Investment strategies for the Tenney Building Company and the Maloof estate. November 18, 1982

Landmark Research, Inc.
[s.l.]: [s.n.], November 18, 1982

https://digital.library.wisc.edu/1711.dl/3LKK4YHH2AZ4H8B

INVESTMENT STRATEGIES FOR THE

TENNEY BUILDING COMPANY

AND THE MALOOF ESTATE

Landmark Research Inc.

Landmark Research, Inc.

INVESTMENT STRATEGIES FOR THE TENNEY BUILDING COMPANY AND THE MALOOF ESTATE

NOVEMBER 18, 1982

1501 Monroe Street, Madison, Wisconsin 53711, 608-256-1090

Landmark Research Inc.

James A. Graaskamp, Ph.D., SREA, CRE
Tim Warner, MS, MAI, SREA
Jean B. Davis, MS

November 18, 1982

TO: R. Christian Davis
First Wisconsin Trust Department

FROM: James A. Graaskamp
Jean B. Davis
LANDMARK RESEARCH, INC.

RE: Investment Strategies for the Tenney Building Company and the Maloof Estate

I. BACKGROUND INFORMATION

A. Investment Attributes of the Tenney Building

1. Positive Features

a. Prominent location on the Square means proximity to generators of demand for office space which include government related activities, financial institutions and supportive professional services

b. Strong linkages with and positive influence of First Wisconsin Plaza

c. Updated automatic elevators and initial investments in energy conservation with boiler conversion to gas, storm windows and improved leasing to shift electrical costs to tenants.

d. Classic exterior lines with cut limestone and green glazed terra cotta spandrels

e. Quality nostalgic finishes include walnut/oak doors, marble wainscoating, terrazzo floors in public area

f. Adequate ceiling heights allow for modern ceilings and HVAC duct work

2. Negative Features

a. Lack of protected connecting lobby to First Wisconsin Plaza

b. Outdated division of interior space and oversized corridor

c. Outdated heating, ventilating, and air conditioning (HVAC) system

d. General wear and tear due to age--built in two phases 1926-1931

e. Lack of adequate on-site parking

f. Only one restroom per office floor

g. Main Street retail frontage lacks visibility

h. Aggressive marketing requires heavy investmnet in tenant improvements at a time when owner lacks liquidity

B. <u>Ownership Characteristics</u>

1. The First Wisconsin Development Corporation purchased the Tenney Building to extinguish certain easements necessary for the construction of the new First Wisconsin Plaza, which began in 1972, and to control the block in anticipation of future bank expansion. Bank operations were relocated to the Tenney Building during construction, but when the construction cost overruns of the new facility soared, the First Wisconsin abandoned plans to construct new on the Tenney site and sold for less than their purchase price to regain cash.

2. Purchased by Dr. George J. Maloof in September 1976 from First Wisconsin Development Corporation for $1,150,000 which included a favorable mortgage from the bank for $950,000 at 8 3/4 percent interest amortized over 30 years with a 20 year balloon. Balance due as of October 5, 1982, was approximately $899,000. Below market fixed interest rate on assumable mortgage is a valuable asset to the property owner.

3. First Wisconsin Development Corporation retained the opportunity for a future interest in the building by entering into an agreement dated September 13, 1976, with the Tenney Building Company which includes: a) first right of refusal by First Wisconsin should Tenney Building receive a bona fide offer to purchase; b) uses limited to current uses and; c) need for First Wisconsin's approval to construct a parking structure.

C. Marketing History of the Tenney Building

1. Below Grade Levels

a. Limited occupancy since 1976; vacant since 1979

b. Jones, Inc., office furniture retailer on first floor, used space for offices and showrooms but vacated May 1979

c. Currently athletic club desires 4,400 square feet at $4.50 per square foot for multi-year term but requires approximately $22,000 tenant improvements in place at lessor's expense

d. Small portions of lower second and third tiers of the basement area have been rented intermittently for storage; remainder used by owner and tenant law firm for storage. Potential exists for mini-storage rentals similar to successful units in 30-on-the-Square.

2. First Floor Retail

a. All of space fronting Pinckney was occupied by Jones, Inc., until May 1979.

b. The 5,500 square feet was subsequently subdivided into two smaller spaces of 2,000 square feet and 3,500 square feet. Short-lived restaurant, Leaf & Ladle, occupied 3,500 square feet from January 1, 1980, to October 1980. Mutual Savings & Loan Association of Wisconsin commenced ten year lease of 2,000 square feet August of 1980 at a market rate of $9 per square foot with maximum annual escalator of 8 percent.

c. The vacant 3,500 square feet was again subdivided into 1,200 square feet and 1,680 square feet units with some space lost to corridors and access to the lower level stairwell. In January of 1982 Econoprint signed a five year lease at $7 per square foot with a 6 percent annual escalator for the 1,680 square feet.

d. Chez Vous, a catering service and restaurant, has occupied 1,454 square feet of the lower first floor space at 114 East Main Street since 1976. A new five year lease at $6 per square foot moving to $7.15 per square foot was signed in 1981.

e. Remaining 1,200 square feet could be converted to lobby-corridor, thereby shifting Main Street office entrance to a Pinckney Street entrance, to a protected connector with First Wisconsin Plaza, and possibly to a new parking deck stairwell at the rear of the pocket park.

3. Office Space

a. The State has vacated over 10,000 square feet in the Tenney Building since the General Executive Facilities (GEF) II and III opened in 1980-1981. In 1979 the State occupied 44.5 percent of the office space compared to the 27.6 percent it occupies today. The vacancy pattern for Tenney office space is as follows:

	1979			1982		
Floor	State Occupied SF	Other Occupants SF	Overall Vacancy SF & %	State Occupied SF	Other Occupants SF	Overall Vacancy SF & %
2	3,659	2,521	565 8%	0	2,171	4,574 68%
3	2,639	1,805	2,478 36%	1,456	1,955	3,511 51%
4	4,636	1,667	352 5%	2,147	3,337	1,171 18%
5	4,477	826	1,652 24%	4,732	826	1,397 20%
6	3,413	1,730	1,616 24%	647	3,664	1,902 28%
7	0	5,567	1,106 17%	0	6,673	0 0%
8	6,116	959	0 0%	6,455	620	0 0%
9	930	6,086	0 0%	0	6,086	930 13%
10	1,616	3,910	1,364 20%	1,616	3,907	1,367 20%
TOTAL	27,486	25,078	9,133 15%	17,053	29,785	14,852 24%

D. Current Forces in the Madison Office Market

1. Class A [1]

a. Of the 842,000 square feet of Class A office space surveyed, only 32,000 square feet or 3.8 percent is currently vacant.

b. Rents range from $9 to $16.25 per square foot and are usually full service to the tenants.

c. The General Casualty Building with 60,000 square feet of office space is also vacant and for sale.

2. Class B [2]

a. Of the 173,300 square feet of Class B office space surveyed [3], approximately 38,500 square feet or 22 percent is currently vacant.

b. Rents range from $6 to $11.75 per square foot with one renovated building obtaining $13 per square foot. Only in the $6 space is the heat excluded; usually leases are full service.

c. The present parking lot parcel is too small for cost effective decking, but there is the speculative possibility of combining Tenney Building parking needs with those of landowners on the south side of Main Street. The rent schedules used in the alternative scenarios reflect the marketability problem of inadequate on-site parking.

---

[1] Class A buildings surveyed are: First Wisconsin Plaza, United Bank, Verex, James Wilson Plaza, Anchor Savings & Loan, National Guardian Life, Investors Services.

[2] Class B buildings usually lack adequate on-site parking, central air conditioning, and modernized space as does the Tenney Building.

