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Landmark
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Inc.

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MADISON, WISCONSIN

April 11, 1975

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April 11, 1975

Mr. Darrell R. Wild, President
Wild, Inc. & Madison Hotel Associates
Hilton Hotel Building
1 W. Dayton Street
Madison, Wisconsin 53703

Thomas L. Turk
James A. Graaskamp

Landmark
Research
Inc.

Dear Mr. Wild:

This letter accompanies an appraisal which you requested on behalf of Madison Hotel Association of the hotel structure recently completed and formerly known as the Hilton Hotel Building on the first block of W. Dayton Street bounded by Wisconsin Avenue and N. Carroll Street in the City of Madison, Dane County, Wisconsin.

My associate, K. Edward Atwood, a CPA and real estate analyst, and myself inspected the premises with the former manager, Mr. Elges, of the Hilton Hotel Company and on subsequent occasions with various staff personnel. In particular much accounting data was generated on the early history of the project from Richard J. Anheier, CPA. We have been careful to distinguish among and between the amounts of land, structure, personalty, and operating assets of the new hotel enterprise so that our appraisal is solely the land and building elements of the total enterprise. Moreover, our value assumes a cash sale of the property free and clear of existing encumbrances rather than subject to existing loan and leasehold interests. These assumptions are consistent with the purpose of this appraisal to serve as a basis for real estate tax assessment as of May 1, 1974.

Analysis of the current competitive struggle of Class A hotels in Madison as a result of over-expansion of the room supply in advance of a more gradual growth in room demand leads to the conclusion that the current structure represents an over-improvement, despite the fact that it is new. Therefore, the cost approach is inappropriate for appraisal purposes and the market approach is not presently feasible for lack of arm's length transactions for properties similarly situated and appointed. Therefore, our estimate is based on a somewhat optimistic cash revenue and cash outlay forecasts, using the income approach approved by Judge George R. Currie relative to the James Wilson Plaza case here in Madison in 1974, with more specific details provided within the report.

Therefore, it is our opinion that the highest probable price and fair market value of the subject real estate property, more precisely described herein, which might be obtained as of May 1, 1974 is in the amount of:

FIVE MILLION ONE HUNDRED THOUSAND DOLLARS
(\$5,100,000)

We are pleased to have been of service and will remain available to answer any specific questions you may have regarding this report. Please give us adequate notice as to date, time, and location of presentations to the Madison Real Estate Tax Assessor or related boards.

Sincerely yours,

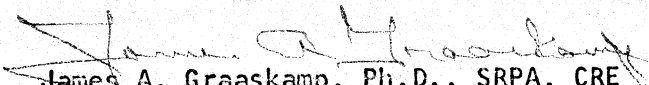

James A. Graaskamp, Ph.D., SRPA, CRE
Urban Land Economist

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Letter of Transmittal

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LIST OF EXHIBITS

<u>Exhibit #</u>	<u>Exhibit Title</u>
1	Land use map of commercial areas near subject site
2	Site plan of subject property - Hilton Hotel
3	Circulation and transit plan revisions affecting subject site
4	Schematic of Hilton Hotel 1st floor lay-out
5	Schematic of Hilton Hotel 2nd floor meeting areas
6	Schematic of 4th floor - typical room lay-outs
7	City of Madison map locating competitive motel units
8a	Madison class A hotel room capacity & percent of room-night market for 1973 & 1974
8b (9)	Madison class B hotel room capacity & percent of room-night market for 1973 & 1974
10	Projections of effective demand for class A room-nights in Madison compared to targeted Hilton occupancy levels for tax years beginning with 1974-75
11	Schedule of projected income and expenses - room and related operations for a period of 5 years, commencing May 1, 1974
12	Schedule of projected income and expenses - retail space for a period of 5 years, commencing May 1, 1974
13	Schedule of projected income and expenses - garage facility for the 5 year period, commencing May 1, 1974
14	Schedule of projected revenue and expenses - restaurant and bar operations for the 5 year period, commencing May 1, 1974
15	Summary schedules of projected income related to real estate for the 5 year period, commencing May 1, 1974
16	Net income approach valuation calculation
17	Construction draw #20, Madison Hotel Associates for month of April, 1974

I. Statement of Purpose and Definition of Value

- A. This appraisal is requested to serve as a measure of fair market value as of May 1, 1974 to serve as a basis for assessed value for land and buildings in the City of Madison, Dane County, Wisconsin. The controlling statute in Wisconsin is Section 70.32, Stats., which provides in part:

"Real estate, how valued. (1) Real property shall be valued by the assessor from actual view or from the best information that the assessor can practicably obtain, at the full value which could ordinarily be obtained therefor at a private sale."

- B. "Full value" as that term is used in the above-quoted statute means "Fair market value;" that is, the amount for which the property in question could be sold on the open market by an owner willing but not compelled to sell to a purchaser willing but not obligated to buy. State ex rel. Lincoln F. Warehouse v. Board of Review (1973), 60 Wis. (2d) 84, 89.
- C. The subject property was under construction as of May 1, 1974 and opened in July of 1974 with certain retail areas, etc. still incomplete.
- D. The appraised value and methodology utilized to determine that value should provide a consistent method for reappraisal to reflect conditions of completion and operation of the hotel enterprise on May 1, 1975 and May 1, 1976.

II. Definition of Property to be Appraised

- A. The subject of this appraisal is the newly constructed Hilton Hotel in downtown Madison, presently owned by Madison Hotel Associates, a Wisconsin limited partnership for which the general partners are Darrell L. Wild and Wild, Inc.

Street address of property: 17 W. Dayton Street

Tax parcel # 0709-144-2401-6

- B. Legal description

Land located in the County of Dane, State of Wisconsin, and described as follows:

Lots 1, 2 and 4, Block 83, in the City of Madison.

Lot 3, Block 83, in the City of Madison, except the South East 4 feet thereof. a/k/a The North West 128 feet of Lot 3, Block 83, in the City of Madison.

Lot 5, Block 83, in the City of Madison, except the South East 4 feet thereof. a/k/a The North West 62 feet of Lot 5, Block 83, in the City of Madison.

Subject to and together with the easements confirmed and created in Vol. 131 of Miscellaneous, page 282, #603380.

Description being a part of that certain Assignment of Lease executed by Madison Hotel Associates, a Wisconsin limited partnership, as Assignor, to the Trustees of Citizens Mortgage Investment Trust, as Assignee, dated September 13, 1974.

- C. The appraisal is to include only the real estate interests at the above location and will therefore exclude the value of all personality subject to the personal property tax at that location, working capital of hotel operations and income attributable to management. In short the appraisal shall consider only the contribution of the real estate to the total hotel enterprise as the basis for real estate value.

III. Definition of Fair Market Value Appraisal Methodology

- A. There are special problems in the application of appraisal methodology for real estate tax assessment purposes in the case of a modern hotel development project under construction because a hotel is a complex combination of real estate, personality taxed under the personal property tax laws, multi-faceted retail, food, beverage, and service businesses, and management expertise which can create synergistic profits with adroit marketing of each aspect related to the hotel structure. The value of the total combination of these enterprises is significantly greater than the value of the real estate per se and therefore appraisal of the real estate requires careful separation of business management functions and personality from the investment income attributable to the real estate.
- B. The Wisconsin Supreme Court generally prefers the price determined from fair sale of comparable property as the best approach to fair market value, but where the fair market value is not established by a sale or sales of the property under consideration or similar property, the assessor is required to consider all the facts and circumstances which have a bearing on the property's fair market value including occupancy, rental conditions and income. The Supreme Court of Wisconsin has stated:

"If income be considered and the capitalization-of-income the formula be applied, net income, not gross income should be considered."

- C. Market sale transactions of modern downtown motor inns under construction in Madison, in Dane County or in Wisconsin are non-existent for market comparison purposes but investors in this type of property range over large regions to locate investment opportunities. However, two recent sales in Chicago and Minneapolis can be cited to provide some rough benchmark for market values and capitalization rates which might be appropriate to the property once [REDACTED]

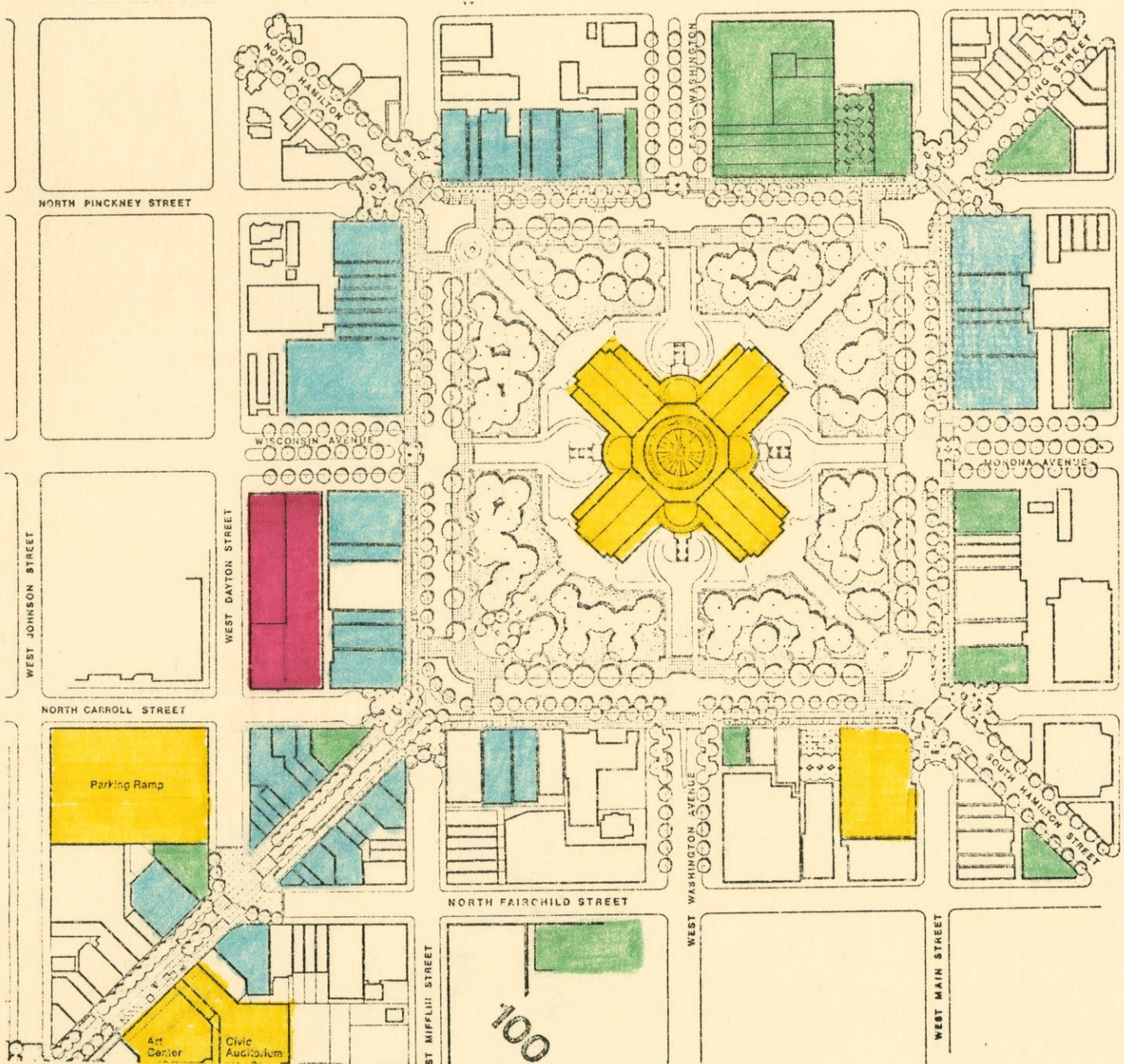
- D. However, the investment potential of any single high-rise motor inn is in large part related to its own singular combination of location, room capacity, services and public space which contribute in an interdependent fashion to the overall success of the motor inn enterprise. Therefore the most appropriate appraisal method must be regarded as the income approach where the most probable buyer is an absentee investor purchasing it for income in the foreseeable future, income tax shelters in the immediate future, and long term equity accumulation.
- E. A hotel investment is not unlike any other cash cycle investment with a series of cash outlays followed by a series of cash receipts net of all other claims. The relationship of outlays and receipts in time and quantity determine investor rate of return. Conversely if return desired is given and net receipts can be estimated, the relationship can be reversed to determine the maximum outlay, i.e., purchase price which could be expended by the investor.
- F. Relative to the subject property it will be necessary to confine net income analysis, tax shelter analysis and equity accumulation to that portion contributed by the real estate as distinct from the many business enterprises run on the property but not directly part of renting a room and a bed for the night. The essence of real estate is space-time units such as an apartment for the month, square foot of office space by the year, or a room for the night in the case of a motor inn. These space-time units represent an inventory which must be converted to income and expense projections in the future, under conditions of uncertainty, for purposes of investment valuation. To that end the various components of the Hilton Hotel property are treated as rental real estate, consisting of the following components:
1. Hotel rooms and all related facilities of lobbies, corridors, pool room, supporting storage, service, and elevator areas
 2. Meeting room rentals
 3. Restaurant-bar space rentals
 4. Retail store space rentals
 5. Drive-in bank facility rental
 6. Parking garage space rental

