wealth
7. Pension and profit sharing plans or deductions on income
8. Timing of income through salaries, bonus, and dividends
9. Clear segregation of funds and assets
10. Shares are personal property not affected by dowery, death transfers, etc. and corporate contracts cannot be easily challenged by heirs. Opportunity for spinoff, segregation of investments or structuring of land and cash ventures. Expand powers of trustees and reduce exposure to conflicts of interest.

Corporate Real Estate "Lecture #4"

I. Selection of Professional Expertise

- A. Position of Real Estate on Staff Network
 - 1. Accounting, Finance, Corporate Planning, Plant Management
 - 2. Book Value, Present Value, Space Requirement, Cost to Replace
 - 3. Manual of Corporate Procedure
 - 4. Level of Anxiety Necessary to Motivate Search for Outside Consultant
- B. Level of Outside Consultant
 - 1. In House "Hobbiest"
 - 2. Real Estate Brokers - SIR
 - 3. Corporate Legal Counsel
 - 4. Accounting Firms with Real Estate Divisions
 - 5. Engineering Firms
 - 6. Designated Real Estate Counselors
 - 7. All May Serve as Experts on Experts

II. Capital Budgeting Alternatives

- A. Elements to be Considered in Structuring Cash Outlays and Receipts
 - 1. Profit Centers Objectives
 - 2. Time Line Horizon
 - 3. Capital Budget Outlays
 - 4. Operating Revenue and Expense Patterns
 - 5. Capital Financing
 - 6. Income Tax Position
 - 7. Indices of Risk
 - 8. Measures of Return
- B. Basic Alternative Strategies for Funding
 - 1. Subcontracting by Purchase Contracts
 - 2. Short Term Leasing
 - 3. Long Term Leasebacks
 - 4. Ownership and Leverage
- C. Consideration of the Sale and Leaseback Touches on all the Major Issues of Internal Financing of the Real Estate Facility
 - 1. Refer to Coldwell Banker Booklet
 - 2. Tax Strategies in Long Term Leasing
 - 3. Tiering the Investment

Midsemester Quiz

July 14, 1975

James A. Graaskamp

I (25%) Write on one of the following two questions:

A. What are the critical assumptions and relationships which will determine whether a company should own or lease real estate as illustrated by Coldwell Banker as well as Kinnard?

B. Discuss the considerations in lease cancellation from the tenant point of view and how these might affect negotiations for various provisions of a 10 year lease for office space?

II (25%) Write on one of the following two questions:

A. What criteria might be used to select an independent appraiser for corporate real estate problems?

B. What is the basic process for marketing industrial space?

III (50%) Discuss some of the significant strategies of corporate real estate policy as they would affect overall needs for asset management of the corporation. What basic policy directives would be required of a corporate board of directors who by their action will initially establish a corporate office for real estate administration?

Public & Corporate Real Estate Administration

August 6, 1975

FINAL EXAM

J. A. Graaskamp

I. (30%) Write on one of the following two questions:

- A. Discuss eminent domain in terms of its process and its possible inequities for the owner and disadvantages for public real estate administrators as it is presently evolving.

OR

- B. What are the various financial advantages and benefits to the private property owner should he lose his property via eminent domain rather than in a negotiated sale to a public authority?

II. (30%) Write on one of the following two questions:

- A. Discuss and describe the process for disposition of surplus real property by a general services administration, in light of various constraints under which it must operate.

OR

- B. What are some of the significant advantages and disadvantages in the position of the city real estate manager as opposed to a private corporate real estate manager?

III. (40) Write on one of the following two questions:

- A. Discuss the implications of the environmental impact review process for public and private real estate administration today and in the future.

OR

- B. Discuss capital facilities planning as a tool for metropolitan control of growth and the indirect spinoff revenue which may be created for a municipality by the way in which it locates its real estate requirements.