[3] Class B Buildings surveyed are: National Mutual Benefit, 30 on the Square, Centre Seven, Atrium, 125 W. Doty Street, Fire Station No. 2, Jackman, 147 S. Butler Street, 122 S. Pinckney Street, 103 N. Hamilton Street.

d. Coming on line is the renovated Frautschi Building scheduled for 1983 with over 20,000 square feet at $8.50 to $9 per square foot plus pass-throughs. Other vacant buildings include the Jackson Building at 102 N. Hamilton, and the Manchester Building at Two East Mifflin.

3. Tenney Building Market Share and Break-even Point

a. Current ratio of operating expenses plus debt service to gross rent potential is approximately 80 percent, allowing only a 20 percent vacancy to break-even, but with 24 percent vacancy the Tenney Building is not capturing its full share of the Class B and C market and is suffering a cash loss approaching $40,000 per year.

b. To reduce the break-even ratio it will be necessary to raise current rents ($6.75 to $9.50) by improving tenant space and reducing operating expenses by modernizing mechanical systems.

c. Will require extensive renovation to modernize and yet retain charm of its special features.

d. No central air but most offices can access cooled air from chillers.

e. Old boilers, one of which was recently converted to gas, are near the end of their useful lives and are unreliable. Should consider heat pumps for each floor as part of renovation.

f. Current parking surface offers parking stalls at $45 per month; a light ramp with excavation could provide up to 60 stalls or approximately one per 1,000 square feet of office space. This is approximately one-third of the stalls required for suburban offices.

II. STATEMENT OF INVESTMENT PROBLEM

A. Strategic Objectives of Estate/Trust Relative to the Tenney Building

1. Positive Cash income

2. Stable income for Patty Maloof and family in excess of debt service on current mortgage.

3. Realization of the leverage value of current favorable financing

4. Retention of building ownership out of respect for Dr. George C. Maloof

5. Generation of a reliable income stream with built-in inflationary hedges for near-term income beneficiaries

6. Provision for long-term asset liquidity and additional cash reserves for long-term corpus beneficiaries

7. Minimization of management costs and risk to the estate

8. Acquisition of additional construction, marketing and management expertise without out-of-pocket cost to the estate/trust

9. Avoidance of the necessity of cash investment or liability for financing further major capital improvements

B. Tactical Alternatives

1. Continued operation under current modus operandi in hopes of a gradual reversal of negative cash flows

2. Sale of the Tenney Building for cash or cash and wraparound notes receivable

3. Partnership of Tenney Building Company and developer/ property manager as either limited or joint venture partner

4. Thirty year master lease of Tenney Building subject to existing mortgage to developer/property manager for fixed income plus 10 percent of the cash throw-off to lessee following renovation.

C. Matrix of Strategic Objectives and Tactical Alternatives

A review of the matrix in Exhibit 1 quickly leads to the conclusion that a master lease of the Tenney building is the only tactical format which meets all of the strategic objectives of the Maloof estate/trust. The premises and terms of the master lease format are detailed in the following section while the financial consequences of the first three alternatives are provided in Appendices A, B, and C.

Although alternatives B, C, and D may all create an immediate positive cash flow, the relative degree of advantage requires comparison of the financial arithmetic in terms of cash flow, maximum potential loss, and long-term reversion values. These estimates are presented in Exhibit 2 and confirm the numerical as well as qualitative advantages of the master lease.

EXHIBIT 1

MATRIX OF STRATEGIC OBJECTIVES
AND TACTICAL ALTERNATIVES

Objectives	A. Continued Operation	B. Sale of Building	C. Partnership with Developer/Manager	D. Master Lease
1. Positive Cash Flow	No	Yes	Maybe	Yes
2. Realization of asset value of current financing	Maybe	No	Maybe	Yes
3. Equitable income to Patty Maloof and family	Yes	No	Not immediately	Yes
4. Retention of building ownership out of respect for Dr. Maloof	Yes	No	Reduced to partial ownership	Yes
5. Minimize management costs & risks to owner	No	Yes	No	Yes
6. Avoid need for cash investment or liability for further capital improvements	No	Yes	Yes	Yes
7. Acquire marketing & construction expertise without out-of-pocket cost	No	Yes	Yes	Yes
8. Inflationary hedge for near-term beneficiaries	No	No	Maybe	Yes
9. Long-term asset liquidity and additional cash reserves for long-term beneficiaries	Doubtful	No	Encumbered by Controlling Partner	Yes

EXHIBIT 2

SUMMARY OF RISK AND RETURN POTENTIAL
OF FOUR TACTICAL ALTERNATIVES

	Continued Operation As Is	Sale & Investment in Municipal Bonds	Partnership Developer/Property Manager	Master Lease
Annual cash income 2nd year	Negative [1]	$28,870	$19,340	$36,144
Modified internal rate of return Before Tax	Negative	.0996	.1245	.139
Average annual rate of increase of cash	Negative and decreasing	No change	.133	.039
Reversion value in 20th year [2]	0	$290,000	$616,500	$1,470,000
Maximum potential business loss [3]	$700,000 ($35,000/yr x 20 yrs)	None	$290,000	None
Profitability index [4]	Negative	1.99	2.48	2.52

[1] In 1981-82 cash loss was $37,582.

[2] Due to negative cash flow, the Tenney Building Company would not be able to meet debt service obligations; in time the property would be bankrupt and there would be no reversionary value to the estate/trust.

[3] Investment in municipal bonds and a master lease protect the Tenney Building Company from exposure to business loss.

[4] The profitability index is calculated as follows:

$$\frac{\text{Cumulative total cash returns over 20 years - Maximum potential loss}}{\text{Maximum capital exposure}}$$

III. MASTER LEASE TO PROFESSIONAL DEVELOPER/BUILDING MANAGER

A. Basic Characteristics of Master Lease

1. A master lease format which transfers control and redevelopment responsibilities to a professional developer/manager, but retains ownership and a long-term reversion for the estate is a common form of financial structuring for older buildings on the West Coast. See Appendix D.

2. A real estate professional with expertise in office modernization and management would enter into a 20-year master lease with the Tenney Building Company with a ten year renewal option. The lessee would pay all operating expenses and real estate taxes for the proerty.

The most probable master lessee would be the following:

a. A local developer who would expand his office holdings and utilize his established management personnel.

b. An outside firm that would like to get a management foothold in Madison.

2. Base triple net rent to the Tenney Building Company will be 10.5 percent of the most recent appraised value of $1,150,000 or $120,750 plus 10 percent of the annual cash throw-off after renovation loan payments by lessee. The Tenney Building Company would be responsible only for the annual debt service of $89,684 on the original mortgage for the remaining 13 years and for the balloon of approximately $596,500 in 1996. (See Item 7.)

3. It is assumed the master lessee will budget approximately $1,725,000 or $25 per square foot to modernize the office and remaining retail space in the Tenney Building. The master lessee will finance the remodeling with a loan of approximately $891,500 based upon a debt cover ratio of 1.25, given a new rent schedule and recognition of lease payments to Tenney Building Company as debt service. In addition, he will raise approximately $835,000 of limited partnership funds who will receive the benefit of investment tax credit and cash flows with payback as early

as the sixth year depending upon the required split between the general partner/developer/lessee and his limited partner associates.

4. The remodeled space can compete at the top of the Class B office market. Rents in 1984 are projected to be $10 per square foot for office, $7 to $10.50 per square foot for retail and $5 per square foot for the lower level with 2 percent annual increases anticipated for each type of space. These rental estimates compare with $10 per square foot at 30-on-the-Square which also lacks adequate parking options. Security Marine anticipates $12.50 per square foot for the renovated top two floors of the old Madison Gas and Electric Building because it can provide adequate surface parking. It is assumed a lower rent will permit more rapid absorption of the existing vacant space in the Tenney Building. Parking revenues will be $45 per stall per month and will increase periodically. (See Exhibit 8, Appendix E for revenue assumptions).