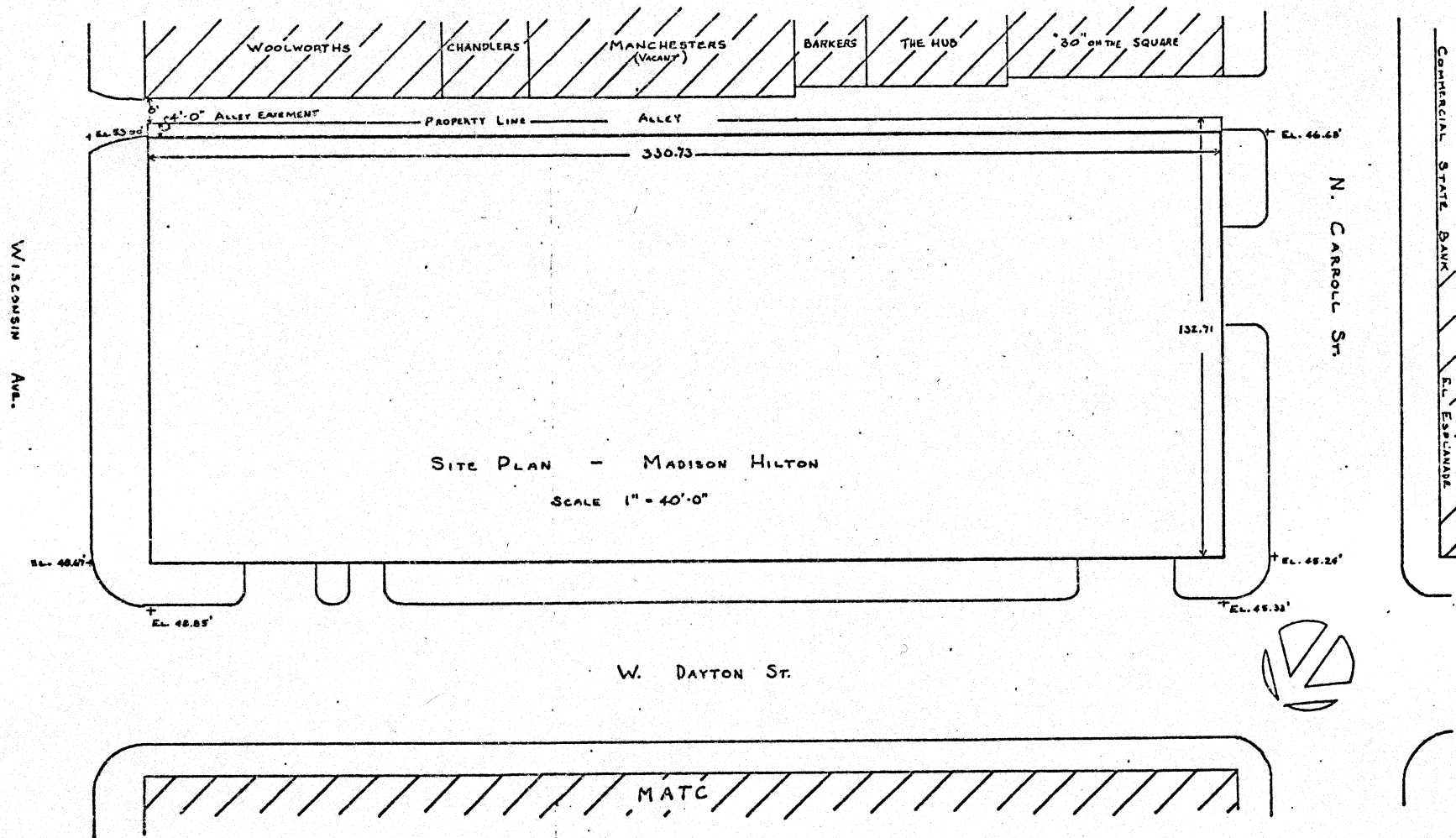
IV. Physical Analysis of Subject Property

The economic productivity of the subject property depends on the inter-relationship of the static or physical site characteristics of the parcel, the linkages of the location to generators of room and restaurant demand which contribute to its revenue potential, and the dynamics of people's perception of the location and related improvements.

A. Physical Attributes of the Site

The subject property is the rear half of the 100 block west facing the State Capitol Square in downtown Madison and is identified in red on Exhibit 1 and more specifically dimensioned on Exhibit 2 with approximately 330 front feet on W. Dayton [REDACTED] e





depth of 132 feet on both N. Carroll Street and Wisconsin Avenue. It adjoins a partially impassable alleyway to the rear of a series of retail and office buildings on the northwest side of Capitol Square. The site is relatively flat except for a six foot rise in grade from Dayton and Carroll to the alley on the Wisconsin Avenue side. In years past the site contained a very old church building, medical clinic and some old retail space but these had been demolished in prior years and had been replaced with an asphalt parking lot serving Manchesters Department Store and others on the Square.

Soil conditions are generally excellent with a deep sand and gravel base, a few old foundation remnants, and pose no special construction problems.

As of May 1, 1974 most structural elements of the hotel building were in place and interior finishing was in process to prepare for an operational opening in July of that year. Estimated cost of real estate construction to be completed after May 1, 1974 was \$790,038 as determined by construction loan draws made June 1 or later based on data supplied by Wild, Inc. Any buyer would have deducted these obligations from the maximum sale price he would expect to pay for the completed building.

B. Site Linkages

The linkages of the site to immediate traffic and pedestrian patterns as well as to activity generators which complement and favor a hotel development are in a significant state of change for the better as a result of a transitional downtown redevelopment which may not be fully completed in terms of impact till 1978-9, fully five years from date of appraisal.

1. The primary linkage for identification of the hotel is to the Square, center of state government and state offices, together with a major financial district (banks and savings and loans indicated in green on Exhibit 1) on the southeast and southwest portions of the Square. These commercial ties have been recently reinforced by the construction of the First Wisconsin Bank Building, the United Bank Building, the proposed Affiliated Banks Building on the corner of W. Main and Monona Avenue, and the quality renovations of the Howde Building and Gay Building. A new federal building including courtrooms is planned for southwest corner of E. Mifflin and Henry Streets, three blocks from subject.
2. Retailing in downtown Madison has been sharply curtailed by shopping centers built on the east and west perimeters of the City so that there are two major retail vacancies adjacent to the subject site (blank squares in a field of blue). The hotel developer and other retailers have proposed converting the alley of the subject property block and on the Manchester block to the north of Wisconsin Avenue into an enclosed pedestrian mall, tied to adequate parking, to provide competition to the suburban closed mall center. City parking ramps plus hotel parking plus new parking in the Manchester block would provide convenient auto access. The vacant Manchester's Home Store abutting subject

property would provide the Hilton Hotel lobby with direct access to the Square via a retail galleria.

3. The landscaping around the Capitol traffic perimeter and on State Street is part of a proposed Capitol-State Street concourse. The first phase of the State Street Mall, the 700-800 blocks is scheduled for construction in the spring of 1975. The second phase will be the 100-200 block which will be related to the conversion of the Capitol Theater and Montgomery Ward Buildings to a civic auditorium and art center. The latter buildings have been acquired by the City and plans are under way to tie the renovation and reopening to the 1976 bicentennial programs. The civic auditorium is one and one half blocks from the hotel and would be available for conventions as well as a variety of performing arts presentations.
4. However, the Capitol Concourse plan would entail a drastic reorganization of the present traffic plan, with significant impact on the subject site. Presently traffic proceeds counter-clockwise around the Square with one way streets currently moving clockwise fashion. Since much traffic on the Square is through traffic generated by E. Washington Avenue and King Streets, plans call for diverting this traffic off the Square by reversing the one way traffic on S. Webster to W. Dayton to S. Fairchild as on Exhibit 3. This reversal would divert major traffic flows past the hotel site, traffic flows which are presently bypassing the site on the Square. It would provide very difficult access by auto to the only other major motor inn on the Square, the Park Motor Inn. The subject property would then be on a major traffic artery, would have immediate identification with the Square and the State Street civic mall with all of its interesting shops and restaurants which are already developing on the State Street axis. The State Street project, when completed, will be a unique attraction with state government at one end, surrounded by intense commercial development, and a major university six blocks away at the other end with intense residential development in the intervening areas to support a very cosmopolitan, diverse retail base of urban specialties otherwise found only in much larger cities.

However, until some of these capital improvements are in place the general site environment is marginal for a hotel. The traffic pattern is awkward since those arriving by auto must circle the block to reach the hotel from either E. Washington, E. Gorham, or Wisconsin Avenue.

5. The hotel site faces a major institution directly across W. Dayton Street, the Madison Area Technical College, which presently intends to phase its operation over to a site on E. Washington Avenue by 1980. Such a transfer leaves the future use of the one block square building in doubt. The removal of MATC would release many of the parking stalls in the City ramp for use by shoppers

attracted by development of the State Street Mall and Art Center. Still the hotel presently faces the backside of an often remodeled old high school building which is presently overcrowded and in some areas no longer up to code. Demolition of MATC would substantially improve visibility of hotel.

6. Just beyond the immediate environment of the subject site to the north begins the student housing district and university adult education facilities at Lowell Hall and the Wisconsin Center. Two blocks to the south on S. Henry and W. Mifflin is the site of the new federal courts building, while city and county governments are centered at the opposite side of the Square on Monona Avenue. State government is extending its office development three blocks from the subject site with the completion of 225,000 square feet of space in GEF 1 and the proposed construction of an equal amount in GEF 2.
7. The economics of a downtown hotel require close linkages to several generators of demand which require rooms at different times of the week. State government, particularly when the legislature is in session, will generate room demand from Sunday night through Thursday, supported in part by the commercial office space activities throughout the year. The small convention and university activities tend to favor the latter part of the week and weekend. Business meetings as well as state association conventions will favor a site closely linked to the retail diversity and nightlife on State Street and the sports events of the university, together with cultural presentations at the Civic Art Center and University Centers. Significant completion of portions of the State and Capitol Concourse proposals are needed to reinforce the linkages of the subject site to these generators of weekend demand as the present visual ties, despite proximity, are unattractive and uncoordinated.

C. Site Dynamics

The present perception of the subject site area by the general public is seldom positive due to deterioration of the retail area and the concealment of the subject site from major traffic arteries by the structures facing the Square, the mass of the MATC building, and the dull streetscapes on N. Carroll and W. Dayton. Only Wisconsin Avenue provides visual relief and sufficient scale to permit the passerby to see the full height of the hotel structure to be built. Pedestrian access to the subject property is marred as indicated on Exhibit 2 by:

1. The alleyway opening on Carroll
2. The entrance to the drive-in banking window and hotel loading dock on N. Carroll
3. The exit from the drive-in bank on W. Dayton
4. The uneven pitch of the sidewalk along W. Dayton
5. The parking ramp entrance and exit on W. Dayton near the intersection with Wisconsin Avenue

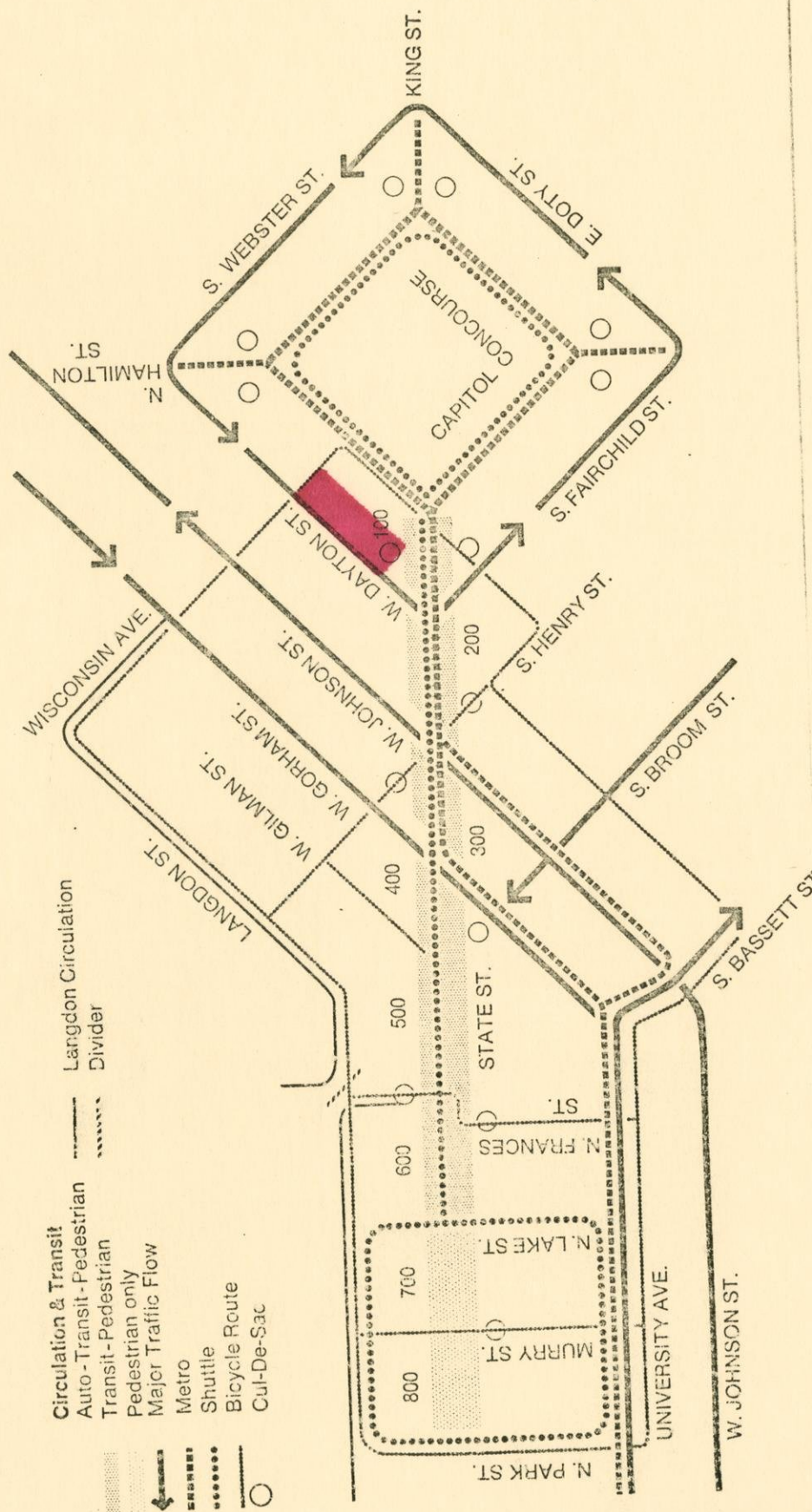
Many of these deficiencies would be partially corrected by the development of a pedestrian galleria on the alley side, thus reversing the main pedestrian access and visual perceptions of the hotel.