- I. A. - Strict definition of indemnity, limited consequential loss benefit no extra expense benefits - presently modified by requirements for relocation and relocation awards which increase cost of eminent domain as compared to negotiated purchase. Relocation requires extra time delays as it postpones possession beyond date formerly possible under eminent domain.
- I. B. - Financial advantages include tax free capital gain, liquidity of real estate assets and special benefits, payment for moving and related expenses up to 50 miles. Direct losses of tangible personal property which remains in place, search expenses, time spent in search and loss of annual net earnings for the previous two taxable years or a minimum of \$2500, or other special charges for insurance.
- II. A. - Federal government distinguishes between excess property designated as such by the director of any specific agency and surplus property which is excess property not suitable according to GSA for any other federal agency. Property becomes surplus after 30 days following notice of availability of excess property. GSA inspects and determines fair market appraisal value based on highest and best use in the market for private use no priority is given to the previous owner under the surplus property act. GSA must consider environmental impact local community plans, temporary rentals, and special notice of sale to public agencies having special eligibility following 20 days of public notice. State forests, school boards and other agencies may be eligible. (airports, etc.) What remains can be a negotiated sale at fair market value with a public agency or GSA may then sell surplus property by sealed bid, public auction, brokers for special use properties or a negotiated sale for properties worth less than \$1,000, when advertising fails to secure a bid or peculiar conditions make it impossible to advertise.
- II. B. - Significant advantages of city real estate manager include access to data in city planning, tax offices, traffic engineering and other city data sources is not measured in terms of rate of return and typically is funded for cash purchase although the amount may be controlled by city council or enabling regulations. The department performs all major functions of the acquisition process and negotiations are not successful he may resort to eminent domain. All payments for purchase and relocation must be presented to the common council for payment. Difficult to transfer property between departments and negotiation on sales hamstrung by anti-graft regulations and common council approval.
- III. A. - Environmental review represents a significant long term delay for public and private real estate administration and a almost certain source of litigation since the exact requirements are unknown or undefined by legal precedent. As a result:
 1. Lead time is greatly prologged and uncertain
 2. Once approved a proposal is locked in lest changes require amendment and further litigation of the review process.
 3. Costs up front increase and destroy feasibility of many marginal projects.
 4. A monopoly is created for projects predating review requirements for a premium in time and money is available for recycling old properties.

5. Projects must be small and with a low silhouette to avoid federal and state review thereby increasing fragmentation of land planning rather than improving regional integration.
6. Increases awareness of team approach to development process for various professional disciplines.
7. Increases urgency for more integrated measure of land potential, tax base, and indemnity through use of transferable rights.

III. B. - Growth control is possible either through zoning or provision of public facility. sewer is critical but can be manipulated by special interest groups. Both existence and capacity of service systems can control, direct, or prevent growth. Community may also benefit by the way in which it locates schools, parks, theaters to increase tax base values. Constraint on services increases housing costs to export lower income families, disrupts construction, disperses labor force.

Business 851
Final Exam

Wednesday, December 14, 1977

Prof. J. A. Graaskamp

- I. (50%) Write on two of the following essay questions.
 - A. Compare and contrast the real estate acquisition alternatives of the corporate real estate manager with the public real estate manager.

OR
 - B. Compare and contrast the constraints on real estate asset disposition on the corporate real estate manager as opposed to his opposite in public agency real estate manager.

OR
 - C. What are the financial constraints which favor purchase over long term leases for public real estate acquisition of office space? Which of the theoretical advantages may be largely dissipated in practice?
- II. (25%) Suggest what kinds of measures of performance would be appropriate in evaluating the effectiveness of the real estate management office of an enterprise.
- III. (25%) Write a short essay on one of the following:
 - A. Briefly identify and discuss the critical components of a long term lease for commercial office space.

OR
 - B. Discuss the procedures and problems of transferring an employee who owns his own home to a new community.

OR
 - C. Identify some of the problems associated with the ownership of corporate real estate property in foreign countries.

Business 936

Appraisal Problems and Theory

Readings Policing Quiz

Monday, May 26, 1969

Prof. James A. Graaskamp

I. Discuss one of the following questions: (40%)

1. Discuss the problems of measuring for inverse condemnation or eminent domain in action the value of an avigation easement, particularly in reference to the format of the traditional appraisal report.

OR

2. Discuss the nature and values of a scenic easement, making reference to the requirements of a possible eminent domain action.

II. Discuss one of the following questions: (40%)

1. Compare and contrast a reuse appraisal of a cleared urban renewal site with a LUM study.

OR

2. Discuss the ~~ff~~ differences in concept required of an appraisal for ~~land~~ urban renewal land for sale to a public ~~agency~~ ~~and~~ facility and urban renewal land for sale to a private developer of low rent housing.