Operating expenses are estimated to be 35 percent of potential gross rental revenue and real estate taxes are initially $.47 per square foot and will escalate to $.70 per square foot when the building is fully renovated and rented.

5. The resulting annual cash flow to the Tenney Building Company is detailed in Exhibit 3. (See Exhibit 9, Appendix E for measure of purchase power of cash flow).

6. The Tenney Building Company must receive enough cash each year to pay the annual debt service of $89,684 and to replace management income to a minimum of $30,000 per year or a total of $119,684; this goal is met by the base rent of $120,750 alone. The annual net income to Patty Maloof and family is found in Exhibit 4.

7. In year 14 of the master lease, when the balloon payment of $596,334 is due on the original mortgage, it is assumed the Tenney Building Company will refinance. A new mortgage of $625,000 to cover the balance due and refinancing costs will be assumed available at 15 percent for 20 years with an annual debt service of $98,759. The estimated cash flow of $151,355 is more than adequate to cover the new debt service and continued income to Patty Maloof and family.

EXHIBIT 3

ANNUAL CASH FLOW TO TENNEY BUILDING COMPANY

Year	Bonus Interest	Base Rent	Cash Flow to Tenney Building Co.
1	$3,390	$120,750	$124,140
2	5,078	120,750	125,828
3	6,442	120,750	127,192
4	9,123	120,750	129,873
5	11,596	120,750	134,346
6	14,152	120,750	134,902
7	16,792	120,750	137,542
8	19,520	120,750	140,270
9	22,338	120,750	143,088
10	23,585	120,750	144,335
11	26,412	120,750	147,162
12	27,779	120,750	148,529
13	29,176	120,750	149,926
14	30,605	120,750	151,355
15	32,065	120,750	152,815
16	33,559	120,750	154,309
17	35,085	120,750	155,835
18	36,645	120,750	157,395
19	38,240	120,750	158,990
20	39,871	120,750	160,621

EXHIBIT 4

ANNUAL NET INCOME AVAILABLE TO
PATTY MALOOF AND FAMILY

Year	Tenney Bldg. Co. NOI	Debt Service Liability for Tenney Bldg. Co.	Net Income to Patty Maloof and family
1	$124,140	$89,684	$34,456
2	125,828	89,684	36,144
3	127,192	89,684	37,508
4	129,873	89,684	40,190
5	134,346	89,684	44,662
6	134,902	89,684	45,218
7	137,542	89,684	47,858
8	140,270	89,684	50,586
9	143,088	89,684	53,404
10	144,335	89,684	54,651
11	147,162	89,684	57,478
12	148,529	89,684	58,845
13	149,926	89,684	60,242
14	151,355	98,759	52,596
15	152,815	98,759	54,056
16	154,309	98,759	55,550
17	155,835	98,759	57,075
18	157,395	98,759	58,636
19	158,990	98,759	60,231
20	160,621	98,759	61,861

8. At the end of 20 year, the reversion value of $1,470,000 is equal to the balance due on the mortgage ($563,600) and the present value of the stabilized stream of cash payments of $160,600 to the lessor during the ten year renewal option.

9. Assuming an equity contribution of $290,000 [4] and a resale price of $1,470,000, the cash flow to the Tenney Building Company yields a before tax modified internal rate of return of 13.9 percent and a first year equity dividend of 11.9 percent; the equity dividend rate increases to 21 percent. See Exhibit 10, Appendix E for computer output.

10. The master lessee has the control over building operations and also is liable for the remodeling financing. The major risks are shifted from the Tenney Building Company to the master lessee. The Tenney Building Company will retain ownership but will be a passive investor with a low risk exposure. Management costs and risk to the lessor are minimized.

B. <u>Conclusions</u>

As suggested earlier in Exhibits 1 and 2, the master lease format appears to provide the best probability of maximum MIRR without increased risk together with qualitative attributes unmatched by other tactical alternatives. A summary of Maloof family income/debt parameters for selected years is shown in Exhibit 5. Certainly the underlying assumptions presented herein are preliminary and are subject to negotiation with potential lessees. Nevertheless, the parameters are realistic in terms of Madison market data and represent an initial bargaining position for managers of the estate/trust.

---

[4] See Appendix B for calculation of net proceeds from a sale.

EXHIBIT 5

MASTER LEASE OF TENNEY BUILDING

SUMMARY OF MALOOF FAMILY INCOME/DEBT PARAMETERS FOR SELECTED YEARS

Sample Years	Total Net Operating Income to Patty Maloof & Family	Annual Debt Service	Net Income to Patty Maloof & Family	Annual Percentage Change Maloof Net Income	Debt Cover Ratios [1] Base Rents [2] / Debt Service	Total NOI / Debt Service
1	$124,140	$89,684	$34,456	0	1.35	1.38
5	134,346	89,684	44,662	.111	1.35	1.50
10	144,335	89,684	54,651	.023	1.35	1.61
15	152,815	98,759	54,056	.028	1.22	1.55
20	160,621	98,759	61,861	.027	1.22	1.63

[1] $\frac{\text{Rent Constant}}{\text{Appraised Value}} = \frac{120,750}{1,150,000} = .105$ $\frac{\text{Mortgage Constant}}{\text{Mortgage Balance}} = .094$ Therefore 1 percent leverage

[2] Base annual rent is $120,750

STATEMENT OF LIMITING CONDITIONS

This analysis is made subject to certain conditions, caveats, and stipulations, either expressed or implied in the prose as well as the following:

1. The financial forecasts used in the alternative investment strategies are preliminary. The assumptions are for comparative purposes and to provide guidelines for the trustees of the Maloof estate. The eventual results cannot be forecast.

2. All information furnished regarding rental, financing or projections of income and expense is from sources deemed reliable. No warranty or representation is made regarding the accuracy thereof, and it is submitted subject to errors, and omissions.

3. Forecasts of the effective demand for office, retail, and restaurant space are based upon the best available data concerning the Madison market, but are projected under conditions of uncertainty.

4. Information furnished by others in this report, while believed to be reliable, is in no sense guaranteed by these analysts. Although the before-tax arithmetic of the computer output has been hand checked for accuracy, no guarantee is made of the program's infallibility.

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 analysts 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 authors, particularly regarding the conclusions, and the identity of the analysts, or of the firm with which they are connected or any of their associates.

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

PROFESSIONAL DESIGNATIONS

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

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

CPCU, Certified Property Casualty Underwriter, College of Property Underwriters

EDUCATION

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

ACADEMIC AND PROFESSIONAL HONORS

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

PROFESSIONAL EXPERIENCE

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

J E A N B. D A V I S

EDUCATION

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

Master of Arts - Elementary Education, Stanford University

Bachelor of Arts - Stanford University (with distinctions)

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

PROFESSIONAL EDUCATION

Society of Real Estate Appraisers

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

American Institute of Real Estate Appraisers

Residential Valuation (formerly Course VIII)

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

PROFESSIONAL EXPERIENCE

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

APPENDIX A

CONTINUED OPERATION UNDER CURRENT MODUS OPERANDI

1. Review of approximate annual cash position of the Tenney Building since May 1, 1980, reveals insufficient net operating income to cover the debt service