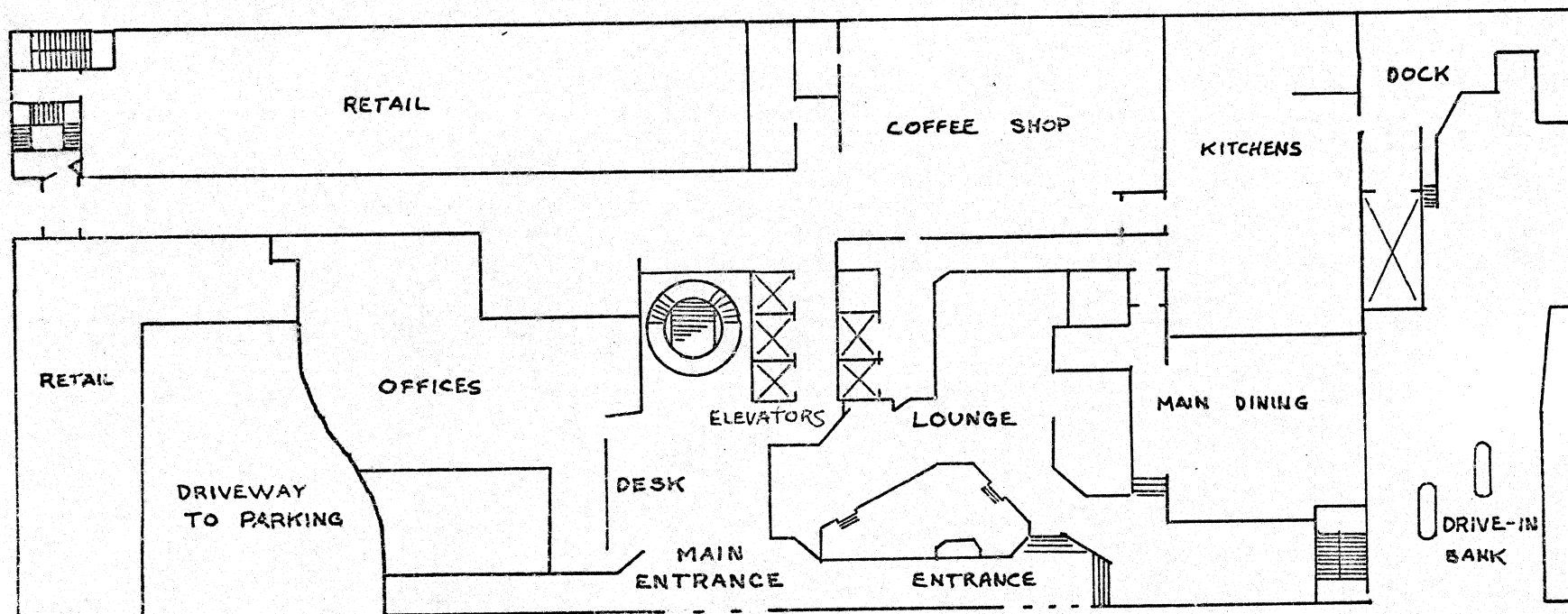
D. Physical Attributes of Proposed Building

Although construction on the Hilton Hotel building was incomplete as of May 1, 1974, substantial completion by July of 1974 was expected and the degree of work to be done could be measured by construction contract draws to be made June 1 and thereafter since these draws are made in general conformance with actual construction in place or materials and assemblies on site. It is possible as of May to describe the various elements of the total project to define the real estate components of the enterprise before refining total revenue and expense projection to allocate real estate contributions to the value of the total enterprise.

Dissecting the site layout in Exhibit 2 into the significant elements floor by floor leads to the following outline:

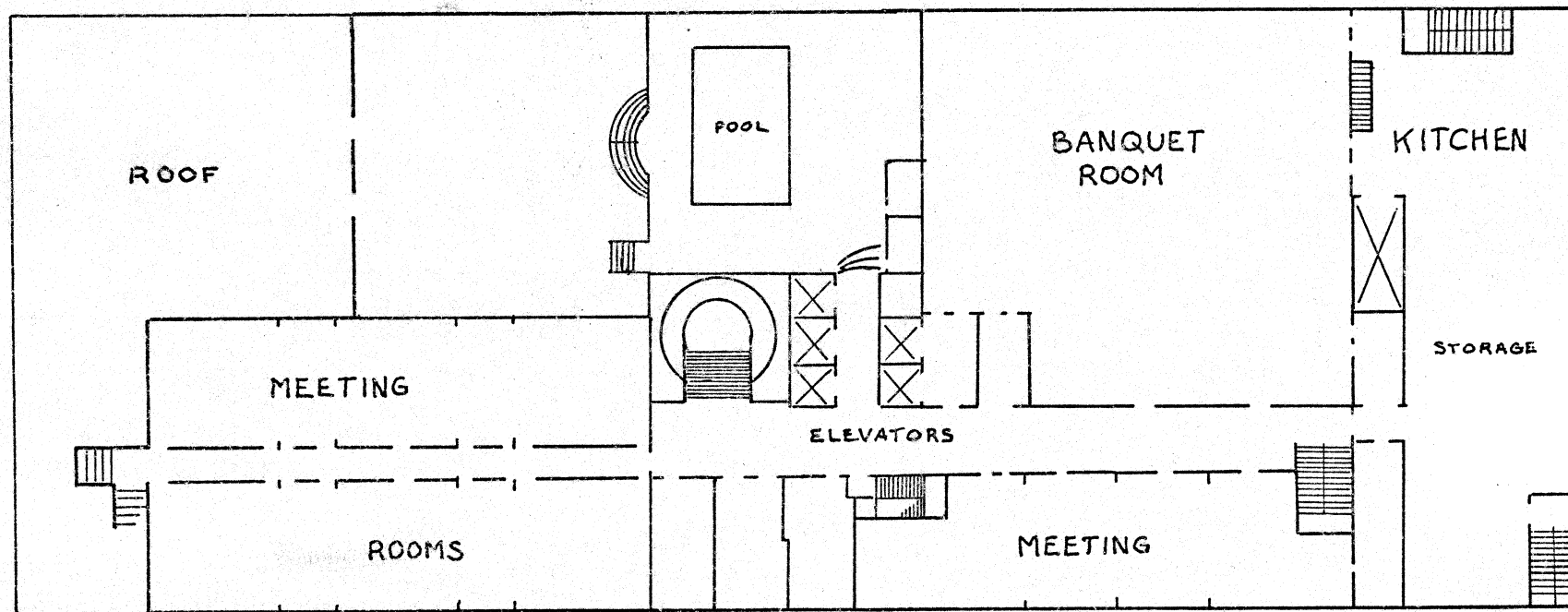
1. With the exception of the Fog Cutter Cocktail Lounge, accessible by stair from the Wisconsin Avenue entrance or directly from driveway to the parking garage, all revenue and hotel facilities are located on the first floor and above. Garage has 237 stalls.
2. The first floor (outlined in Exhibit 4) contains the main entrance lobby off W. Dayton Street, the registration area tied to hotel offices, an elevator lobby and a spiral stair to convention facilities on the second floor. At the rear of the building is unfinished retail space which will presumably be tied to the pedestrian galleria intended to replace the alley. The main cocktail lounge and dining room are accessible from inside pedestrian gallery, and like the coffee shop, are tied to the kitchen and kitchen receiving areas to the rear. The corner of the first floor is leased to the Commercial State Bank as a triple lane drive-in bank facility.
3. The second floor of the hotel (Exhibit 5) contains convention facilities to accommodate 800 people in the banquet room, which can be subdivided as required. Since the guest rooms are contained in a narrow slab rising above only the smaller meeting rooms, the banquet room area and a spacious pool area are free span high ceiling areas. The pool area is supported with adjoining bath room facilities, a small bar, together with some guest rooms on the third floor which overlook the pool area through sliding doors so that the pool area can be rented for private parties. The enclosed sun deck area of the pool has limited orientation to the morning sun.
4. The third floor contains 24 guest rooms including an elaborate honeymoon suite overlooking pool, linen and service rooms, ice and vending areas, and mechanical rooms for the convention area below.





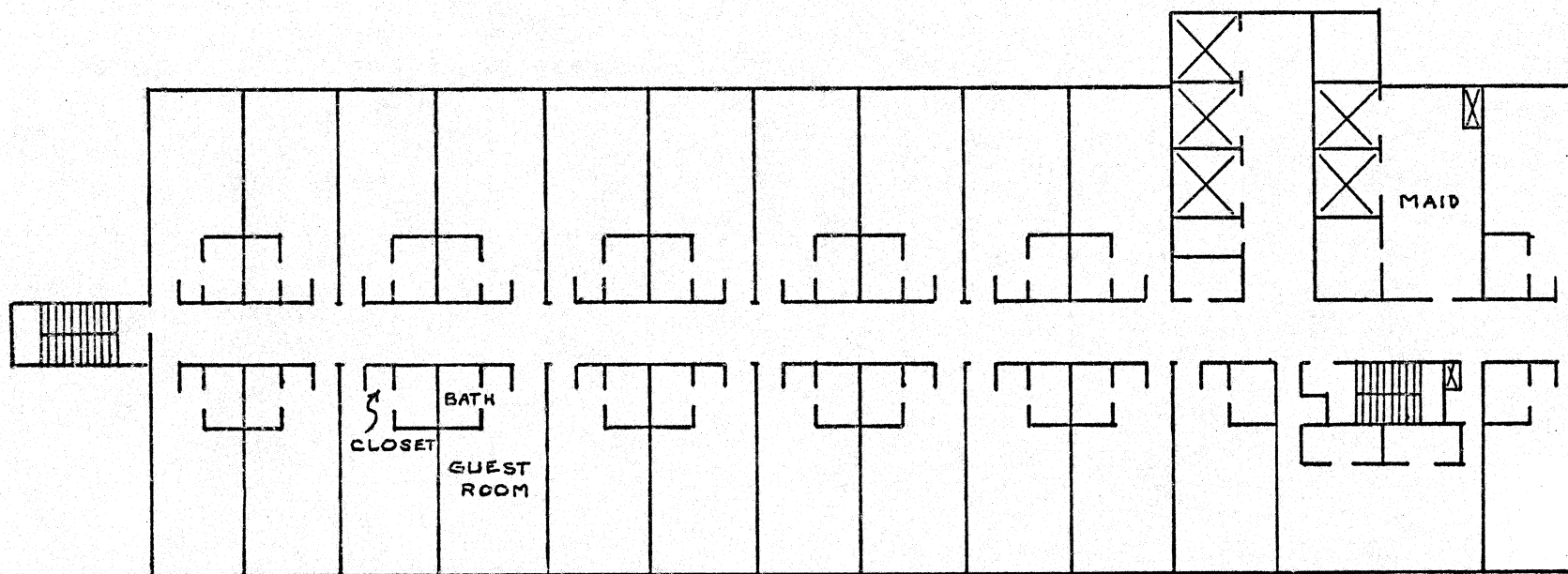
FIRST FLOOR

N 1" = 32'



SECOND FLOOR

N ↙ 1" = 32'



FOURTH FLOOR

6TH, 8TH, 10TH & 12TH - SIMILAR

N
1" = 24'

5. The slab tower containing the balance of the guest rooms (as in Exhibit 6) from four through thirteen floors, all have 25 guest rooms of various layouts plus maids rooms, ice and vending areas.
6. The entire building from third sub-basement to thirteenth floor is serviced by three passenger elevators, one maids elevator, and one service elevator for room service, kitchen, etc. In addition there is an automobile size elevator serving the loading dock, first floor, first sub-basement, and banquet area. There is space for one additional elevator in the future.
7. Exterior materials are face brick panels, gold tinted glass with anodized gold aluminum trim, between accent columns rising to arches forming a top floor parapet wall which are covered with a white textured epoxy surface. The architecture is clumsy, unattractive, but commercially adequate.

V. Market Dynamics for Motel Rooms in Madison

Since 1970 the City of Madison has seen a significant expansion in both the demand and in the supply of Class A and Class B motel room space and facilities both at the periphery adjacent to Interstate Highways 90 and 94 and in the downtown market area.