III. (20%) Describe the approach to the appraisal ~~renewal~~ property and the agreements for such an approach advocated by James McCormack.

Real Estate Market Research

937 Section 32

I. Introduction

This seminar will take real estate market research as its theme. We have spent the past several months researching methods of teaching real estate market research and have arrived at a conclusion that it is unteachable. Further it appears it is not being taught anywhere with the demise of the NYU Real Estate Program.

First the subject of market research is difficult to distinguish from urban land economics or investment feasibility studies. As I see it real estate market research should be an attempt to forecast a demand and supply curve for a general real estate commodity.

Real estate market research may be interested in establishing the demand in coming years for premium office space on the square or attendance at a all purpose arena over time. It is not interested in predicting the demand for space only in the Anchor Building or for a single Madison Mustang game. Real estate market research may be interested in defining market stratifications of significance but not in setting specific policies for a given building to reach a specific market segment.

To that degree real estate market research is applied urban land economics, applied to the point of determining questions of quantity and price on the demand and supply side of space in the general market equation.

The decision making system calls for inputs of fact, values, and from values criteria for interpreting. Real estate market research is interested in delineating meaningful facts for the equation and conversion points which can convert values to quantifiable material.

II. I propose to teach us all, including myself, something about real estate market research following a number of techniques.

- A. Critical review of existing market research reports for method, style, and presentation.
- B. Research for almost non-existent literature in the field.
- C. Actual practice on real market research problems in the Madison area for individual term projects. For example:
 - 1. A Madison housing forecast ala NAHB
 - 2. A forecast of Madison industrial land needs for the next 15 years
 - 3. A forecast of residential single family rural acreage unit demand
 - 4. A forecast of demand for private college dormitory housing in Madison and the essential demand creation features for private dorms in general
 - 5. Individual projects for the campus planning department
 - 6. Any other analysis which you and I can agree on

D. In addition we hope to have a number of guest speakers the first of which will be this Thursday evening. Real Estate and Construction Management Association has the privilege of entertaining Mr. William Smolkin for its first meeting. Mr. Smolkin is a marketing specialist who has specialized in recent years in home building. Introductions at 5:15, dinner at 5:30. Mr. Smolkin must leave at 8:00.

Cost of \$2.50 includes ~~xxxxxx~~ dues for a semester in the real estate club. 202A Breese Terrace is the place and attendance is restricted to those who sign up by Wednesday morning

III. Real estate market research covers indirectly a much broader area than space and price would suggest. For example it may first be necessary to determine retail sales potential for a given product line before one can determine space needs. Or one must determine the approximate volume of prescriptions a given group of doctors will write before setting a rent on the pharmacy in the clinical building.

Before deciding to build a branch to a savings and loan bank one must first determine the deposit and mortgage loan potential of a given area and the degree to which the branch would adversely affect the main bank.

Real estate market research may be concerned with locating communities where properties are enjoying or vulnerable to a rapid decline in value, making these towns unsuitable for the sale of ~~xxxxxx~~ mortgage insurance loans.

The point is that real estate market research may encompass problems in real estate finance, national resource allocation, business policy, and city and campus planning as well as brick and mortar questions of how much to build and how much to charge.

IV. Your grade will stress your term paper but will also include several little written exercises which I will throw out from time to time. There will be a finagle ~~xxxxxxxxxxxx~~ factor for class participation.

V. Class materials: There is no use for text book material in this field. Therefore there is no syllabus. What I propose to do is make weekly assignments from materials on reserve at the reserve desk in the Commerce library. We will have a minimum of ~~xx~~ two copies of each. In addition, now that I know how many and who is in the course, I will pose individual problems in technique to specific members of the class who will then be expected to report the following week on possible solutions. For example I might ask someone to tell me how we would determine or discover the average number of square feet of office space required per attorney and the trend of this requirement. Presumably the demand for office space by attorneys could be determined by multiplying the forecasted number of attorneys by the average space used per attorney.

In short real estate market research is often simply imagination in developing source material or converting readily available general information to specific purposes

VI. For Monday warm up on the following manual, one of the few of any kind that has been done:

How to do Housing Market Research, by Uriel Manheim. Scan Chapt. 1
Read chapt. 2, 3, 4, 5, and 6. We will talk about chap. 7 and 8 in class next week along ~~x~~ with the economics of housing demand in general.