2. A summary is taken from accounting records prepared for tax purposes and is shown in Exhibit 6.

EXHIBIT 6

APPENDIX A

TENNEY BUILDING COMPANY
APPROXIMATE ANNUAL CASH POSITION

	1981 5/1/80-4/30/81		1982 5/1/81-4/30/82	
Rental Revenues:	$355,847.00		$380,880.00	
Operating Expenses: [a]				
Accounting & Legal (now charged to Estate)	17.69		0	
Advertising & Promotion	2,003.86		2,378.16	
Auto Expense	5,055.94		4,351.09	
Building Security (Approx.)	1,108.98		1,454.92	
Insurance	9,676.89		8,682.22	
Maintenance	33,755.74		42,658.43	
Wages & Salaries	121,432.72		150,010.09	
Office Expense	6,118.66		5,823.35	
Repairs	5,674.78		16,674.85	
Taxes-Payroll	9,073.84		10,965.86	
Taxes-Real Estate	25,875.60	[b]	22,858.92	[b]
Telephone	2,105.62		2,632.91	
Utilities	72,840.88		56,177.22	
Miscellaneous	5,578.36		1,836.91	
Total Expenses	$302,663.06		$328,770.40	
Revenues	$355,847		$380,880	
less Expenses	(302,663)		(328,770)	
Net Operating Income	53,184		52,110	
Less Debt Service	(89,692)		(89,692)	
Cash Throw off	($36,508)		($37,582)	

[a] Cash loss is understated; estate has been paying all legal and accounting fees for all properties and capital improvements such as storms and gas conversion units have been paid by cash from the estate. No corresponding increase in debt service or decrease in cash flow matches capital improvements.

[b] Based upon a 1980 assessment of $1,200,000 and 1981 assessment of $1,050,000 and assumed to be paid in the year of assessment.

APPENDIX B

SALE OF BUILDING WITH REINVESTMENT OF REMAINING ASSETS AFTER TAXES

1. Even if the Tenney Building operated at break-even, neither the estate nor the beneficiaries are in a tax position to fully benefit from cash losses.

2. If the Tenney Building is sold in its present condition under existing market conditions, the remaining mortgage balance due will claim most of the cash from the sale. The federal and state capital gain taxes will further diminish the cash available for reinvestment.

3. Based upon the 1982 assessed value of $1,050,000 and the assumption of a 85 percent equalized value, the most probable sale price as of April 30, 1983, would be $1,235,000. The following calculations show the proceeds that would be available for reinvestment:

Resale Price	$1,235,000
Resale Costs @ 3%	(37,050)
Net Resale Price	1,197,950
Basis	(1,093,018)
Total Gain	$ 104,932
Excess Depreciation	0
Capital Gain	$ 104,932

Federal Tax on Capital Gain	$ 6,716 [1]
State Tax on Capital Gain	6,548
Mortgage Balance Due	894,800
Total Deductions from Net Resale Price	$908,064

Net Resale Price	$1,197,950
Total Deductions	908,064
Net Sales Proceeds After Taxes	$ 289,886

[1] Tax calculations estimated by Maloof Estate accountant.

APPENDIX B (Continued).

4. Solicitation of legitimate offers in the short run in order to limit current operating losses would be difficult and uncertain due to the existing first right of refusal to the First Wisconsin Development Corporation. Exercise of this right by the development corporation is further complicated by the fiduciary responsibilities of the Trust Department to the Maloof Estate.

5. If the proceeds are reinvested in tax exempt municipal bonds at the current Municipal BBI rate of 9.96 percent, the annual yield would be $28,870 to the estate. The value of the bonds and the annual income stream would constitute the only sources of return to the beneficiaries, but would be vulnerable to erosion by inflation.

APPENDIX C

PARTNERSHIP OF TENNEY BUILDING COMPANY AND DEVELOPER/PROPERTY MANAGER

1. A newly formed partnership with the Tenney Building Company and a professional developer/property manager would acquire title to the Tenney Building, in its present condition, through a trade for $1,150,000 (an approximation for the remaining basis in the property) less a mortgage balance of approximately $890,000 or $260,000; this amount would convert the Tenney Building Company's equity contribution to a $400,000 capital account in the partnership. The developer/manager partner would bring his expertise, staying power and $100,000 cash into the partnership; this also would convert to a $400,000 capital account in the partnership.

2. All remodeling, securing of financing, leasing, and management are the responsibility of the developer.

3. A wrap of the balance due on the original mortgage ($886,965) and the debt for the remodeling costs of $1,093,740 based upon a debt cover ratio of 1.25 [1] permit a mortgage of $1,980,705 at 13.25 percent interest for a 25 year term. Tenney Building Company will remain liable on the existing mortgage and the general partner will be liable for the remodeling mortgage.

---

[1] The amount of debt is also based upon the projected and revenues and expenses discussed in paragraph five of Appendix C.

APPENDIX C (Continued)

4. Partnership equity and debt structure is as follows:

a. Partnership capital assets

Tenney Building	$1,150,000	
Renovation costs	1,725,000	
Total capital assets		$2,875,000

b. Wraparound mortgage

Balance due on original mortgage as of 1984	$ 886,965	
Remodeling loan	1,093,740	
Total debt		1,980,705
Equity required		$ 894,295
Rounded		895,000

c. Sources of equity

Sources of equity	$895,000	
Maloof cash	(260,000)	[2]
Developer cash	(100,000)	
Equity needed from limited partners	$535,000	

d. Creation of capital accounts

Maloof family limited partner	$ 400,000
Other limited partners	535,000
	935,000
Developer - general partner	400,000
Total capital accounts	$1,335,000

[2] Appraised value of $1,150,000 less mortgage balance due of $890,000.

APPENDIX C (Continued)

e. Share of cash flow and reversion

General partner $\frac{\$400}{1,335,000}$ = .299 say 30%

Therefore, 70 percent = Limited partners

Maloof $\frac{\$400,000}{935,000}$ = .42 x .70 = .294 say 30%

Other limited partners $\frac{\$535,000}{935,000}$ = .57 x .70 = .40 say 40%

5. Following remodeling in 1984, the Tenney Building will be able to compete at the top of the Class B office market. Rents are projected to be $10 per square foot for office, $7 to $9.50 per square foot for retail, lower level at $5 per square foot with 2 percent annual increases. Parking revenues from existing 24 stalls start at $12,960 per year with periodic increases. Additional parking stalls by means of a deck could be considered later if justified by a jump in the rental rates. Operating expenses, excluding real estate taxes, are assumed to be 35 percent of potential gross revenue.

6. The spendable cash after taxes and the net worth after taxes will be shared as follows:

Tenney Building Co. (Limited partner)	30%
Other limited partners	40%
Developer/property manager (General partner)	30%

The largest cash outlay is made by the limited partners; the general partner with only $100,000 into the project is compensated for assuming day-to-day building operations. The annual cash flow to each partner is shown in Exhibit 7.

7. At the end of a 20 year holding period, each partner would share in the after tax net worth of the property. The sale price is estimated to be 7.75 times the net operating income in the 20th year or $5,086,999. Assuming a 3 percent sales commission, a remaining basis in the land of $340,000, a tax rate of 30 percent, and a remaining

EXHIBIT 7

APPENDIX C

CALCULATION OF SPENDABLE CASH AFTER TAXES
TO TENNEY BUILDING COMPANY
DEVELOPER/MANAGER AND OTHER LIMITED PARTNERS

Year	Total Spendable Cash After Taxes	Tenney 30%	Developer 30%	Other 40%
1	$313,038	$93,911	$93,911	$125,215
2	64,467	19,340	19,340	25,787
3	72,545	21,764	21,764	29,018
4	88,843	26,653	26,653	35,537
5	103,750	31,125	31,125	41,500
6	119,082	35,725	35,725	47,633
7	134,840	40,452	40,452	53,936
8	151,024	45,307	45,307	60,410
9	167,632	50,290	50,290	67,053
10	174,188	52,256	52,256	69,675
11	190,508	57,152	57,152	76,203
12	197,424	59,227	59,227	78,970
13	204,293	61,288	61,288	81,717
14	211,087	63,326	63,326	84,435
15	217,770	65,331	65,331	87,108
16	178,779	53,634	53,634	71,512
17	185,117	55,535	55,535	74,047
18	191,207	57,362	57,362	76,483
19	196,989	59,097	59,097	78,796
20	202,393	60,718	60,718	80,957

APPENDIX C (Continued)

mortgage balance of $992,632, the after tax worth would be approximately $3,390,000, excluding state capital gains. After all capital accounts are paid, $2,055,000 of after tax net worth remains for distribution to the partners.