- A. The map in Exhibit 7 shows the location of nine Class A hotels (\$15-40 per night) in the downtown-campus Madison area, six Class A motels at the periphery of Madison area, and eight major class B motels, representing the best of the economy units (\$8-12 per night).
- B. Exhibit 8a and 8b are a summary statement of a unique research project from confidential data which indicates total capacities and room occupancies for downtown, periphery, and selected economy hotels in Madison and ranks them as to their share of the market. It reveals the drastic change in competitive pressure occurring and still suggests Madison is succeeding in its effort since 1973 to become a significant convention and visitor center. (During this time the City of Madison has subsidized THE GREATER MADISON CONVENTION AND VISITORS BUREAU, INC. and raised total Class A & B occupied room nights by 15% [line 36].) This estimate of 397,000 Class A room nights in 1973 [line 24] correlates closely with an estimate of 371,000 on page 47 of a 1971 report by Harris Kerr, Forester & Company for the developers.
- C. Total Class A rooms serving Madison have increased by 495 units since early in 1973, an increase of almost 30%, and all of that increase has been in the downtown-campus area where capacity increased 61% [line 10]. The increase would be even more dramatic if that included the opening of the Sheraton in December, 1972.
- D. The newly constructed or expanded downtown units, despite somewhat higher average room prices, have made a significant contribution to the increase of motel occupancy in Madison as well as significant

City of MADISON

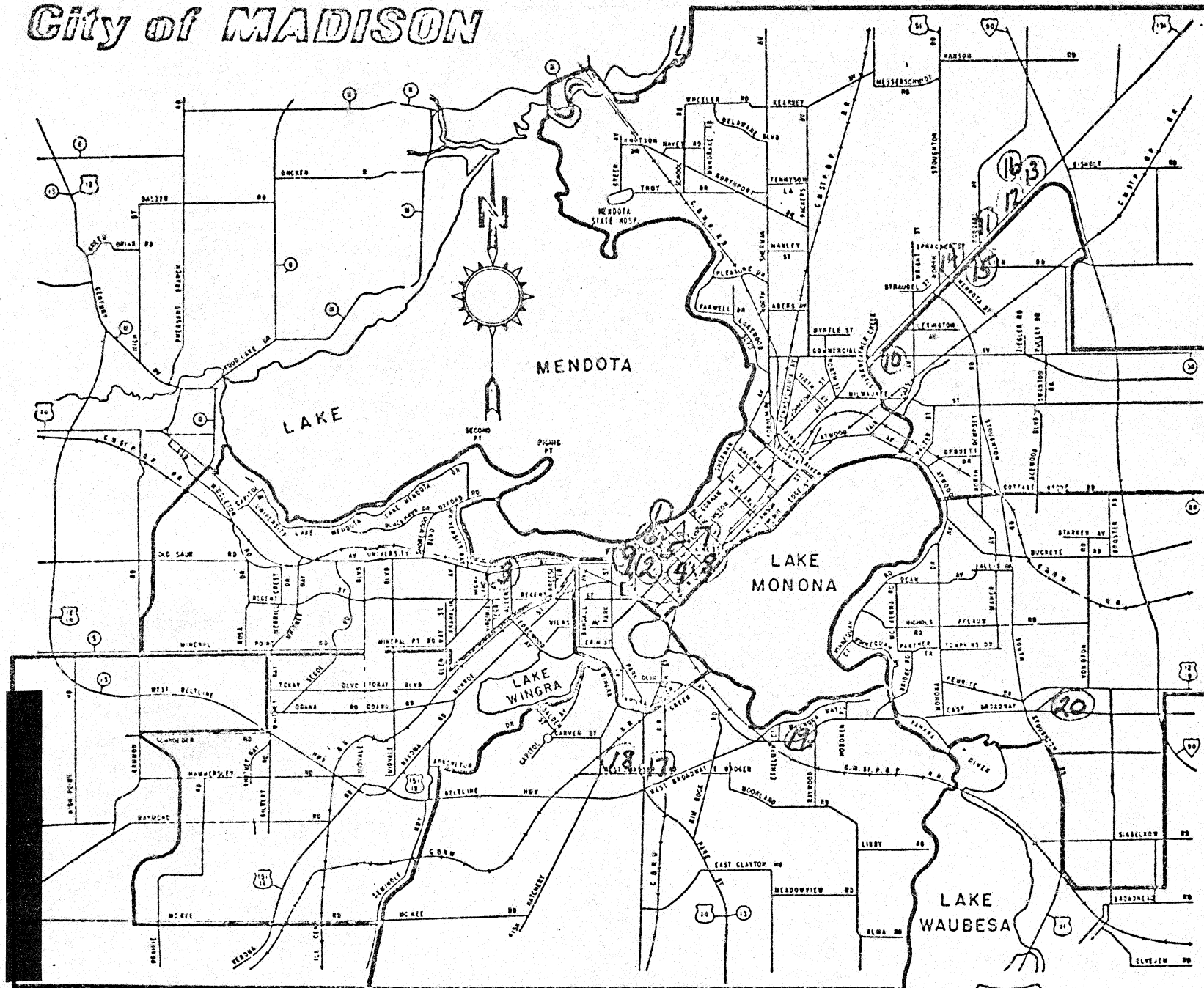
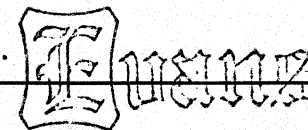


EXHIBIT 7

D.L.



COMPANY

EXHIBIT 8a

Madison Class A Hotel Room Capacity &
Percent of Room-Night Market For 1973 & 1974

	(1) Rm Count Jan.1,73	(2) Rms Added Since 1973	(3) Total Rms Available Dec.'74	(4) Ranking by % of Rm Nights Occupied	(5) Ranking by % of Quarter Nights Occ. 1974	4th
1. Edgewater	97	46	143	8	7	
2. Howard Johnson (downtown)	0	164	164	9	4	
3. Park Motor Inn	148	0	148	6	10	
4. Madison Inn	75	0	75	10	12	
5. National Motor Inn	100	0	100	11	13	
6. Town Campus Motel	70	0	70	13	11	
7. Ivy Inn	57	0	57	14	15	
8. Sheraton	270	0	270	2	3	
9. Madison Hilton	0	279	279	15	1	
10. Downtown Class A Rms Total	817	495 (61%)	1306			
11. Downtown Total Room Nights Capacity	298,205		427,580*			
12. Dtown Total Rm-Nights Occup	182,300 (61%)		220,000 (52%)			+20.0%
13. Midway Motor Lodge	95	0	95	7	9	
14. Ramada Inn	198	0	198	1	2	
15. Holiday Inn #1	165	0	165	3	6	
16. Howard Johnson (east)	80	0	80	12	14	
17. Quality Inn	171	0	171	5	8	
18. Holiday Inn #2	192	0	192	4	5	
19. Periphery Class A Capacity	901		901			
20. " Total Rm-Nights Capac	328,865		328,865			
21. " Total Rm-Nights Occup	214,750 (65%)		208,300 (63%)			-3.0%
22. Total Class A Rooms in Madison Market	1718	495 (29%)	2207			
23. Total Class A Room-Nights Capacity	627,070		807,745			
24. Total Class A Room-Nights Occupied	397,050 (63%)		428,300 (53%)			+7.6%

EXHIBIT 8b

Madison Class B Hotel Room Capacity & Percent of Room-Night Market For 1973 & 1974

	(1) Rm Count Jan.1,73	(2) Rms Added Since 1973	(3) Total Rms Available Dec.'74	(4) Ranking by % of Rm Nights Occupied	(5) Ranking by % of Quarter Nights Occ. 1974
<hr/>					
<u>Class B Motels - Madison Area</u>					
1. Aloha Inn	39	0	39	4	5
2. Capitol Motel	44	-12	32	6	7
3. Exel Inn	0	105	105	2	1
4. Lorraine Hotel	70	0	70	3	6
5. Madison Travel Lodge	99	0	99	1	3
6. The Roadstar 8 (E. Washington)	0	58	58**	7	8
7. Motel 6	0	119	119	5	2
8. Roadstar 8 (Evans Acres Rd.)	0	67	67	8	4
9. Total Class B Rooms	252	337	589		
10. Total Class B Rm Capacity	91,980		193,000		
11. Total Occupied Rm Nights - Class B	70,250		111,400 (58%)		+58.5%
12. Total A & B Occupied Room Nights	467,300		539,700		+15.3%

* Assuming Hilton open 6 months

1975 Total 478,880

** Opened only 1 month, reducing potential

EXHIBIT 9

Projections of Effective Demand For Class A Room Nights In Madison Compared to Targeted Hilton Occupancy Levels For Tax Years Beginning With 1974-5

	1973	1974-5	1975-6	1976-7	1977-8	1978-9	1979-80	1980-1
1. Room night capacity	0	51,100	101,835	104,025	104,025	104,025	104,025	104,025
2. % of occupancy sought		45%	50%	55%	60%	65%	65%	65%
3. # of Hilton Room nights occupied		13,172	50,917	51,138	62,415	67,616	67,616	67,616
4. Total Class A room nights market	397,000	428,000	449,400	471,870	495,464	520,237	546,249	573,562
5. Market share % of dntwn Class A hotels		51%	53%	55%	57%	58%	59%	60%
6. Total estimated dntwn Class A Rm Nights Occup		220,000*	238,182	259,529	282,415	301,738	322,287	344,137
7. % of dntwn market to be captured by Hilton		6%	21%	22%	22%	22.4%	21%	20%
8. % of total Class A market to be captured by Hilton		3%	11%	12%	13%	13%	12.4%	11.8%

Actual 1974 estimate of room nights occupied assumed to be constant for 1974-5 tax year beginning May 1

competitive in-roads on peripheral units tied to the Interstate and Beltline systems. While there was a modest 7.6% increase in total Class A room nights occupied [line 24], the downtown Class A enjoyed a 20% increase [line 12], while the peripheral units collectively lost 3% [line 21].

- E. Market penetration of downtown hotels relative to peripheral also led to a redistribution of business among the downtown hotels. Notice the rankings in Columns 4 & 5 based on total occupied room nights in 1973 had drastically shifted by the last quarter in 1974. Peripheral Class A hotels, which in 1973 had four of the five largest room night sales, had only two in the first five in December of 1974. Part of this decline reflects seasonal traffic on the Interstate, and part of this reflects a general decline in auto travel. However, discussions with the desk personnel at the car rental agencies in the Madison Air Terminal Building indicate their clients show a growing preference for the alternatives downtown. Their clients are primarily business and campus visitors.
- F. "Room nights occupied" increases or declines do not mean per se any increasing or decreasing profits, however. It should be noted that in 1974 total downtown Class A room nights occupied represented only 52% of available rooms, assuming the Hilton was available for only six months [line 12]. Were the downtown hotels to do as well in recession year 1975, 220,000 room nights would represent only 46% of capacity, well below the collective breakeven point of 55-60%. It should be noted that before additions to the Edgewater, and the opening of the Howard Johnson or the Hilton, the downtown hotels were at approximately 61% of capacity [line 12, column 2]. In such a competitive climate, the smaller Class A units are in a better position because they need far fewer occupied room nights to achieve 60% occupancy. The Hilton, Howard Johnson, and Sheraton must each fill twice as many room nights to achieve the same occupancy rate. Moreover, they must compete for the large meetings by providing groups with wholesale room rates so that occupancy will need to exceed 60% of units if the large hotels are to achieve 60% of revenue potential.
- G. One should also note that the Class A motels are limited in maximum market penetration by number of rooms but that the smaller inns closer to the University campus are holding their market share while those further away such as the Park Motor Inn, the Midway, Holiday Inn #1, and the Quality Motor Inn are losing ground. Surely the attractions of the campus area with its regional sports events, both University and state high school tournaments, seminars, legislative activities, and the most cosmopolitan collection of shops, restaurants, and theaters in Wisconsin will continue to out-draw the periphery.
- H. The Class B motels have been so rated because of their relatively small room count, or a marketing policy as one of the new style "economy" motels, or because of gradual withdrawal from the motel business as in the case of the Capitol Motel and the downtown Lorraine

Hotel. New construction of economy rate rooms has added more than 100,000 room nights capacity [line 34] and already produced a 58% increase in the total number of Class B occupied room nights, capturing almost 50% of the total increase in the combined A and B occupied room nights [line 36] with two new units coming on stream in late 1974. All of these new units are in the peripheral area and compete directly with the Class A units serving the Interstate and the very small Ma & Pa units which still survive on some of the frontage roads. It remains to be seen how the Class B economy motels will affect downtown Class A hotels. On a recent weekend the downtown hotels were catering to a business association convention while the economy hotels were filled with teams and fans of a state high school athletic tournament. Thus downtown seeks a more affluent and less rowdy clientele.

- I. The Madison Hilton, the subject property, by December of 1974 had captured more room nights occupied than any other Class A hotel, with approximately 11% of the available market. Nonetheless, its superior marketing performance resulted in only a 26% occupancy for the month of December. To reach a cash solvency position the total Class A market must continue to grow and the Hilton must increase its market penetration beyond the 11% it enjoyed of the total Class A market in December, 1974. The Hilton 285 room capacity is 13% of the total Class A capacity of 2213 rooms, so that the Hilton is not yet receiving a prorata share based on capacity. Indeed, the total business available in 1974 for downtown hotels was only 52% of capacity and that would have dropped to only 46% if the Hilton rooms had been available for a full 12 months.
- J. The market demand and supply system for Class A motel room space in Madison suggests devastating competition for the balance of the decade. In 1974, a very prosperous business year with the hoopla of several major hotel openings in Madison, Madison achieved an overall increase of 7.6% in the total number of Class A rooms occupied. The impact of recession was already seen in December bookings for 1974 which were significantly lower than December of 1973.

It is extremely optimistic to expect a continued growth of 5% in total Class A rooms occupied in Madison during recession year 1975 or in years thereafter but in forecasting the highest probable price which might be paid for the opportunity to compete in such a market through ownership of a hotel, that growth assumption has been assumed. Furthermore it has been anticipated that the downtown Class A's will continue to increase their share of the Class A market at the expense of those at the periphery. The logic of that assumption is that virtually all of the increased room sales will be the result of business meetings and conventions which will take advantage of the attractions of the Square-State Street-Campus package of activity and services. Moreover, the peripheral Class A's will find themselves competing with economy units offering the same locations and operating as parasites on the same amenities during a time when family incomes are lower and costs of driving on the Interstate are rising. (See Exhibit 10 for a forecast of Class A room nights in Madison and downtown through 1980-81)

- K. Several competitive variables will also be changing during 1975-76 which undermine both the possibility of 5% growth and maintenance of current operating expense ratios:
1. In our opinion the National Motor Inn on W. Washington Avenue will become an economy motel and intermediate term medical motel. It does not have the scale of convention facilities, the indoor pool, or the quality of dining and bar facilities of other downtown competitors but it does have reasonable linkages to Methodist Hospital, elderly housing projects, and Madison General Hospital. With the destruction of all the old time cheap hotels on King Street, there is a market opportunity for the National as a true economy unit in the downtown-campus area. Thus total Class A room supply will be reduced by 100 units.
 2. The Ramada Inn, with 198 rooms and its pre-eminent position in total rooms occupied slipping slightly in 1974, can retaliate by shifting its pricing policy to undercut downtown while operating as a deluxe economy unit on the periphery. With lower investment cost per unit than its newer downtown high rise competitors, it need not inflate prices while competing to regain its position. (See column 4 & 5 on Exhibit 8)
 3. The downtown hotels are susceptible to an organization drive by the hotel workers union. Employees of the Hilton and Howard Johnson's are already organized and votes to authorize representation will take place at the others. Once established these unions with strong student activist support will feel obliged to strike with a negative impact on the image of Madison as a convention center; the costs of operating a high rise hotel downtown near campus will rise even though competitive situation may prevent shifting these costs to the consumer.
 4. The first financial casualty in the Class A downtown hotel group competitive struggle may be the Sheraton Hotel, for which a number of legal actions on financial delinquencies have been filed. The competitive character of Sheraton operations in the long run remains unpredictable.
 5. In Madison the value of a national hotel brand name and reservation service remains unproven, as the Park, Edgewater, and Madison Inn are local names while Howard Johnson, Hilton, and Sheraton are testing the value of a national franchise. Such affiliations may be more important to the mortgage lender than the traveler making Madison the terminal point of his trip.
 6. The University of Wisconsin is contemplating conversion of a lakeside dormitory to a 75 room motel-classroom facility for adult education, extending their innkeeping functions presently offered at Lowell Hall Center where they offer carpeted double and single rooms, colored television, and connecting baths for \$11 and \$15 a night. This proposed facility would compete with the Madison Inn, the Campus Motor Inn, and the Howard Johnson at the very least, to an unknown degree.