MARKET RESEARCH NOTES

I. Assignments

- A. Monday, Nov. 15: Stanford Market Analysis
Broome County Analysis
- B. Monday, Nov. 22; Worthen Bank of Little Rock
Des Moines Bank
- C. Monday, Nov. 29: Feasibility Study, Abercrombie and Fitch

II. One of the basic problems of market research is reducing aggregate data to elements which reflect a more specialized part of the market in which you are interested.

- A. You have all read various market potential reports for a shopping center.
 - A primary marketing area is defined
 - Aggregate family income determined
 - Reduced to retail purchasing volume
 - Retail purchasing volume reduced into groups of merchandise sales
 - Total sales in each group reduced to necessary floor space
 - Total floor space reduced to additional needed floor space
 - And then this figure is increased by space necessary for service areas
 - With total floor space multiplied by another factor for parking to determine site area required.
- B. The critical data are the assumptions made to determine the reduction or multiplication factor which link each segment of the logical process.
- C. The process can be outlined in reverse order to define the scope of your research problem and the critical reduction of data assumptions which must be made to answer the specific questions of the research.
- D. For example here is an outline of a capitalization rate analysis for the Ellwood factor. In effect it is a graphic formula. It is my belief the same outline technique can be applied to your research problem.

III. Assume we want to measure the potential demand for townhouses in Madison, specifically the demand which must be met with new construction.

- A. New townhouses required will equal the increase in the number of households using townhouse type facilities minus the supply from other sources such as rented single family homes and duplex construction;

NOTES-2

- B. The demand and the supply factor can then each be carried back to other figures until we reach some aggregate data which we can obtain.
- C. People renting townhouses can be given certain characteristics as to income, age, and family size. This group in turn represents only a portion of total population projected for a community in this age group. You would define general groups according to the kind of data available, such as the MATS data for Madison.
- D. To define the characteristics may require a consumer profile of existing townhouse tenants or a hypotheses that a certain segment of the population was ready for a townhouse unit.
- E. The link between the segment and the aggregate might be age brackets plus adjustments for non-households and a average family size or it might be a percentage distribution of average incomes by age or occupation. In short a rational link is needed for the reduction factors which reduce a given aggregate to a measure of demand for suburban revenue of \$150-\$225. These rent levels presume an income level and hence an occupation or age level. For example \$175 a month is \$2100 which should be no more than 20% of family income. Therefore our customers should have incomes of \$9000 or above, and we know how much of the market we have dropped off.
- F. However, most of the people in that income range will purchase a home and so we must either know what percentage of this group are home-owners or which sub-groups have the least incentive to own a home. These might include people over 65 or professional people just moving into Madison. There may also be a trend towards postponing home ownership because of nature of the occupation. If worse comes to worse a researcher must simply make a reasonable and conservative guess or introduce a high and low range of possessions.
- G. One measure of demand is the rate of absorption of townhouse type units which have built. Unfortunately this will tell you what the demand was but may not highlight what the additional demand might be.
- H. Process of outlining should create a pyramid of data and conversion points which will structure collection of data and the writing of the actual report. It will also show the researcher where he may substitute a plausible assumption for a market tested fact in the interest of speed or budget.

REAL ESTATE MARKET RESEARCH

ASSIGNMENT

9/27/65

Housing Market Analysis, A Study of Theory and Methods
by Chester Rapkin, Louis Winnick, David M. Blank
Development Opportunities
by Larry Smith & Company

TOPIC

Problem solving research as compared to macro analysis and predictions.

1. NAHB study of nation from individual city forecast
2. Dodge reports on national construction levels
3. National economics for forecasting techniques and statistics
4. General economic theory

MARKET RESEARCH PROJECTS

1. Develop a model couched in Urban Land Economics' terms which would indicate when an old college building should be remodeled or replaced on campus according to highest and best use theory.
2. Develop a technique for determining the absorbtion rate for single family acreages for non-rural families. Of interest would be the creation, sale, and development of individual home sites for those seeking estate living on the periphery of the Madison community.
3. Development of a technique to relate individual retail floor space needs adjacent to the campus area to support increasing number of student enrollment.
4. Measuring the demand for private residential dormitory units given various assumptions as to the structure of the student housing regulations.
5. Deriving a technique for choosing the optimal location for a floral shop.
6. Developing a multiple regression housing construction forecast for the Madison metropolitan area following the NAHB and Smolkin models.
7. Developing a technique for forecasting industrial land needs in Madison for 1970, 1975, and 1980, critiquing at the same time the assumptions of the present Madison Planning Department forecast.