The reversion values are:

Developer	$ 616,500
Tenney Building Co.	616,500
Other limited partners	822,000
	$2,055,000

8. The limited partnership/capital account format for the joint venture could provide a variety of special features such as tax loss reallocation to the estate, immediate distribution of limited partnership units to the beneficiaries, or debt to equity conversion opportunities for limited partners in the future should cash be available to liquidate first tier balloon mortgage.

9. Based upon the alternative option of a sale (see Appendix B), the acquisition value of the Tenney Building Company's partnership share is assumed to be $290,000. Using a discounted cash flow computer model, the net income to the Tenney Building Company over 20 years (see Exhibit 7) and resale at $616,500 yields a modified internal rate of return of .125. The equity dividend rate, exaggerated in the first year by the investment tax credit, is .067 in the second year and increases to a high of 22.5 percent at the end of year 15; after that, tax shelter benefits diminish and so does yield based upon after tax spendable cash. (See Exhibit 11, Appendix E).

10. Though the responsibility for the day-to-day operations of the Tenney Building would be shifted to a developer/manager partner, the risks of operation could fall back on the Tenney Building Company at any time. They would be equally liable on the mortgage; the corporate general partner with a limited equity contribution of $100,000 and his expertise could more easily take a walk on the debt. It would be necessary to incur the risk of major additional debt with no absolute reassurance that modernization would bring in the anticipated revenues to cover expenses and the additional debt.

APPENDIX D

INFORMATION ON MASTER LEASES

Questions and Answers

Q: *What is a Master Ground Lease?*

A: A Master Ground Lease is a long-term lease of both land *and* its improvements. It is similar to a ground lease, but differs in that it includes all existing buildings.

Under a Master Ground Lease the owner retains full ownership in the property and becomes the Lessor. He (the Owner) leases the property to the Lessee who in turn subleases to all existing and future tenants.

Q: *How long are most Master Ground Leases?*

A: Typically most Master Ground Leases run between 50 and 99 years. Our leases typically run between 75 and 85 years.

Q: *What does a Master Ground Lease contain?*

A: It contains all the elements normally found in an absolute triple-net lease. The Master Ground Lessee is normally responsible for paying *all* expenses relating to the property. These include real estate taxes, assessments of all types, repairs (structural and non-structural), maintenance and renovation or restoration of any improvements located on the property.

Q: *What happens if the property is in need of major restoration or redevelopment?*

A: Typically all restoration and redevelopment work is done by the Lessee. All architectural plans are approved by the Owner in advance, and appropriate bonds and other financial instruments are in place before construction begins.

Q: *What happens to the existing tenants?*

A: A Master Ground Lease is written subject to all the rights of the existing tenants. Thus, the new Master Lessee recognizes all existing tenants and their leases. It's just as if the property were sold and the Lessee stepped into the Owner's shoes.

Q: *What types of properties are best suited for a Master Ground Lease?*

A: In our experience, the following are characteristics of properties which best lend themselves to a long-term Master Ground Lease:

- Management problems. Buildings which are a source of management problems to the Owner.
- Vacancies. Buildings which are all or partially vacant.
- Repairs & Maintenance. Buildings, normally over 20 years old, which need substantial repairs or need to be renovated or rehabilitated.
- Upgrading. Buildings, in an area undergoing transition, which need to be upgraded or which use needs to be changed.
- Capital gains taxes. Buildings with a low basis, which if sold, would create a tax burden for the Owner.
- Selling & Financing difficulties. Buildings, which if under a long-term lease to one strong tenant, would be more valuable or easier for the Owner to sell or finance.

Master Ground Lease: an alternative solution

While a building remains in a fixed location, many factors, conditions and circumstances continue to change (new laws; area demographics; market demands; tenant's needs, desires and viability; owner objectives, priorities, status or interest) all affecting the building and often showing up as a problem for the owner.

Often, when these problems become too much of a burden, the solution is "SELL" or "LIVE WITH THE AGGRAVATION." We don't think selling is always the best solution and certainly don't think real estate ownership should be a burden.

Our alternative solution is Master Ground Leasing . . .

PROBLEM	SOLUTION
Management Hassles. Owner doesn't want to sell, but wants out of property management.	Lessee is responsible for all management via a long-term, triple-net, management-free lease with Owner.
Repairs/Renovation Needed. Owner is unable or unwilling to put money into upgrading the building.	Lessee is required to make and pay for all repairs and capital improvements to the property.
Refinancing Difficulties. Owner wants tax-free cash via refinancing, but has difficulty securing a loan due to vacancies, below-market income, or non-credit tenants.	Increased financability due to a guaranteed, long-term, triple-net lease.
Estate Planning. Owner wishes to give or leave a property to his family, but doesn't wish to saddle them with the burden or risk of management.	Placing a building under a management-free, long-term, triple-net lease with a predetermined and assured income stream can be a key estate planning tool.
Sale Problem. Owner has difficulty selling his property due to vacancy, below-market income, or non-credit tenants.	Master Ground Lease yields a property fully leased to a single strong tenant at an increased income. In addition, now management-free, it appeals to passive investors.
Reinvestment Dilemma. Owner wishes to move to a more passive investment, but does not want to lose the appreciated value of his asset through related capital gains taxes.	Without reinvestment hassles or related asset loss through taxes, a Master Ground Lease accomplishes Owner's passive investor objectives in his own real estate.

APPENDIX D (Continued)

Q: *How does a Master Ground Lease benefit the Owner?*

A: The Owner benefits in one or more of the following ways:

- No management problems. All management problems are eliminated, and a guaranteed long-term income flow is created. The Owner is now able to do long range financial and estate planning.
- 100% Occupancy. An all or partially vacant building is immediately 100% leased on a long-term basis, creating an instant increase in income for the Owner.
- Improvements made. Repairs, improvements and restorations are made to the building at no expense to the Owner. This is something a short-term tenant would normally not be willing to do.
- Property upgraded. The building is upgraded and improved in a manner appropriate to its surrounding neighborhood. This benefits the Owner both from a pride of ownership standpoint and an increase in value created through the upgrading.
- Non-taxable event. An Owner is relieved of the problems of real estate ownership without having to sell and pay capital gains taxes.
- More saleable & financable. The value of the property increases due to the Master Ground Lease terms, the strength of the Master Lessee, and the improvements made by the Master Lessee. Thus an Owner can refinance or sell the property more easily.

Q: *How does a Master Ground Lease affect an Owner's tax situation?*

A: Since the property is not being sold, the Owner continues to get the depreciation benefits and tax advantages of ownership. In addition, since there is no sale, no capital gains taxes are due.

In many cases, the prime reason for an Owner not selling his property is a low tax base. Thus, a Master Ground Lease appears to be particularly desirable.

Q: *How does the Master Ground Lease affect the Owner's ability to sell his property?*

A: The Owner is free to sell his property at any time. In addition, the Owner will be selling a property secured by a triple-net lease with a long-term income stream. Generally the market for such properties is expanded since it appeals to passive investors in search of a management-free investment.