- L. Reference to Exhibit 10 places an optimistic forecast of occupied Class A room nights in Madison through the year 1980-81 in perspective to the number of occupied room nights necessary at the Hilton to achieve a profitable level of 65% occupancy within five years of its opening, that is by the tax year beginning May 1, 1978.
1. Note that the estimated Class A room nights occupied for 1974-75 have been projected at an annual compound rate of growth of 5% [line 4]. The downtown market share has been increased gradually from 51% to 58%, an estimate consistent with present trends in Madison in 1973-74, but not dependent on a dramatic 20% adjustment as occurred in 1974 because of the sudden increase in available rooms.
 2. The total estimated occupied Class A room nights [line 6] for downtown Madison means that Hilton will quickly need to reach 21-22% [line 7] capture rate of downtown business or virtually four times the business it enjoyed during its first four months of operation! The Hilton must capture 11-13% [line 8] of the total Class A market!
 3. Thus to achieve even an unprofitable level of operations at 50% occupancy for the fiscal year starting May 1, 1975 will require at least 4,000 room nights per month!
 4. Since there is a surplus of space, a recession in the economy, and unknown constraints on travel implicit in the energy crisis, achievement of marketing objectives depends almost entirely on management rather than market.

VI. Most Probable Use of Subject Property

Analysis of the property and the site and strength of effective market demand permits the appraiser to establish the critical assumption as to the most probable, productive use of the subject property. Once that assumption has been established it is possible to infer the most probable buyer for this type of property investment.

- A. To summarize economic linkages of the site, there is reason to believe the suitability of the site for hotel purposes will be significantly reinforced by:
1. Substantial construction of sections of the proposed State Street mall, Civic Center, and pedestrian galleria connecting hotel to retail stores facing Mifflin.
 2. Possible partial execution of Capitol Concourse proposals, particularly reversal of the present one-way traffic flows on Dayton Street.
 3. Removal or modernization of the MATC building facing the hotel entrance.

- B. The structural improvements to the site under construction as of May 1, 1974 are physically suitable for efficient use only as a hotel complex.
- C. An estimate of effective demand for Class A hotel rooms in downtown Madison is adequate to sustain a well managed, high-rise, downtown hotel if the city is successful in establishing itself as a convention center. The ultimate success of the Hilton may cost the city one or more existing Class A motels as anticipated future demand is less than that required to permit all existing units to achieve solvency.
- D. THEREFORE, THE ANALYST MUST CONCLUDE THAT AS OF MAY 1, 1973 THE MOST PROBABLE USE FOR SITE AND STRUCTURE IN THE FORESEEABLE FUTURE MUST BE AS A DOWNTOWN MOTOR INN. (Most probable use determination is what many appraisers call, misleadingly, highest and best use.)

VII. Most Probable Buyer-Investor

Determination of the most probable use permits the appraiser to make some inference about the most probable buyer for this type of property or investment, an inference which guides the appraiser in a search for comparable transactions on the marketplace, or failing that, which suggests the investment factors or assumptions determining the most probable price such an investor would pay.

- A. Downtown hotel buildings are seldom purchased by hotel companies anymore as downtown hotel properties as a class have represented poor investments for the original builders. Where they have succeeded, it has been the second or third owner who bought at sharp discounts from cost to replace. Profits are to be made in the management of the hotel, particularly in the marketing of conventions, restaurants and bars and the management companies are typically compensated on both a percentage of gross and an incentive share of net cash flow in excess of debt service requirements of the owner. In addition the hotel companies receive franchise fees for leasing the use of their name, (\$20,000 for the Hilton franchise, not including management), advisory fees during the design and staff training phases of development, and often tie-in contracts with furniture and hotel supply subsidiaries.
- B. However, hotel ownership without operating responsibility does appeal to a variety of institutional and individual investors. A hotel is largely a fixed cost, variable revenue operation so that once it reaches breakeven point additional revenues as a result of sophisticated management can produce a very rapid increase in profits to the owner. Food and beverage prices, and to some degree, room prices, are tied directly to the general level of retail prices during a period of inflation and the cost of duplicating facilities is rising so quickly that in the long run, the modern motor inn, high-rise unit in a downtown location will enjoy monopoly characteristics since the cost of entry of a competitor is prohibitively high. In addition, federal income tax laws recognize hotel investment as an operating business rather than as typical rental real estate so that furnishings

are eligible for an investment tax credit. Depreciable lives of structural components are shorter thus increasing tax shelter in the early years, and there are more front end costs which can be tax deductible in the first year than is true of many forms of real estate investment.

1. The long term potential in a period of inflation together with the sensitivity of profits to sophisticated management has attracted some institutional investors to buy high-rise hotels which are faltering financially for lack of good management but which have essentially sound locations and facilities. A life insurance company or real estate investment trust is willing to accept an 8-10% cash on cash return for the present and wait patiently for management and inflation to increase cash yields and resale values in the future. Tax advantages are of little significance to these second owners who are denied accelerated depreciation under the tax law and for the most part, as conduit intermediary institutions, are subject to low effective income tax rates.
2. Syndicates of individual investors are more interested in immediate tax shelters of the first owner position, including interest and real estate taxes during construction, start-up costs in the hiring and training of staff, and other expense elections to create accounting losses in lieu of cash income during the early years. It is important to note that those tax benefits are conditional on all associates having equal liability for outstanding mortgage debt. In the case of the Hilton Hotel property only the general partners were personally liable on the construction loan so that during much of construction period these accounting losses would not be available to the purchasers of the project. However, any purchaser of the project as of May 1, 1973 would have been regarded as first owner and entitled to accelerated depreciation. A group of private investors would seek tax shelter in the early years, a gradual increase in cash returns on a cash investment for some years thereafter and then a sale for capital gain for the present value of income streams forecast from the established operating record of the motor inn. The general partner, however, would take his profits primarily in development fees at the outset and retain a small participation in future incomes with a larger participation in future capital gains contingent on recapture of capital by the limited partner.
- C. Two recent sales in Chicago and Minneapolis can be cited for completed but financially unsuccessful high-rise hotels in Chicago and Minneapolis. In both cases the purchaser was an insurance company reassembling title by purchase of a land trust leaseback, a first mortgage, and miscellaneous chattel notes. Such sales are misleading to the present appraisal as the projects were completed, had generated good revenues, but had not enjoyed cost conscious management. They would not qualify

as fully arm's length transactions. They do provide a bench mark after adjustment for non-real estate items. More to the point is simulation of the new hotel project as an income property investment for a Class 2 buyer and this will be the primary methodology on which the fair market appraisal value will be based.

VIII. The Income Approach to Value

In recent times in Wisconsin there have been no fair market sales of modern, high-rise motor inns comparable to the property in question, either while under construction or after several years of successful operation. Transfers which occurred have represented financial distress sales, financing leaseback transactions, or low-rise suburban facilities. Two comparable sales transactions in Chicago and Minneapolis of operational hotels similar in character to the subject property will be described in Section II. Therefore in the opinion of the appraiser the only correct approach to valuation in the present instance is the income approach to value. The detail method of the income approach to value can follow the approach approved in Wild, Inc., relator, versus the City of Madison Board of Review, Case #140-201, Dane County Circuit Court before the honorable George R. Currie on the VIP Plaza.

A. Income Approach Methodology

To determine the present value of a series of negative and positive cash flows before income tax to an investor purchaser of the subject property estimated below it will be necessary to execute the following procedures:

Step I: Estimate revenues and expenses contributed by real estate components of total hotel enterprise.

Step II: Compute income capitalization rate using the Ellwood income approach to capitalization as of May 1, 1978 which would represent the beginning of the first fiscal year of normal occupancy and operating levels for the hotel following a period of competitive struggle in establishment in the market. Adjust overall capitalization rate for capitalized tax impact assuming continuation of present City of Madison 65% equalization rate and the 1974 tax rate of \$43.87 per \$1000 of assessed value.

Step III: Calculation of income value attributable to improvements as of May 1, 1978 using the Ellwood capitalization rate and then adding \$1,000,000 paid for the subject property site by Citizens Mortgage Investment Trust, subject to a subordinated land leaseback.

Step IV: Conversion of income value estimated in Step III to economic justified mortgage debt and real estate taxes.

Exhibit 11

Hilton Hotel

Schedule of Projected Income and Expenses -- Room and Related Operations For a Period of 5 Years, Commencing May 1, 1974

Period:	1974-75	1975-76	1976-77	1977-78	1978-79
Occupancy (279 rooms):	45%	50%	55%	60%	65%
Room Revenue:					
Available Rooms	101,835	101,835	101,835	101,835	101,835
Occupied Rooms	45,826	50,918	56,009	61,101	66,193
Rate Average ¹	\$21.25	\$21.50	\$22.00	\$22.50	\$23.00
Revenue:	973,803	1,094,737	1,232,198	1,389,773	1,522,439
Public Rooms: ²	15,000	15,000	15,000	15,000	15,000
Total Room Revenues	988,803	1,109,737	1,247,198	1,389,773	1,537,439
Cost and Expenses:					
Direct Room Costs: ³	29%	28%	27%	26%	25%
	286,753	310,726	336,743	361,341	384,360
General and Administrative: ⁴	99,876	99,876	113,495	127,860	127,860
Advertising and Business Promotion: ⁵	47,947	47,947	47,947	47,947	47,947
Heat, Light & Power: ⁶	59,328	62,145	66,100	68,794	76,103
Repairs & Maintenance: ⁷	34,114	36,621	39,287	41,693	43,817
Total Deductions	528,018	557,315	603,572	647,635	680,087
Gross Room Profit:	460,785	552,422	643,626	742,138	857,352
Telephone:					
Revenue: ⁸	36,600	41,100	46,150	51,500	56,900
Department Cost: ⁹	48,200	55,600	62,800	70,200	77,400
Telephone Loss	(11,600)	(14,500)	(16,650)	(18,700)	(20,500)
Other Income ¹⁰	7,000	8,000	9,000	10,000	11,000
Gross Operating Profit:	456,185	545,922	635,976	733,438	847,852
Management Fee ¹¹	29,875	33,532	37,686	41,993	46,453
Operating Profit before Real Estate Taxes, Insurance & Debt Service	426,310	512,390	598,290	691,445	801,399

¹Rate Average

- Based on projections and operating result by Hilton Hotel Corporation, May 10, 1974; Salvatore F. Guarino, Assistant to Senior Vice President, and William Elgis, Hotel Manager. The increasing rates are largely a function of the increasing proportion of double occupancies at the higher occupancy levels.
- Room rates include parking fees.

²Public Rooms

- Based on results of similar operations by Hilton Hotel Corporation, May 10, 1974; Salvatore F. Guarino, Assistant to Senior Vice President.

³Direct Room Costs

- Lodging Industry, 1973 Edition, by Laventhal, Krekstein, Horwath & Horwath, p. 40; Industry average at a 60% occupancy is 31.3% of room revenue.
- Projections based on results of similar operation by Hilton Hotel Corporation, May 10, 1974; Salvatore F. Guarino, Assistant to Senior Vice President:

<u>Occupancy</u>	<u>% of Room Revenue</u>
60%	26%
65%	25%

- Projections by Harris, Kerr, Forster & Company on the feasibility of the project note that the average industry profit in the rooms department is 71 to 73 percent of room sales. Direct costs, then, average 27 to 29 percent.

⁴Administrative and General Expenses

- By Lodging Industry, 1973 Edition, by Laventhal, Krekstein, Horwath & Horwath, Hotel report, p. 41: 9.2% of sales, excluding management fees.

Similar results are found in the motor hotel where restaurants were not a part of the operation. The average here was 9.0% (p. 21).

⁵Advertising and Business Promotion

- By Lodging Industry, 1973 Edition by Laventhal, Krekstein, Horwath & Horwath, Hotel Report (p. 41):

<u>Ratio to Total Sales</u>	<u>Occupancy</u>
3.0%	59%
4.6%	80%

- Projections by Hilton Hotel Corporation, Salvatore Guarino, Assistant to Senior Vice President as of 5/10/1974: 3% of Total Sales at 60% Occupancy. Advertising and business promotion expenditures are assumed to be stable at all levels of occupancy due to the discretionary nature of such expenditures.
- Revised estimates by Hilton Hotel Corporation for the operating year 1975 project expenditure equivalent to 3.45% of total sales.

⁶Heat, Light, and Power

- Projections by Hilton Hotel Corporation, Salvatore Guarino, Assistant to Senior Vice President as of 5/10/75: 4.95% of Total Sales at 60% Occupancy.

Landmark Research, Inc.

- Revised projections by Hilton Hotel Corporation for 1975 operating year: 5.4% of total sales at 60% occupancy.
- Actual results reveal that such expenditures are not totally variable; as occupancy levels increase, the heat, light, and power expenditure ratios expressed as a percentage of total sales decline.
- Projections are as follows:

<u>Occupancy (%)</u>	<u>Ratio to Total Sale</u>
45	6.00
50	5.60
55	5.30
60,65	4.95

⁷Repairs and Maintenance

- Projections by Hilton Hotel Corporation based on actual operating results of similar properties, Salvatore F. Guarino, Assistant to Senior Vice President, as of 5/10/75: 2.9%
- Revised 1975 Hilton Hotel Corporation: 3.18%.
- Expenditures are budgeted to be 3.0% at 60% occupancy with \pm .15% for each increase or decrease in occupancy.