Market Research

10/4

Assignment:

1. Scan Housing Market Data from Census Material--note the lack of comparable 1950-1960 information and the trend of the census to gather more market data. Note efforts to define SMSA.
2. Read The Techniques of Urban Economic Analysis by Ralph Pfouts:
 - Historical Development of the Base Concept, p. 5
 - Economic Base Analysis, p. 19
 - Classification of Base Types, p. 51
 - The Problem of Base Measurement, p. 65
 - Special Problems of Base Identification, p. 97
 - The Problem of Area Delimitation, p. 117
 - The Concept of Base Ratios, p. 139
 - The Community Income Multiplier: A Case Study, p. 341
3. Chapter 2, Urban Growth Dynamics by Stuart Chapin and Shirley Weiss (Statistical measures of urban interaction)
4. Measuring the Need for a Sports Arena
 - a. Definitions--page 5
 - b. Land requirements--location, parking, floor area, supporting adjacent land uses such as hotels, banquet halls
 - c. Direct and indirect revenue
 - d. Size of trading area for arena attendants
 - e. Slotting size of arena for gaps in existing supply of facilities to prevent undermining revenue sources of other public projects
 - f. Age composition and sporting attendants
 - g. Support for favorite local amateur sports
 - h. Availability of franchises, management
5. An arena can not be justified on direct dollar profits. Only 22 out of 68 showed a profit in 1958. There is some economies of scale on the basis of cash receipts but after adjustment for depreciation the larger buildings show a deficit of \$35,000 more than the smaller buildings. If 6% interest on land value is allowed, the despairsty increases as land values are higher in larger cities.

None of these operating results reflect debt service and amortization requirements. Federal financing through CFA or ARA is available. State financing would be available where ticket offices can be state-wide. City general obligation bonds or general tax revenues are most common approach as revenue bonds are impossible.

6. To some extent community subsidy is justified by new downtown activity by area residents, conventioners, troupes, and support to private facilities such as hotels and parking lots.

To estimate a land economist assumes state and local conventions last about 3 days and those attending spend \$31.00 a day or about \$90.00. Of this 27% is for hotel rooms, 27% for restaurants, 19% for retail sales, 15% for booze, and 11% for miscellaneous. Averages show about 275 for state and local conventions and 450 for regional conventions. Other events bring people to town for an evening and an overnight. These people might spend an average of \$2.75 which would add a million or more in downtown sales volume.

7. Significantly the consultants for the Providence project never said indirect benefits justified direct cost for Providence. Instead they pointed out many other cities had weighed the same problem and decided in favor of this land use.

Notes and Comments on Feasability Reports

I. Broome County

1. Economic base forecast by means of a National forecast for five major industries operating in Broome. Is this a valid approach?
2. Do you think that population projection is oversimplified by applying National averages to Broome county population? What do you think of income projections relative to employment profiles?
3. Are land needs based on local planning department densities valid? What about three factors of mix, employment density and intensity of land use changes, and supply of available land?
4. How do you judge how much land is suitable and available for industrial purposes and is this the critical problem for this county? Should you know present land holdings of major employers?
5. Are broad classifications of land use demands helpful guidelines?
6. Do you sense the economic and social necessity for the creation of "place", the Architect's term for a focal point for the three cities and the county? Have the report writers avoided the issue of a metropolitan county where all the individual communities should be absorbed?
7. Should the critical issue of better education to attract higher income technicians be stressed in more detail?
8. Does the economic picture dictate the political experiment of strong county government as a means of metropolitan government?

II. Stanford Study

1. This study starts out on the promising target of employment for different age groups but then never analyzes employment trends in the community on the basis of age. Never ask a question in the introduction which does not establish a theme for the organization of material. Personal income data is not analyzed according to age or employment source so that one doesn't know whether Stanford's income is attributable to local employment or to a basic economic activity of providing residential space to New York executives who like to sail. This particular study is extremely poor in analyzing sources of economic base potential.