Q: *How does a Master Ground Lease affect the Owner's ability to refinance his property?*

A: The Owner is refinancing a property secured by a triple-net lease and a long-term income stream. With a known income stream, a property becomes more financable.

Q: *How does a Master Ground Lease help estate planning?*

A: Since most real estate is management intensive, putting a property under a long-term, management-free lease is often desirable. This is particularly true when an Owner wishes for a property to remain in the family. In the event the estate needs cash, it facilitates financing.

EXHIBIT 8

APPENDIX E

MASTER LEASE REVENUE ASSUMPTIONS FOR 1984

First Floor Retail		
2,000 SF x $10		
1,680 SF x $7		
1,200 SF x $12		
4,880 SF x $9.50 average	$46,360	
First Floor - Chez Vouz		
1,454 SF x $7	10,180	$56,540
Lower Level		
4,400 SF x $5	22,000	22,000
Office		
61,690 SF x 10	616,900	616,000
		$695,440
Parking Revenue		
24 stalls x $45 per month x 12	12,960	12,960
		$708,400

EXHIBIT 9

APPENDIX E

ANNUAL CHANGE IN NET INCOME TO
PATTY MALOOF AND FAMILY
MEASURE OF PURCHASING POWER

Year	Net Income Patty Maloof and Family	Annual Increase/Decrease	Percentage Change [1]
1	$34,456	0	0
2	36,144	$1,688	.049
3	37,508	1,364	.038
4	40,190	2,682	.072
5	44,662	4,472	.111
6	45,218	556	.012
7	47,858	2,640	.058
8	50,586	2,728	.057
9	53,404	2,818	.056
10	54,651	1,247	.023
11	57,478	2,827	.052
12	58,845	1,367	.024
13	60,242	1,397	.024
14	52,596	(7,646)	(.127) [2]
15	54,056	1,460	.028
16	55,550	1,494	.028
17	57,076	1,526	.027
18	58,636	1,560	.027
19	60,231	1,595	.027
20	61,861	1,630	.027 [3]

[1] Percentage change is calculated as follows:

$$\frac{\text{Annual Increase/Decrease}}{\text{Previous Year's Net Income to Family}} \quad \text{e.g.} \quad \frac{\text{Year 2}}{} \frac{\$1,688}{\$34,456} = .049$$

[2] Refinancing in the 14th year increased the debt service from $89,864 to $98,759 or $8,895 and reduced the net income to the Maloof family.

[3] Overall average change is .039 per year compounded.

EXHIBIT 10

APPENDIX E

INPUT ASSUMPTIONS
****

```
1. ENTER PROJECT NAME ? MASTER LEASE
2. ENTER PROJECTION PERIOD ?  20
3. DO YOU WANT TO ENTER EFFECTIVE GROSS REVENUE INSTEAD OF NOI? N
   N.O.I. YEAR  1? 34456
   N.O.I. YEAR  2? 36144
   N.O.I. YEAR  3? 37508
   N.O.I. YEAR  4? 40190
   N.O.I. YEAR  5? 44662
   N.O.I. YEAR  6? 45218
   N.O.I. YEAR  7? 47858
   N.O.I. YEAR  8? 50586
   N.O.I. YEAR  9? 53404
   N.O.I. YEAR  10? 54651
   N.O.I. YEAR  11? 57478
   N.O.I. YEAR  12? 58845
   N.O.I. YEAR  13? 60242
   N.O.I. YEAR  14? 52596
   N.O.I. YEAR  15? 54056
   N.O.I. YEAR  16? 55550
   N.O.I. YEAR  17? 57075
   N.O.I. YEAR  18? 58636
   N.O.I. YEAR  19? 60231
   N.O.I. YEAR  20? 61861
4. ACQUISITION COST: ? 290000
5. DO YOU WANT TO USE STANDARD FINANCING? Y OR N?N
   ENTER ORIGINAL MORTGAGE BALANCE:  0
   ENTER MORTGAGE TERM:  20

   ENTER INTEREST PAYMENTS:
INTEREST PAYMENT YEAR  1? 0
INTEREST PAYMENT YEAR  2? 0
INTEREST PAYMENT YEAR  3? 0
INTEREST PAYMENT YEAR  4? 0
INTEREST PAYMENT YEAR  5? 0
INTEREST PAYMENT YEAR  6? 0
INTEREST PAYMENT YEAR  7? 0
INTEREST PAYMENT YEAR  8? 0
INTEREST PAYMENT YEAR  9? 0
INTEREST PAYMENT YEAR  10? 0
INTEREST PAYMENT YEAR  11? 0
INTEREST PAYMENT YEAR  12? 0
INTEREST PAYMENT YEAR  13? 0
INTEREST PAYMENT YEAR  14? 0
INTEREST PAYMENT YEAR  15? 0
INTEREST PAYMENT YEAR  16? 0
INTEREST PAYMENT YEAR  17? 0
INTEREST PAYMENT YEAR  18? 0
INTEREST PAYMENT YEAR  19? 0
INTEREST PAYMENT YEAR  20? 0
```

```
ENTER PRINCIPAL PAYMENTS:
PRINCIPAL PAYMENT YEAR  1? 0
PRINCIPAL PAYMENT YEAR  2? 0
PRINCIPAL PAYMENT YEAR  3? 0
PRINCIPAL PAYMENT YEAR  4? 0
PRINCIPAL PAYMENT YEAR  5? 0
PRINCIPAL PAYMENT YEAR  6? 0
PRINCIPAL PAYMENT YEAR  7? 0
PRINCIPAL PAYMENT YEAR  8? 0
PRINCIPAL PAYMENT YEAR  9? 0
PRINCIPAL PAYMENT YEAR  10? 0
PRINCIPAL PAYMENT YEAR  11? 0
PRINCIPAL PAYMENT YEAR  12? 0
PRINCIPAL PAYMENT YEAR  13? 0
PRINCIPAL PAYMENT YEAR  14? 0
PRINCIPAL PAYMENT YEAR  15? 0
PRINCIPAL PAYMENT YEAR  16? 0
PRINCIPAL PAYMENT YEAR  17? 0
PRINCIPAL PAYMENT YEAR  18? 0
PRINCIPAL PAYMENT YEAR  19? 0
PRINCIPAL PAYMENT YEAR  20? 0

6. ENTER RATIO OF IMP #1/TOTAL VALUE, LIFE OF IMP #1? .704348, 20
   IS THERE A SECOND IMPROVEMENT? Y OR N? N
7. DEPRECIATION METHOD, IMPROVEMENT #1  ? 1
   IS PROPERTY SUBSIDIZED HOUSING ? Y OR N ?N
   IS PROPERTY RESIDENTIAL? Y OR N? N
8. IS OWNER A TAXABLE CORPORATION? Y OR N ?N
   THE MAXIMUM FEDERAL INDIVIDUAL ORDINARY RATE COULD BE:
           70% (PRE-1981 LAW)
           50% (1981 LAW, EFFECTIVE 1982)

           (PLUS STATE RATE)

    ENTER:
   1) EFFECTIVE ORDINARY RATE  2) EFFECTIVE ORDINARY RATE (YEAR OF SALE)
?  .3, .3
9. RESALE PRICE (NET OF SALE COSTS) ? 1470000
10. IS THERE LENDER PARTICIPATION ?N
11. ENTER OWNER'S AFTER TAX REINVESTMENT RATE (%)?  9
12. ENTER OWNER'S AFTER TAX OPPORTUNITY COST OF EQUITY FUNDS (%)?  9
```

Landmark Research, Inc.