⁸Telephone Revenue

- Lodging Industry, 1973 Edition by Laventhal, Krekstein, Horwath & Horwath, Hotel Report (p. 40): 3.6% of room sales.
- Revised Hilton Hotel Corporation estimates for the 1975 operating year: 3.76%.

⁹Telephone Expenses

- Annual equipment lease payment is \$35,662.08.
- The estimates are based on actual results of similar properties; telephone expenses are projected to be 135% of telephone revenues in total.
- Actual losses were 4.2% of total revenues for 1974 whereas this estimate provides a loss of approximately 1.4% of revenues. Projected losses are below the national averages as reflected in Lodging Industry, 1973 Edition by Laventhal, Krekstein, Horwath & Horwath.

¹⁰Other Income

- Includes income from laundry, valet services, florist, etc.
- Lodging Industry, 1973 Edition by Laventhal, Krekstein, Horwath & Horwath, national average: .7% (p. 39).

¹¹Management Fee

- Hilton Management Contract specifies that the management fee is calculated as 3% of gross revenue (exclusive of telephone revenues).

Exhibit 12

Hilton Hotel

Schedule of Projected Income and Expenses -- Retail Space For a Period of 5 Years, Commencing May 1, 1974

Year	1974-75	1975-76	1976-77	1977-78	1978-79
Commercial State Bank ¹	23,400	23,400	23,400	23,400	23,400
The Tobacco Bar, Ltd. ²	840	1,120	1,120	1,120	1,120
Other Retail ³	7,433	22,298	37,163	44,595	44,595
Total Revenues	31,673	46,818	61,683	69,115	69,115
Less:					
Management Fees ⁴	1,900	2,809	3,701	4,147	4,147
Income Before Insurance and Debt Service	29,773	44,009	57,982	64,968	64,968

¹Commercial State Bank

Lease commenced in November with payments beginning in March, 1974.

Rent: \$1950/month X 12 = \$23,400 annually; five year, renewable, cost of living escalator..

²The Tobacco Bar, Ltd.

Lease commenced on August, 1, 1974, extending to July 31, 1979. Renewable twice.

Rent: \$93.33/month X 12 = \$1,120 annually; for 1974-75: 9 months X \$93.33 = \$840.

³Other Retail Space

Available Space:

	Total Area
Area A	2,428 s.f.
Area B	2,367 s.f.
Area C	2,740 s.f.
Area D	570 s.f.
Area E	814 s.f.
Total	8,919 s.f.

Economic Rent Schedule

A. Almar Bookstores, Inc.

University Square

700 Block, University Avenue

Area: 3050 s.f.

Annual Rent: \$14,487

Annual Rent (per s.f.) \$4.75

-- Lease is net of real estate taxes and operating expenses. Location is as desirable as subject site.

B. Copper Rivet
661 State Street

Area:	3000 s.f.
Annual Rent:	\$16,800
Annual Rent (per s.f.)	\$5.60
Adjustments:	
Location	<u>-.25</u>
Adjusted Annual Rent (per s.f.)	\$5.35

-- This property is located in an area characterized by a higher level of pedestrian traffic. The lease is net.

C. Record World
640 State Street

Area:	1200 s.f.
Annual Rent (per s.f.)	\$6.00
Adjustment:	
Operating expenses - including real estate taxes	- 1.75
Location	+ <u>.25</u>
Total Adjustment	<u>-\$1.50</u>
Adjusted Annual Rent (per s.f.)	\$4.50

-- The lease is on a gross basis, thus requiring adjustment for operating expenses. The property is located in an area of higher pedestrian travel.

D. Chocolate House Ice Cream Co.
University Square
700 University Avenue

Area:	718 s.f.
Annual Rent	\$3,590
Annual Rent (per s.f.)	\$5.00

-- The lease is written on a net basis.

Summary of Adjusted Annual Rents - per square foot:

<u>Property</u>	<u>Rents</u>
A	4.75
B	5.35
C	4.50
D	<u>5.00</u>
Total	19,60 ÷ 4 = \$4.90, say <u>\$5.00</u>

The above rates are Net, Net, Net. The lessee is responsible for paying the following:

1. Leasehold improvement
2. Proportionate share of heating, ventilating, and air conditioning.

3. Electrical cost - metered separately
4. Janitor services
5. Any required maintenance
6. Proportionate share of real estate taxes

Schedule of Rent Revenues:

<u>Year</u>	<u>Total Area</u>	X <u>Rent/s.f.</u>	X <u>Portion Occupied</u>	= <u>Revenue</u>
1974-75	8,919	\$5.00	1/2(1/3)	\$ 7,433
1975-76	8,919	5.00	[1/3+1/2(1/3)]	22,298
1976-77	8,919	5.00	[2/3+1/2(1/3)]	37,163
1977-78, 78-79	8,919	5.00	1	44,595

-- This schedule is based on a three year rent up period. As of March 1, 1975, none of this space was rented.

⁴Management Fees

-- Wild, Inc. will receive 6% of revenues as specified by a contractual agreement with Madison Hotel Associates.

Exhibit 13

Hilton Hotel

Schedule of Projected Income and Expenses -- Garage Facility For the 5 Year Period Commencing May 1, 1974

Year:	1974-75	1975-76	1976-77	1977-78	1978-79
Occupancy:	45%	50%	55%	60%	65%
Calculation of Income:					
Leased Parking ¹	19,305	57,915	77,220	77,220	77,220
Overnight Parking ²	45,826	50,918	56,009	61,101	66,193
Visitor Parking ³	12,480	18,720	24,960	24,960	24,960
Total Revenue	77,611	127,553	158,189	163,281	168,373
Less Expenses:					
Parking Attendants (24 hrs X \$2.25 X 365 days)	19,710	19,710	19,710	19,710	19,710
Social Security	1,153	1,153	1,153	1,153	1,153
Unemployment	532	532	532	532	532
Supplies, Repairs	500	500	500	500	500
Management Fee (6%) ⁴	4,657	7,653	9,491	9,797	10,102
Equipment Lease	1,200	1,200	1,200	1,200	1,200
Total Expenses	27,752	30,748	32,586	32,892	33,197
Overnight Parking	45,826	50,918	56,009	61,101	66,193
Total Deductions	73,578	81,666	88,595	93,993	99,390
Income Before Insurance, Real Estate Taxes, and Debt Services	4,033	45,887	69,594	69,288	68,983

¹Leased Parking
-- Schedule of Revenues

Year	Stalls	X	Rent/Stall	X	Portion Rented	=	Revenues
1974-75	195		\$396		1/4		\$19,305
1975-76	195		396		3/4		57,915
1976-77	195		396		1		77,220
1977-78	195		396		1		77,220
1978-79	195		396		1		77,220

-- The monthly parking rate is \$33.00.

²Overnight Parking

-- It is projected that each occupied room would require one parking stall. The room rates include the parking charge, which for hotel guests is \$1.00 per night. Overnight parking is included here only for calculation of management fees.

³Visitor Parking

1974-75: \$4.00/month X 260*stalls X 12 months = \$12,480
1975-76: \$6.00/month X 260 stalls X 12 months = \$18,720
1976-77: \$8.00/month X 260 stalls X 12 months = \$24,960
and after

⁴Management Fees

-- Wild, Inc. will receive 6% of all gross parking revenues as specified by contractual agreement with Madison Hotel Associates.

* Presently there are only 237 stalls available for visitor parking due to present striping and temporary storage.

Exhibit 14

Hilton Hotel
Schedule of Projected Revenue and Expenses - Restaurant and Bar Operations
For the 5 Year Period, Commencing May 1, 1974

	1974-75	1975-76	1976-77	1977-78	1978-79
Fogcutter ¹ 3735 s.f. X \$5.50	20,543	20,543	20,543	20,543	20,543
Green House ¹ 3550 s.f. X \$5.50	19,542	19,542	19,542	19,542	19,542
Normandy ² 2745 s.f. X \$5.50	15,100	15,100	15,100	15,100	15,100
Haymarket ² 3235 s.f. X \$5.50	17,800	17,800	17,800	17,800	17,800
Main Kitchen 4620 s.f. X \$5.50	25,410	25,410	25,410	25,410	25,410
Total Revenues	98,395	98,395	98,395	98,395	98,395
Less: Management Fees	5,904	5,904	5,904	5,904	5,904
Income Before Insurance and Debt Service	92,491	92,491	92,491	92,491	92,491

Economic Rent Schedule

A. Grantshire Restaurant
El Esplanade Building
122 North Carroll

Area:	2,500 sq. ft.
Gross Annual Rent:	\$20,004
Gross Annual Rent (per sq. ft.):	\$8.00
Adjustments:	
Operating Expenses - per sq. ft.	
including real estate taxes	\$2.00
Location	--
Net Adjustment	-1.75
Adjusted Annual Rent (per sq. ft.)	\$6.25

-- Lease terms are on a gross basis. This requires an adjustment in order to arrive at a net rental figure. This property is adjacent to subject site, thus a location adjustment is unnecessary.

B. DeLaney's
6824 Odana Road

Area:	3,500 sq. ft.
Annual Rent:	\$14,000
Annual Rent (per sq. ft.):	\$4.00
Adjustment:	
Location	+1.00
Adjusted Annual Rent (per sq. ft.)	\$5.00

-- Location adjustment required due to distance from subject property. Rent includes improvement due to default on the part of first owner.

C. Paisans, Inc.
University Square
700 Block, University Avenue

Area:	6,145 sq. ft.
Annual Rent:	\$32,261
Annual Rent (per sq. ft.):	\$5.25

-- Lease terms are net of real estate taxes and operating expenses. Location is deemed to be as desirable as subject site.

Summary of Annual Rent - Per Square Foot:

	<u>Rate</u>
Property A	\$ 6.25
B	5.00
C	<u>5.25</u>
Total	$\$16.50 \div 3 = \5.50

The average rental per square foot of \$5.50 is a triple net rate.

Exhibit 15

Hilton Hotel Summary Schedules of Projected Income Related to Real Estate For the Five Year Period, Commencing May 1, 1974

	1974-75	1975-76	1976-77	1977-78	1978-79
<u>Schedule A</u>					
Income before Real Estate Taxes, Insurance, and Debt Service:					
Rooms & Related Opera- tions	426,310	512,390	598,290	691,445	801,399
Garage Facility	4,033	45,887	69,594	69,288	68,983
Total	430,343	558,277	667,884	760,733	870,382
Less: Insurance ¹	13,222	13,222	13,222	13,222	13,222
Income before Real Estate Taxes and Debt Service Attributed to Land, Buildings & Furnishings	417,121	545,055	654,662	747,511	857,160
Less: Income to Furnishings ²	118,894	117,295	115,697	114,098	112,500
Income before Real Estate Taxes and Debt Service to Land and Buildings	298,227	427,760	538,965	633,413	744,660
Less: Proportionate Share of Land Lease ³	43,750	75,000	90,000	90,000	90,000
Income before Real Estate Taxes to Building	254,477	352,760	448,965	543,413	654,660
<u>Schedule B</u>					
Income Before Insurance and Debt Service:					
Retail Space	29,773	44,009	57,932	64,968	64,968
Restaurant & Bar Operations	92,491	92,491	92,491	92,491	92,491
Total	122,264	136,500	150,473	157,459	157,459
Less: Insurance ¹	4,408	4,408	4,408	4,408	4,408
Income Before Debt Service Attributed to Land & Buildings	117,856	132,092	146,065	153,051	153,051
Less: Proportionate Share of Land Lease ³	14,580	25,000	30,000	30,000	30,000
Income to Building/Excluding Real Estate Tax	103,276	107,092	116,065	123,051	123,051
Income - Estimated ⁴	1.4	1.4	1.4	1.4	1.4
20% Representing Taxes Paid by Tenants	144,586	149,929	162,491	172,271	172,271
NET TOTAL to Real Estate Before Real Estate Taxes (NIBRT)	399,063	502,689	611,456	715,634	826,931

Notes to Exhibit 15, page 2

Schedule A presents the elements of income which have not been adjusted for real estate taxes. Schedule B presents the elements of income which have been calculated on a net of real estate tax basis.

¹Insurance

Property (8,000,000 RE/9,200,000 Total Property X 16,623)	=	14,455
Liability (4,488 X 40%)	=	1,800
-- 60% of total liability insurance relates specifically to food operations which are excluded from projected income		
Machinery and Engines	=	<u>1,375</u>
		\$17,630

-- Total Insurance is allocated 25% to Schedule A and 75% to Schedule B.

²Furnishings

Guest Rooms	426,135
Guest Ice Machines	9,293
Shelving and Lockers	8,204
Housekeeping	10,745
Office (40% X 57,965)	23,186*
Engineer's Equipment	4,271
Ballroom furnishings	5,852
Communications	18,503
Parking Equipment	7,795
Signs	7,892
Laundry	<u>19,755</u>
Total	\$541,631

*60% of office furnishings are used for the management of the food and beverage operations which should be segregated.

-- Totals for furnishings were established by year end audit.

Factors Attributed to Furnishings:

Rate of Return	9.0%
Recapture	10.0% (10 year life)
Personal Property Taxes	4.5%

Income Equivalent to Recapture and Return to Equity:

541,631 X 9% X 10 years = 1,029,100
1,029,100 ÷ 10 = \$102,910 per year

Income Equivalent to Personal Property Taxes:

Year 1974-75	541,631	X .65	X .0454	=	15,984
1975-76	487,468	X .65	X .0454	=	14,385
1976-77	433,305	X .65	X .0454	=	12,787
1977-78	379,142	X .65	X .0454	=	11,188
1978-79	324,979	X .65	X	=	9,590

Total Income Attributed to Personal Property:

Year 1974-75	102,910	+	15,910	=	118,894
1975-76	102,910	+	14,385	=	117,295
1976-77	102,910	+	12,787	=	115,697
1977-78	102,910	+	11,188	=	114,098
1978-79	102,910	+	9,590	=	112,500

³Land Lease

Purchaser/Lessor: Citizens Mortgage Investment Trust

Sales Price: \$1,000,000

Leaseback Rental: \$120,000 per year

- For the first two (2) lease years, the sum of twenty thousand dollars (\$20,000) per year of the annual net rent will be deferred and shall be due at the time of purchase of the land or upon termination of the lease, whichever is first to occur.
- Payments commenced on October 1, 1974.