III. Abercrombie & Fitch

1. The real estate problem is to lease this site or another or to buy this site or an alternate.
2. Note that the building is relatively old and of low value relative to the land and that the size of each floor is inefficient for retailing anything but high value small scale sport's articles. Since this was written they have built a pre-fabricated summer cottage on the roof.
3. Note provisions in lease which prevent operation of any other store in New York, any change in business policy reducing sales from this outlet, and subordination of lease to mortgage.

4. Note the logic: the first issue is, is there a location that has better future potential or comparable potential. Only a few are found with comparable potential. The question is then narrowed as to the possibilities of lower rent or better lease terms at the present or a different site based on recent lease deals.
5. Note the use of an architect to establish building areas of alternative schemes under New York zoning requirements.
6. Note that the analysis of comparable locations leads to analysis of competitors modus operandi, i.e. separation of mail order business from high rent locations and selection of branch store outlet.

IV. Des Moines, Iowa Bank

1. This report is of note because the data appropriate to bank expansion in Des Moines runs counter to traditional measures of expansion for many other space users such as retailing.
2. Regional data indicates concentration and distance to larger centers is such that Reilly's law is deemed to be inoperable.
3. Of particular note is the analysis of the effect of new office buildings on the competitive position of the proposed building. Note the musical chairs analysis which shows that space freed is of lower quality and hence out of the high quality sub-market.
4. Note the recommendation to the bank to shore its values by attracting J. C. Penny as a neighbor.

Business 938

Seminar - Real Estate Feasibility Analysis

Spring semester - 1968

J. A. Graaskamp

1. Purpose and Description of Course

The 938 seminar is intended to introduce the student to current practices in the art of real estate feasibility analysis and methods for improving this undefined area of real estate investment analysis. The approach is an experiment in combining case studies with selected readings and a field problem. Case studies will consist of selected readings of reports typical of current practice and careful dissection of the twin shopping center proposals for Madison, currently under development by the J. C. Penney Company. The field problem will involve feasibility analysis of the office building proposed for each of these two shopping centers.

2. Study Materials

There are no required textbooks for the course. However there are three optional and useful texts available:

A systematic Guide to Supermarket Location Analysis by Kane
and published by Fairchild Press.
The Community Builders Handbook, published by the Urban Land
Institute on February 1, 1968
Notes on the Synthesis of Form, by Alexander

3. Grades

There will be two papers: A short individual critique of a professional feasibility study will count 40% and a group report on the shopping center office building field problem will be weighted 60%.

4. Course Time Table

Classes will ordinarily be held on Friday afternoon except on those weeks during which there is a guest speaker. Guest speakers will generally hold forth on Wednesday afternoons 3:30-5:30.

- | | |
|---------|--|
| Feb. 9 | Course introduction - Professor Graaskamp |
| Feb. 14 | Background history and retail analysis of Eastowne and Westowne - Norman Menz, J. C. Penney Co., Chicago |
| Feb. 21 | Site selection and negotiations of options - Jack Lee, Bockl & Lee, Milwaukee |
| Feb. 28 | City of Madison viewpoint - Ken Clark, director, Madison City Planning |
| Mar. 6 | Qualification of site during option period - Wm Kurtz, J. C. Penney Co., New York |

Business 938 (continued)

Mar. 13 Traffic patterns - road capacity, access rights - John Finguerra
J. C. Penney Co., New York

Mar. 15 Discussion and development of field problems

Mar. 22 Discussion

Mar. 27 Annexation problems - Robert Corcoran, Mayor's Office

Week of Planning leasing and contracting for improvements, Wm Kurtz
Apr. 1 or developer to be named

Week of Leasing, financing and management - Wm Harris, J. C. Penney,
Apr. 8 New York

Week of Role of the broker, office building feasibility - Jack Lee
Apr. 21

(Several speakers scheduled tentatively on construction and financing)

Balance of semester will stress development of field problem

5. Reading assignments

Feb. 14 Kane, Part 1, Chapters 1-7
Dynamics of a Shopping Center (mimeo)
Alexander, Chapters 1-3