AFTER TAX CASH FLOW PROJECTION
MASTER LEASE
DATE 11/22/82

DATA SUMMARY
****

ACQUISTN COST: $290,000. MTG. AMT.: $0.
NOI 1ST YR: $34,456. MTG. INT.: ALTERNATE FORMAT
ORG. EQUITY: $290,000. MTG. TERM: 20. YRS
CTO 1ST YEAR: $34,456. DEBT SERVICE 1ST YEAR: $0.
MTG. CONST.: ALTERNATE FORMAT
IMP. #1 VALUE: $204,261. IMP. #1 LIFE: 20.
INC. TX RATE: 30%
SALE YR RATE: 30% OWNER: INDIVIDUAL

DEPRECIATION IMPROVEMENT #1 : STRAIGHT LINE
NON-RESIDENTIAL PROPERTY
LENDER PARTICIPATION: CASH THROW-OFF: NONE REVERSION: NONE

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

YEAR	NOI	MTG INT & LENDERS %	TAX DEP	TAXABLE INCOME	INCOME TAX	AFTER TAX CASH FLOW
1.	34456.	0.	10213.	24243.	7273.	27183.
2.	36144.	0.	10213.	25931.	7779.	28365.
3.	37508.	0.	10213.	27295.	8189.	29319.
4.	40190.	0.	10213.	29977.	8993.	31197.
5.	44662.	0.	10213.	34449.	10335.	34327.
6.	45218.	0.	10213.	35005.	10502.	34716.
7.	47858.	0.	10213.	37645.	11294.	36564.
8.	50586.	0.	10213.	40373.	12112.	38474.
9.	53404.	0.	10213.	43191.	12957.	40447.
10.	54651.	0.	10213.	44438.	13331.	41320.
11.	57478.	0.	10213.	47265.	14180.	43298.
12.	58845.	0.	10213.	48632.	14590.	44255.
13.	60242.	0.	10213.	50029.	15009.	45233.
14.	52596.	0.	10213.	42383.	12715.	39881.
15.	54056.	0.	10213.	43843.	13153.	40903.
16.	55550.	0.	10213.	45337.	13601.	41949.
17.	57075.	0.	10213.	46862.	14059.	43016.
18.	58636.	0.	10213.	48423.	14527.	44109.
19.	60231.	0.	10213.	50018.	15005.	45226.
20.	61861.	0.	10213.	51648.	15494.	46367.
	$1021247.	$0.	$204261.	$816987.	$245098.	$776149.

RESALE PRICE:	$1,470,000.	1ST YR B4 TAX EQ DIV:	11.8814%
LESS MORTGAGE BALANCE:	$0.	AVG DEBT COVER RATIO:	.0000
PROCEEDS BEFORE TAXES:	$1,470,000.		
LESS LENDER'S %:	$0.		
NET SALES PROCEEDS BEFORE TAXES:	$1,470,000.		

RESALE PRICE:	$1,470,000.
LESS LENDER'S %:	$0.
NET RESALE PRICE:	$1,470,000.
LESS BASIS:	$85,739.
TOTAL GAIN:	$1,384,261.
EXCESS DEPRECIATION:	$0.
EXCESS DEP. FORGIVEN:	$0.
CAPITAL GAIN:	$1,384,261.
ORDINARY GAIN:	$0.

TAX ON ORDINARY GAIN:	$0.
TAX ON CAPITAL GAIN:	$166,111.
PLUS MORTGAGE BAL:	$0.
TOTAL DEDUCTIONS FROM NET RESALE PRICE:	$166,111.

NET SALES PROCEEDS AFTER TAX:	$1,303,889.

IF PURCHASED AS ABOVE, HELD 20 YEARS & SOLD FOR $1,470,000.
THE MODIFIED I.R.R. BEFORE TAXES IS 13.8509% AND AFTER TAXES IS 12.6658%
ASSUMING AN AFTER TAX REINVESTMENT RATE OF 9%, AND OPPORTUNITY COST OF 9%

EQUITY ANALYSIS
MASTER LEASE
****

BEFORE TAX EQUITY DIVIDEND

YR	NOI	YR END EQUITY	AMOUNT	CASH RETURN ORG EQ	CASH RETURN CUR EQ
1.	$34,456.	$290,000.	$34,456.	.1188	.1188
2.	36,144.	290,000.	36,144.	.1246	.1246
3.	37,508.	290,000.	37,508.	.1293	.1293
4.	40,190.	290,000.	40,190.	.1386	.1386
5.	44,662.	290,000.	44,662.	.1540	.1540
6.	45,218.	290,000.	45,218.	.1559	.1559
7.	47,858.	290,000.	47,858.	.1650	.1650
8.	50,586.	290,000.	50,586.	.1744	.1744
9.	53,404.	290,000.	53,404.	.1842	.1842
10.	54,651.	290,000.	54,651.	.1885	.1885
11.	57,478.	290,000.	57,478.	.1982	.1982
12.	58,845.	290,000.	58,845.	.2029	.2029
13.	60,242.	290,000.	60,242.	.2077	.2077
14.	52,596.	290,000.	52,596.	.1814	.1814
15.	54,056.	290,000.	54,056.	.1864	.1864
16.	55,550.	290,000.	55,550.	.1916	.1916
17.	57,075.	290,000.	57,075.	.1968	.1968
18.	58,636.	290,000.	58,636.	.2022	.2022
19.	60,231.	290,000.	60,231.	.2077	.2077
20.	61,861.	290,000.	61,861.	.2133	.2133