⁴Net income from Retail and Restaurant Space is based on net leases which pro-rate all real estate taxes to the tenant as additional rent. Therefore it is necessary to increase net income by some factor to include approximate real estate tax load to make it comparable to net income from gross rents from rooms and garage rentals. Since taxes generally represent about 20% of gross rents and operating expenses may total 50% of effective gross, it was assumed that real estate taxes would be an amount that was equivalent to 40% of net income from retail and restaurant space.

Step V: Calculation of cash losses to probable buyer investor from May 1, 1974 until reaching normalized operations on May 1, 1978 as these required cash contributions represent a portion of the purchase price to be supplied from equity. These losses are then compounded forward at an appropriate rate of return for equity risk capital, to determine the total cumulative loss or equity contribution as of May 1, 1978.

Step VI: Total justified income value for hotel structure and land as of May 1, 1978 minus cumulative equity contributions calculated in Step V yield the net justified purchase price as of May 1, 1974 prior to the opening of the hotel, ASSUMING STRUCTURE WAS FULLY COMPLETED AND PAID FOR.

Step VII: The justified price as of May 1, 1974 minus value of construction to be completed on the structure will provide the highest probable investment or purchase price which would be offered by a prudent investor as of May 1, 1974 who must anticipate the additional cash outlay required to complete construction and carry the project for 3 1/2 years of operation during an extremely competitive Class A hotel struggle in downtown Madison.

B. Limitations on the Income Approach

The necessary calculations for the step by step process outlined above are made in Exhibits 11 through 16. Purchase of a real estate investment for financial return and acceptance of an appraisal valuation of investment prospects must be recognized as simply acceptance of many, many assumptions about the future under conditions of great uncertainty. Therefore, it is important that the reader understand the implications of the many footnotes which document Exhibits 11 through 16 as these represent the reasoning process by which the appraisers have estimated the magnitude and the pattern of cash flows for the total enterprise and the relative contribution of each component. Ultimately only the components of land and building remain, and the final line on Exhibit 15 suggests the net operating income attributable to the real estate improvements, before deductions for real estate taxes but after deduction of lease payments for the land.

In making such forecasts it is the opinion of the appraiser that errors which overestimate or underestimate on many small facets of the problem tend to offset one another so that ultimately forecasted returns represent a reasonable forecast of the future but obviously there can be as many alternative forecasts as there are estimators. To accept the appraisal valuation it is only necessary to accept the equity and objectiveness with which the assumptions have been assembled as representative of the future but by no means as a precise prophecy. Business risk is always the variance between one's assumptions (or expectations) and one's realizations. The vagueries of the hotel business in Madison lead the prudent

investor to discount his expectations sharply, at a 20% return to equity is the minimum accepted for hotel investments by knowledgeable investors.

C. Explanation of Computations

To avoid confusion of fiscal or calendar years of hotel operations with the May 1 fiscal year utilized for tax assessment in Wisconsin all room and other income projections have been made on a fiscal year commencing May 1, 1974, with the result that occupancy for 1974-75 is 5% lower than the average since the Hilton Hotel was not open for the first two months of the '74 fiscal year. The occupancies in Exhibit 11 reflect market dynamics outlined in report section V-L and Exhibit 9.

On Exhibit 14 it should be noted that bars and restaurants and supporting kitchen facilities are assigned a market rent value based on recent leases to competitive enterprises in the City of Madison in non-owned facilities. This approach is the only correct way to distinguish between restaurant income attributable to location and space as opposed to furnishings, cuisine, and general management which are critical to business returns as distinguished from real estate returns.

On Exhibit 15 it is necessary to reconcile returns from room and garage operations which include whatever real estate taxes would be paid and rental returns from retail, restaurant and bar operations which are currently leased in Madison on net terms which require the tenant to pay in addition to rents, a pro rata share of real estate taxes. To convert rental incomes on a net basis to include real estate taxes it is important to note the adjustment factor on the third line from the bottom on Exhibit 15 and footnote #4. Historically, in Madison real estate taxes have represented about 20% of gross rents and operating expenses in high-rise buildings have approximated 50% of effective gross, making net income about 50% of gross. Therefore, it was assumed that real estate taxes would be about equivalent to 40% of net rental income from retail, restaurant and bar space. This increased adjusted rental income was then added to net income after ground lease from rooms and garage facilities to determine total net income to real estate before real estate taxes.

Exhibit 16 converts the revenue expense forecasts contained in Exhibits 11 through 15 for an appraisal of the subject property following the seven steps above. All sources and calculations are documented on Exhibit 16 and it is concluded that the income value of land and buildings as of May 1, 1974 if all construction were complete would be \$5,900,000.

D. Income Approach Value Conclusion

Exhibit 16 continues by subtracting the balance of construction to be completed, \$790,000, not including the normal retainage or holdback of contractors payments due. This estimate is based on the actual

EXHIBIT 16

Step I: Estimate revenues and expenses contributed by real estate components for fiscal years May 1, 1974 through year beginning May 1, 1978. See Exhibits 11 through 15.

Step II: Establish overall capitalization rate for building as of May 1, 1978 using the Ellwood approach in order to complete the formula:

$$\frac{\text{NIBRT (Exhibit 15)}}{\text{OAR} + .65 \text{ ('74 tax rate)}} = \text{value of building}$$

Value of building + \$1,000,000 = value of real estate component

$$\text{OAR} = \frac{r - \text{app. } \frac{1}{n} \sqrt{\frac{s}{J}}}{1 + \text{app. } \frac{s}{J}} \text{ when:}$$

Y = 20% return to equity

m = mortgage ratio to value of building of 75%

n = projection term of 5 years beginning May 1, 1978

i = mortgage interest is 9 1/4%

mortgage term = 25 years, monthly amortization rate of increase in net income assumed 3% per annum or 15% in 5 years.

Rate of increase in resale value over purchase price to be determined is 15% in 5 years net of resale cost.

J = .4514, p. 279 Ellwood

The Ellwood formula for a property where net income is increasing at the same rate as resale value is defined and explained on pages 274-275, Ellwood Tables, Part A, 3rd Edition, American Institute of Real Estate Appraisers, 1970, Chicago, Illinois

(p. 207, see Table n = 5)

$$\begin{aligned} r &= Y - MC && \text{P. 274-275} \\ &= .20 - .75 (.10595) (\text{Table Cy}) \\ r &= .20 - .0794625 && \text{p. 279, } n = 5: J = .4514 \\ r &= .1205375 \end{aligned}$$

$$\text{OAR} = \frac{.1205375 - .15 (.134379)}{1 + .15 (.4514)}$$

$$\text{OAR} = \frac{.1205375 - .0201568}{1 + .067710}$$

$$\text{OAR} = \frac{.10038}{1.06771}$$

$$\text{OAR} = .0940$$

EXHIBIT 16 (continued)

Step III: Calculation of income value attributed to improvements as of May 1, 1978.

$$\begin{array}{rcl} \text{Value of} & = & 826,931 \text{ (Exhibit 15, col. 5)} \\ \text{Improvements} & & .0940 + .0285 \end{array}$$

$$\begin{array}{rcl} \text{Value of} & = & 826,931 \\ \text{Improvements} & & .1225 \end{array} = 6,750,457 \text{ rounded to } \$6,750,000$$

$$\begin{array}{rcl} \text{Value of} & & \\ \text{Real Estate} & = & \$6,750,000 + 1,000,000 \text{ (land value paid by Citizens} \\ \text{May 1, 1978} & & \text{or } \$7,750,000 \text{ Mortgage Investment Trust)} \end{array}$$

Step IV: Conversion of income value of real estate to justified economic debt service and real estate tax payments for May 1, 1978.

$$\begin{array}{rcl} \text{First mortgage} & \$7,750,000* \\ \text{at 75\% ratio} & .75 \\ & \hline & 5,812,500* \end{array}$$

*Good value is subordinated to first mortgage position. Even then it should be noted economically justified mortgage is more than \$1,000,000 less than loan amount provided by Prudential Life Ins. Co. if full loan value were used cash deficits would be even greater and corresponding investment value significantly lower for May 1, 1974.

Annual debt service factor at 25 years term, monthly payment

$$\begin{array}{rcl} 9 \frac{1}{4}\% \text{ interest} & .102840 & \text{(Ellwood, p. 207)} \\ & \hline & \$597,757 \end{array}$$

$$\begin{array}{rcl} \text{Real estate taxes} & & \\ \text{assuming 1974 mill rate} & \$7,750,000 \times (.65) \times (.043869) \\ & 7,750,000 (.0285) \\ & = \$ 220,990 \end{array}$$

Step V: Calculation of cash losses to buyer-investor from May 1, 1974 until reaching normalized operations on May 1, 1978-79

May 1, 1974-1975	\$399,063 - [220,990 + 597,757]	-419,684
1975-76	502,689 - [220,990 + 597,757]	-316,058
1976-77	611,456 - [220,990 + 597,757]	-207,291
1977-78	715,634 - [220,990 + 597,757]	-103,113
1978-79	826,931 - [220,990 + 597,757]	+ 8,184

EXHIBIT 16 (continued)

Step V (continued)

Calculation of compounded losses assuming 20% return to equity risk capital financing of deficits

1974-75	loss to May 1, 1978 (4 years) (Ellwood, p. 156)
	$419,684 \times 2.0736 = 870,256$
1975-76	$316,058 \times 1.728 = 546,148$
1976-77	$207,291 \times 1.440 = 298,499$
1977-78	$103,113 \times 1.200 = 123,735$
	<u>1,838,638</u> (rounded to 1,840,000)

Compare loss of \$1,840,000 to 25% equity in 1978 value of \$7,750,000 or \$1,937,500 and it is apparent that nearly all cash equity will represent investment in operating cash losses during business development period.

Step VI: Calculation of justified income value of completed hotel structure and land as of May 1, 1974

Income value

as of May 1, 1978	\$7,750,000
	<u>- 1,840,000</u>
	5,910,000 (or rounded \$5,900,000 assuming all construction complete and paid for)

Step VII: Income value of land and building as of May 1, 1974 with construction complete, actual value of construction to be completed on structure:

\$5,900,000

Adjusted budget for construction cost	\$6,013,089 (Col. 1, Exhibit 17)
Work completed May 1, '74	<u>5,223,051</u> (Col. 2, Exhibit 17)
Balance of construction to be completed*	\$ 790,038 <u>\$790,000</u>

Fair market value as of May 1, 1974
for incomplete improvements + land \$5,110,000

*Based on Madison Hotel Associates Citizens Mortgage construction draw for April 1974 - Exhibit 17.

Madison Hotel Association construction draw #20 with reconciliation made to Citixens Mortgage Investment Trust for outlays through April 1974, a draw which is reproduced in Exhibit 17. The income approach therefore concludes that the highest price any investor is likely to pay for the incomplete and non-operational hotel and its site as of May 1, 1974 is \$5,100,000, with \$1,000,000 allocated to the land element and the balance to the building.

Assuming the City of Madison assessor follows a 65% equalization rate adjustment, the highest price or fair market value determined above suggests the following assessments as of May 1, 1974:

Assessed value of land	\$650,000
Assessed value of unfinished building	<u>2,665,000</u>
Suggested assessed valuation May 1, 1974	3,315,000

IX. Market Transactions for Similar Properties

Although there have been no recent market transactions in the Wisconsin area for modern high-rise hotel buildings with underground parking facilities, the Prudential Life Insurance Company has purchased two similar hotels recently in the Chicago area. These hotels had been operating for several years with disappointing results and Prudential had been involved as a mortgage lender on land leaseholds similar to their loan on the subject property. There must be some doubt as to whether these sales represent arm's length transactions but there are sufficient similarities to permit some comparison as bench mark transactions:

SALE #1

Location: Rodeway Motor Hotel, southeast corner of Cumberland Road interchange with Kennedy Expressway, 2 miles east of O'Hare Airport and across the Interstate from the well known Marriott Inn.

Type: 11-story slab building, 260 rooms with 190 parking stalls in a 2-story ramp garage and 90 at grade out-of-doors. It was open in December of 1971.

Sales price: Land - \$860,000 (subordinated leasehold purchased from Aetna Life Insurance Company by PIC Realty Corporation, a subsidiary of Prudential Life Insurance Company).