Feb. 23 Kane, Part 2, Chapters 8-11
Alexander, Chapters 4-9

Feb. 28 Kane, Part 3, Chapters 12-15
Complete Alexander, including Appendix on design of a village
for India

Mar. 6 Kane, Part 4, Chapters 16, 17 and Appendixes
Community Builders Handbook, Section 2, Planning and Operating
of Shopping Centers - Through Site Evaluation

BUSINESS 938

- I. Check on employment contacts made by group.
- II.--Distribute highway project materials.
- III.--Definition of term project.
- IV.--Switch from office space study to bank study.
 - A. Set up 4 teams for savings and loan and bank on either side of town.
 - B. Office building feasibility not feasible without pointless mail questionnaire.
- II. Feasibility study critique.
 - A. Were there any studies which did speak in terms of strategy, political and legal feasibility, etc.?
 - B. What is danger of implicit assumption?
 - C. Was there any example of a rigorous reduction of space demand as a derived demand (Petersen example)?
 - D. What examples were there of ratio analysis in order to relate real estate as a derived demand to some other larger aggregate forecast by a government agency?
 - E. Was there any example of an effort to reduce the area of significance from a metropolitan area to a smaller market segment?
 - F. What illustrations were there of well-focused demand and supply counts to determine surplus unsatisfied needs--a market slot?
- III. Interest in jaunt to Chicago in May if any or participation in Chicago office building seminar.

V. Appraising versus investment counseling.

- A. An appraisal is always designed to help someone answer a question--to loan, to buy, to sell, to tax, etc.
- B. A statement of the purpose of an appraisal can say much about the information which should appear in the appraisal. The function of the appraiser is to both collect and analyze facts and then to place a price on the investment value indicated by the facts.
- C. The appraiser assumes his client will know how to use the facts and the price to make his own decision.
- D. The investment counselor has a client who is not sure as to what his purpose should be, the facts that he should be concerned with, or the criteria by which he should make a decision.
- E. Immediately following a statement of purpose, is a statement of highest and best use. If you know the best use, you also know a good deal about the most probable buyer. If the appraisal is concerned with the most probable market price, the appraisal analysis should reflect how the most probable buyer would view the property. In many cases there may be only one or two likely buyers for a particular kind of property.
 - 1. If the buyer never uses the income approach then the income approach may not suggest the probable selling price.
 - 2. If the buyer depends on heavy mortgage financing then you are almost obliged to use the Ellwood method.
 - 3. If the most probable buyer is interested in cash flow and appreciation you must use the cash flow (mortgage equity approach).
- F. Highest and best use must be both probable and feasible. Therefore the appraiser cannot simply look at the zoning or an oversimplification such as all corner sites or filling station sites or all two-acre sites as supermarket sites.
- G. Feasibility analysis requires that one identify:
 - 1. Definition of investor objectives and strategy
 - 2. Definition of market alternatives toward which merchandising of development alternatives could be directed.
 - 3. Identification of technical requirements and constraints for development.
 - 4. Legal-political issues and constraints.

5. Aesthetic--ethical--self image issues and assumptions.
 6. Capital budget, schedule, and cash flow projections for estimating rate of return.
- H. When viewing income property it is important to analyze the source of tenants:
1. Broad statements about community employment, population, and income are interesting but seldom relevant.
 2. It is more important to begin with a list of tenants to see where they work, shop, or go for recreation. A typical apartment building has a very small circle of influence and much can be learned about the stability of income by simply looking at the tenant roster and the nature of their employment. By the same token, a half-empty building can be quickly filled by analyzing the most likely source of tenants and advertising directly with posters, etc.
 3. One way to focus your thoughts on the market is to think how you would assemble a mailing list of potential tenants. In most markets, even the size of Madison, you can generally name your most likely customers.
 4. It is just as important to exclude irrelevant information as it is to include facts. For example, in Madison construction of apartments on the east side does not really affect the supply or demand for apartments on the west side. Therefore, shave down your statistics to that which bears on the problem.
 5. For example, population growth is baloney unless you separate out annexation gains, students included in the census, and children under the age of 19--for none of these are important in the single family house market.
 6. Every piece of real estate is unique and has the possibilities of being a monopoly. Try to identify the special market it may serve or the degree of its exposure to competition.