Improvements: \$4,040,000 (Rodeway Hotels of Chicago to PIC)

Chattels and furnishings: \$500,000

Total land and buildings: \$4,900,000

Economic facts: Occupancy in 1974 was 59% with an average daily room rate of \$22.30. Room gross equalled \$1,200,000 while bar and restaurant gross was \$830,000. House profit in 1974 was \$340,617

EXHIBIT 17

MADISON HOTEL ASSOCIATES
CITIZENS MORTGAGE CONSTRUCTION DRAW #20
FOR THE MONTH OF APRIL 1974

	Adjusted Budget Per Draw Request No. 19	Budget Transfers Increase (Decrease)	(1) Adjusted Budget	(2) Work Completed	Reclassi- fication	Adjusted Work Completed	Retainage	Reclassi- fication	Adjusted Retainage	Previously Paid	Reclassi- fication	Previously Paid as Adjusted	Net Amount Now Due	Balance to Become Due
Architect & Engineers	142 000 00	26 000 00	168 000 00	142 193 88	13 217 51	155 406 39	-0-	1 321 75	1 321 75	139 920 76	11 895 76	151 816 52	2 263 12	11 915 36
Title Insurance	14 500 00	-0-	14 500 00	14 539 00	-0-	14 500 00	-0-	-0-	-0-	14 500 00	-0-	14 500 00	-0-	-0-
Attorneys Fees	75 000 00	5 000 00	80 000 00	74 884 98	-0-	74 884 98	-0-	-0-	-0-	32 017 68	-0-	32 017 68	1 767 00	5 115 00
General Overhead	243 235 00	23 816 00	267 051 00	240 402 75	-0-	240 402 75	-0-	-0-	-0-	230 402 76	-0-	230 402 76	10 060 00	23 912 24
Construction Costs														
General	1 250 000 00	-0-	1 250 000 00	1 250 000 00	-0-	1 250 000 00	6 500 00	-0-	6 500 00	1 243 500 00	-0-	1 243 500 00	-0-	6 500 00
General Conditions	301 038 00	56 332 00	357 430 00	301 779 00	-0-	301 779 00	21 341 15	-0-	21 341 15	258 713 10	-0-	258 713 10	21 724 75	76 932 15
Concrete	258 332 00	9 823 00	308 160 00	258 551 48	-0-	258 551 48	14 939 54	-0-	14 939 54	268 493 00	-0-	268 493 00	15 114 94	24 547 06
Reinforced Concrete	74 200 00	-0-	74 200 00	74 200 00	-0-	74 200 00	3 710 00	-0-	3 710 00	66 780 00	-0-	66 780 00	3 710 00	3 710 00
Masonry & Caulking	265 232 00	13 405 00	278 637 00	260 140 00	-0-	260 140 00	12 762 00	-0-	12 762 00	225 668 00	-0-	225 668 00	21 710 00	31 259 00
Structural Steel	725 100 00	39 647 00	765 747 00	726 100 00	25 633 00	751 733 00	35 023 35	2 563 30	37 586 65	653 499 00	23 069 70	676 568 70	37 586 65	51 600 65
Miscellaneous Steel	77 055 00	33 639 00	110 694 00	77 993 00	22 180 26	100 173 26	3 946 55	2 218 03	6 154 58	69 349 50	19 962 23	89 311 73	4 695 95	16 685 32
Carpentry	65 000 00	(10 000 00)	55 000 00	69 353 26	(47 813 26)	21 540 00	6 975 33	(4 781 33)	2 154 00	47 531 93	(43 031 93)	4 500 00	14 826 00	35 614 00
Exterior Siding	31 800 00	1 000 00	32 800 00	31 800 00	-0-	31 800 00	1 590 00	-0-	1 590 00	28 620 00	-0-	28 620 00	1 590 00	2 590 00
Millwork	22 302 00	-0-	22 302 00	8 500 00	-0-	8 500 00	850 00	-0-	850 00	7 650 00	-0-	7 650 00	-0-	14 652 00
Roofing & Waterproofing	49 000 00	96 000	49 096 00	47 985 00	-0-	47 985 00	4 109 50	-0-	4 109 50	42 102 00	-0-	42 102 00	1 773 50	5 220 50
Building Insulation	1 000 00	500 00	1 500 00	225 61	-0-	225 61	22 56	-0-	22 56	-0-	-0-	-0-	203 05	1 296 95
Plumbing	20 500 00	-0-	20 500 00	20 274 40	-0-	20 274 40	2 027 44	-0-	2 027 44	17 945 10	-0-	17 945 10	301 66	2 253 04
Windows, Storefronts & Glass	139 400 00	(1 000 00)	138 400 00	125 000 00	-0-	125 000 00	12 500 00	-0-	12 500 00	112 500 00	-0-	112 500 00	-0-	25 900 00
Wood Doors	15 000 00	1 000 00	16 000 00	13 736 83	-0-	13 736 83	1 373 68	-0-	1 373 68	12 363 15	-0-	12 363 15	-0-	3 636 85
Bi-Fold Doors	6 500 00	600 00	7 100 00	6 324 81	-0-	6 324 81	632 48	-0-	632 48	5 604 12	-0-	5 604 12	88 21	1 407 67
Overhead Doors	1 000 00	6 000 00	7 000 00	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	7 000 00
Hardware	15 000 00	2 600 00	17 600 00	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	17 600 00
Knobstripping	500 00	-0-	500 00	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	500 00
Painting	35 000 00	-0-	35 000 00	35 000 00	-0-	35 000 00	3 191 99	-0-	3 191 99	28 800 01	-0-	28 800 01	3 018 00	3 191 99
Plastering	30 000 00	-0-	30 000 00	30 000 00	-0-	30 000 00	2 999 99	-0-	2 999 99	23 632 04	-0-	23 632 04	3 317 97	2 999 99
Plumbing	3 545 00	-0-	3 545 00	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	3 545 00
Electric	260 000 00	61 920 00	321 920 00	290 069 47	-0-	290 069 47	29 006 95	-0-	29 006 95	217 591 20	-0-	217 591 20	43 471 32	69 657 43
Carpets & Resilient Flooring	25 000 00	13 745 00	38 745 00	27 680 00	-0-	27 680 00	2 768 00	-0-	2 768 00	17 055 00	-0-	17 055 00	7 857 00	14 833 00
Acoustical	20 000 00	-0-	20 000 00	920 00	-0-	920 00	92 00	-0-	92 00	828 00	-0-	828 00	-0-	19 172 00
Ceiling	7 000 00	(48 00)	6 952 00	5 252 00	-0-	5 252 00	525 20	-0-	525 20	-0-	-0-	-0-	4 726 80	2 225 20
Toilet Partitions	3 600 00	-0-	3 600 00	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	3 600 00
Toilet Accessories	4 000 00	-0-	4 000 00	3 630 80	-0-	3 630 80	353 08	-0-	353 08	3 267 72	-0-	3 267 72	-0-	722 28
Swimming Pool	15 000 00	-0-	15 000 00	8 187 80	-0-	8 187 80	818 78	-0-	818 78	7 369 02	-0-	7 369 02	-0-	7 369 02
Mezzanine	233 332 00	9 033 00	242 365 00	215 193 00	-0-	215 193 00	20 569 29	-0-	20 569 29	177 283 40	-0-	177 283 40	17 340 31	52 741 24
Painting	50 000 00	22 000 00	72 000 00	6 600 00	-0-	6 600 00	660 00	-0-	660 00	-0-	-0-	-0-	5 940 00	65 060 00
Plumbing	520 000 00	152 550 00	672 550 00	527 451 00	-0-	527 451 00	48 402 55	-0-	48 402 55	414 000 00	-0-	414 000 00	65 040 45	193 521 55
Electrical	530 000 00	(12 527 00)	517 473 00	383 217 11	(13 217 51)	369 939 60	34 196 61	(1 321 75)	32 864 86	289 676 78	(11 895 76)	277 781 02	59 353 72	180 338 26
Heating & Ventilating	445 000 00	1 608 00	446 608 00	324 750 99	-0-	324 750 99	31 444 55	-0-	31 444 55	182 196 89	-0-	182 196 89	111 149 55	153 261 58
Roofing	45 000 00	11 125 00	56 125 00	52 045 00	-0-	52 045 00	4 250 50	-0-	4 250 50	40 500 00	-0-	40 500 00	7 294 50	8 320 50
Sprayed Insulation	8 504 00	35 00	8 540 00	1 050 71	-0-	1 050 71	105 07	-0-	105 07	945 64	-0-	945 64	-0-	7 594 36
Total Construction Budget	5 600 000 00	413 039 00	6 013 039 00	5 223 051 27	(13 217 51)	5 209 833 76	307 637 14	(1 321 75)	306 315 39	4 463 510 60	(11 895 76)	4 451 614 84	451 003 53	1 109 570 63
Wils, Inc. Profit	500 000 00	(500 000 00)	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Contract w/limited Partnership	6 520 000 00													
Funds Available for Equipment and Interior Work		32 095 00	32 095 00	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	32 095 00
Land	827 700 00		827 700 00	827 700 00	-0-	827 700 00	-0-	-0-	-0-	827 700 00	-0-	827 700 00	-0-	-0-
Recorded of Deeds	150 00		150 00	150 00	-0-	150 00	-0-	-0-	-0-	150 00	-0-	150 00	-0-	-0-
Pre-opening Expenses	142 150 00		142 150 00	142 150 00	-0-	142 150 00	-0-	-0-	-0-	80 000 00	-0-	80 000 00	62 150 00	-0-
Total Construction Loan	7 500 000 00	-0-	7 500 000 00	6 624 827 89	-0-	6 624 827 89	307 637 14	-0-	307 637 14	5 789 102 10	-0-	5 789 102 10	528 058 65	1 182 809 25

NAME: *Walter D. Construction* DATE: *20 May 1974*

PHONE (508) 238-7161

TITLE: *Owner AFELP*

10) BORROWER'S AUTHORIZATION TO DISBURSE

Disburse the Mortgage Funds on this request for payment to the title insurance company and we shall provide them with specific disbursing instructions.

and the restaurant paid an additional rent of \$93,422 for a total of \$434,000.

Net income to purchase price (or capitalization rate) indicated is .0885 or approximately .09.

Mr. Steve Elpern of Prudential Life Insurance Company Equity Investment Division, Chicago, reports that the management introduced by PIC has successfully raised the average daily room rate almost \$2.00 and that it is expected that operating results for the fiscal year ending in June 1974 will meet expectations of 10% cash profit on total capital investment. Note that Prudential owns it outright and there is no debt.

Date of sale: December of 1974

SALE #2

Location: Hilton Motor Hotel, Gulf Road and Skokie Blvd., across street from Old Orchard Shopping Center.

Type: 10-story tower, 268 rooms, connected to four floor parking ramp shared with two high-rise office buildings so no precise allocation of parking units available. Acquired on a land leasehold with land not included as a result of financial distress of developer due to vacant office building.

Economic facts: Hotel enjoyed 67% occupancy in 1974 with \$1,600,000 room income gross and \$2,280,000 gross restaurant and bar sales as it features five major restaurants. House profit on rooms was \$278,000 while total net income from restaurant rents and other miscellaneous sources was \$868,000. Suggested capitalization rate .0825.

Sales price: Hotel package was purchased for \$10,500,000 by PIC Realty with closing of sale expected to be in spring of 1975. Mr. Steve Elpern reports Prudential management expects to be able to produce at least 10% cash return or \$1,050,000 in their first year of operation with a change in management.

Since the scenario required to assume sale May 1, 1974 implies purchase of a venture before operations begin, before the hotel is a going enterprise, the investor would want some additional return over and above that 10% required by Prudential purchasing a going operation in an urban market with more proven room demand than downtown Madison. It should be noted that the adjusted capitalization rate used in the income approach in the previous section was .0940, an extremely conservative rate producing a higher sales price than Prudential could justify based on the income and expense projections provided.


These benchmark sales transactions tend to confirm that the income approach reveals the highest price an investor would be willing to pay as of May 1, 1974 under most generous assumptions and optimistic forecasts and does not discount in any way the risk inherent in the purchase of a hotel enterprise months before it ever became a going enterprise. Such assumptions more than satisfy the intent of the Wisconsin [REDACTED] statutes cited in Section 1.

VALUE CONCLUSIONS

Since the cost approach is inappropriate to the subject property which represents an overimprovement relative to economic demand, and the market approach offers no transactions which are at arm's length and of comparable property, it is necessary to base fair market value of the subject property on the income approach. Based on the assumptions, limiting conditions, and property tax as presented, it is the opinion of the appraiser that the highest price in dollars, and fair market value of the subject property herein described as of May 1, 1974 is: \$5,100,000

FIVE MILLION ONE HUNDRED THOUSAND DOLLARS

(\$5,100,000)



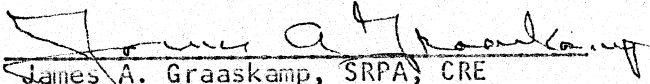
CERTIFICATE OF APPRAISAL

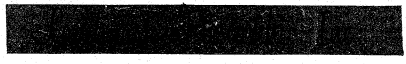
I hereby certify that I have no interest, present or contemplated, in the property and that neither the employment to make the appraisal nor the compensation is contingent on the value of the property. I certify that I have personally inspected the property and that according to my knowledge and belief,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

Based upon the information contained in this report and upon my general experience as an appraiser, it is my opinion that the Fair Market Value, as defined herein, of this property as of May 1, 1974, is:

FIVE MILLION ONE HUNDRED THOUSAND DOLLARS

(\$5,100,000)


James A. Graaskamp, SRPA, CRE
April 11, 1975
Date



STATEMENT OF LIMITING CONDITIONS

This appraisal is made subject especially to the following conditions and stipulations:

1. The appraiser assumes no responsibility for matters which are legal in nature nor is any attempt made to render an opinion on the title. The property has been appraised as if title were fee simple, with no regard for the existing structure of mortgage loans, leaseholds, or other liens or encumbrances.
2. The appraiser did not conduct any engineering analysis of the structural components or of the site, of costs to replace, or of other related factors but rather relied on accounting data provided the construction process.
3. Forecast of effective demand are based on the best available data of current Madison hotel operating experience and are projected subject to grave conditions of economic uncertainty. Expense allowances were based on normatives provided by the leading accounting firm in the hotel management field. Nevertheless the forecasts are only estimates and must be regarded as optimistic at best assuming very skillful management.
4. Values for various components of the subject parcel and improvements as contained within the report are valid only when making a summation and are not to be used independently for any purpose and must be considered invalid if so used.
5. Possession of this report or any copy thereof does not carry with it the right of publication nor may the same be used for any other purpose by anyone without the previous written consent of the appraiser or the applicant, and in any event, only in its entirety.
6. Neither all nor any part of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales or other media without the written consent and approval of the author, particularly as to the valuation conclusions, the identity of the appraiser or firm with which he is connected, or the identity of any of his associates.
7. Information furnished by others in this report, while believed to be reliable, is in no sense guaranteed by this appraiser.
8. All information furnished regarding property for sale, rental, financing or projections of income and expense is from sources deemed reliable. No warranty or representation is made as to the accuracy thereof and it is submitted subject to errors, omissions, change of price, rental or other conditions, prior sale, lease, or financing, or withdrawal without notice.
9. By reason of this appraisal the appraiser herein shall not be required to give testimony or attendance in court or any governmental hearing with reference to the property in question without agreement as to additional compensation and thereafter, without *adequate and sufficient* notice for preparation.

Landmark Research, Inc.