ORIGINAL EQUITY: $ 290000

EXHIBIT 11

APPENDIX E

INPUT ASSUMPTIONS
****

```
1. ENTER PROJECT NAME ? TENNEY PARTNERSHIP
2. ENTER PROJECTION PERIOD ?  20
3. DO YOU WANT TO ENTER EFFECTIVE GROSS REVENUE INSTEAD OF NOI? N
   N.O.I. YEAR  1? 93911
   N.O.I. YEAR  2? 19340
   N.O.I. YEAR  3? 21764
   N.O.I. YEAR  4? 26653
   N.O.I. YEAR  5? 31125
   N.O.I. YEAR  6? 35725
   N.O.I. YEAR  7? 40452
   N.O.I. YEAR  8? 45307
   N.O.I. YEAR  9? 50290
   N.O.I. YEAR  10? 52256
   N.O.I. YEAR  11? 57152
   N.O.I. YEAR  12? 59227
   N.O.I. YEAR  13? 61288
   N.O.I. YEAR  14? 63326
   N.O.I. YEAR  15? 65331
   N.O.I. YEAR  16? 53634
   N.O.I. YEAR  17? 55535
   N.O.I. YEAR  18? 57362
   N.O.I. YEAR  19? 59097
   N.O.I. YEAR  20? 60718
4. ACQUISITION COST: ? 290000
5. DO YOU WANT TO USE STANDARD FINANCING? Y OR N?N
   ENTER ORIGINAL MORTGAGE BALANCE:  0
   ENTER MORTGAGE TERM:  20

   ENTER INTEREST PAYMENTS:
INTEREST PAYMENT YEAR  1? 0
INTEREST PAYMENT YEAR  2? 0
INTEREST PAYMENT YEAR  3? 0
INTEREST PAYMENT YEAR  4? 0
INTEREST PAYMENT YEAR  5? 0
INTEREST PAYMENT YEAR  6? 0
INTEREST PAYMENT YEAR  7? 0
INTEREST PAYMENT YEAR  8? 0
INTEREST PAYMENT YEAR  9? 0
INTEREST PAYMENT YEAR  10? 0
INTEREST PAYMENT YEAR  11? 0
INTEREST PAYMENT YEAR  12? 0
INTEREST PAYMENT YEAR  13? 0
INTEREST PAYMENT YEAR  14? 0
INTEREST PAYMENT YEAR  15? 0
INTEREST PAYMENT YEAR  16? 0
INTEREST PAYMENT YEAR  17? 0
INTEREST PAYMENT YEAR  18? 0
INTEREST PAYMENT YEAR  19? 0
INTEREST PAYMENT YEAR  20? 0
```

```
ENTER PRINCIPAL PAYMENTS:
PRINCIPAL PAYMENT YEAR  1? 0
PRINCIPAL PAYMENT YEAR  2? 0
PRINCIPAL PAYMENT YEAR  3? 0
PRINCIPAL PAYMENT YEAR  4? 0
PRINCIPAL PAYMENT YEAR  5? 0
PRINCIPAL PAYMENT YEAR  6? 0
PRINCIPAL PAYMENT YEAR  7? 0
PRINCIPAL PAYMENT YEAR  8? 0
PRINCIPAL PAYMENT YEAR  9? 0
PRINCIPAL PAYMENT YEAR  10? 0
PRINCIPAL PAYMENT YEAR  11? 0
PRINCIPAL PAYMENT YEAR  12? 0
PRINCIPAL PAYMENT YEAR  13? 0
PRINCIPAL PAYMENT YEAR  14? 0
PRINCIPAL PAYMENT YEAR  15? 0
PRINCIPAL PAYMENT YEAR  16? 0
PRINCIPAL PAYMENT YEAR  17? 0
PRINCIPAL PAYMENT YEAR  18? 0
PRINCIPAL PAYMENT YEAR  19? 0
PRINCIPAL PAYMENT YEAR  20? 0

6. ENTER RATIO OF IMP #1/TOTAL VALUE, LIFE OF IMP #1? .7043, 15
   IS THERE A SECOND IMPROVEMENT? Y OR N? N
7. DEPRECIATION METHOD, IMPROVEMENT #1 ? 1
   IS PROPERTY SUBSIDIZED HOUSING ? Y OR N ?N
   IS PROPERTY RESIDENTIAL? Y OR N? N
8. IS OWNER A TAXABLE CORPORATION? Y OR N ?N
   THE MAXIMUM FEDERAL INDIVIDUAL ORDINARY RATE COULD BE:
           70% (PRE-1981 LAW)
           50% (1981 LAW, EFFECTIVE 1982)

           (PLUS STATE RATE)

    ENTER:
   1) EFFECTIVE ORDINARY RATE  2) EFFECTIVE ORDINARY RATE (YEAR OF SALE)
?  .3, .3
9. RESALE PRICE (NET OF SALE COSTS) ? 616500
10. IS THERE LENDER PARTICIPATION ?N
11. ENTER OWNER'S AFTER TAX REINVESTMENT RATE (%)?  9
12. ENTER OWNER'S AFTER TAX OPPORTUNITY COST OF EQUITY FUNDS (%)?  9
```

Landmark Research, Inc.

AFTER TAX CASH FLOW PROJECTION
TENNEY PARTNERSHIP
DATE 11/22/82

DATA SUMMARY
****

ACQUISTN COST: $290,000.   MTG. AMT.: $0.
NOI 1ST YR: $93,911.   MTG. INT.: ALTERNATE FORMAT
ORG. EQUITY: $290,000.   MTG. TERM: 20. YRS
CTO 1ST YEAR: $93,911.   DEBT SERVICE 1ST YEAR: $0.
MTG. CONST.: ALTERNATE FORMAT
IMP. #1 VALUE: $204,247.   IMP. #1 LIFE: 15.
INC. TX RATE: 30%
SALE YR RATE: 30%   OWNER: INDIVIDUAL

DEPRECIATION IMPROVEMENT #1 : STRAIGHT LINE
NON-RESIDENTIAL PROPERTY
LENDER PARTICIPATION: CASH THROW-OFF: NONE   REVERSION: NONE

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

YEAR	NOI	MTG INT & LENDERS %	TAX DEP	TAXABLE INCOME	INCOME TAX	AFTER TAX CASH FLOW
1.	93911.	0.	13616.	80295.	24089.	69822.
2.	19340.	0.	13616.	5724.	1717.	17623.
3.	21764.	0.	13616.	8148.	2444.	19320.
4.	26653.	0.	13616.	13037.	3911.	22742.
5.	31125.	0.	13616.	17509.	5253.	25872.
6.	35725.	0.	13616.	22109.	6633.	29092.
7.	40452.	0.	13616.	26836.	8051.	32401.
8.	45307.	0.	13616.	31691.	9507.	35800.
9.	50290.	0.	13616.	36674.	11002.	39288.
10.	52256.	0.	13616.	38640.	11592.	40664.
11.	57152.	0.	13616.	43536.	13061.	44091.
12.	59227.	0.	13616.	45611.	13683.	45544.
13.	61288.	0.	13616.	47672.	14302.	46986.
14.	63326.	0.	13616.	49710.	14913.	48413.
15.	65331.	0.	13616.	51715.	15515.	49816.
16.	53634.	0.	0.	53634.	16090.	37544.
17.	55535.	0.	0.	55535.	16661.	38874.
18.	57362.	0.	0.	57362.	17209.	40153.
19.	59097.	0.	0.	59097.	17729.	41368.
20.	60718.	0.	0.	60718.	18215.	42503.
	$1009493.	$0.	$204247.	$805253.	$241577.	$767916.

RESALE PRICE:	$616,500.		1ST YR B4 TAX EQ DIV:	32.3831%
LESS MORTGAGE BALANCE:	$0.		AVG DEBT COVER RATIO:	.0000
PROCEEDS BEFORE TAXES:	$616,500.			
LESS LENDER'S %:	$0.			
NET SALES PROCEEDS BEFORE TAXES:	$616,500.			

RESALE PRICE:	$616,500.
LESS LENDER'S %:	$0.
NET RESALE PRICE:	$616,500.
LESS BASIS:	$85,753.
TOTAL GAIN:	$530,747.
EXCESS DEPRECIATION:	$0.
EXCESS DEP. FORGIVEN:	$0.
CAPITAL GAIN:	$530,747.
ORDINARY GAIN:	$0.

TAX ON ORDINARY GAIN:	$0.
TAX ON CAPITAL GAIN:	$63,690.
PLUS MORTGAGE BAL:	$0.
TOTAL DEDUCTIONS FROM NET RESALE PRICE:	$63,690.

NET SALES PROCEEDS AFTER TAX:	$552,810.

IF PURCHASED AS ABOVE, HELD 20 YEARS & SOLD FOR $616,500.
THE MODIFIED I.R.R. BEFORE TAXES IS 12.4483% AND AFTER TAXES IS 11.2071%
ASSUMING AN AFTER TAX REINVESTMENT RATE OF 9%, AND OPPORTUNITY COST OF 9%

EQUITY ANALYSIS
TENNEY PARTNERSHIP
****

BEFORE TAX EQUITY DIVIDEND

YR	NOI	YR END EQUITY	AMOUNT	CASH RETURN ORG EQ	CASH RETURN CUR EQ
1.	$93,911.	$290,000.	$93,911.	.3238	.3238
2.	19,340.	290,000.	19,340.	.0667	.0667
3.	21,764.	290,000.	21,764.	.0750	.0750
4.	26,653.	290,000.	26,653.	.0919	.0919
5.	31,125.	290,000.	31,125.	.1073	.1073
6.	35,725.	290,000.	35,725.	.1232	.1232
7.	40,452.	290,000.	40,452.	.1395	.1395
8.	45,307.	290,000.	45,307.	.1562	.1562
9.	50,290.	290,000.	50,290.	.1734	.1734
10.	52,256.	290,000.	52,256.	.1802	.1802
11.	57,152.	290,000.	57,152.	.1971	.1971
12.	59,227.	290,000.	59,227.	.2042	.2042
13.	61,288.	290,000.	61,288.	.2113	.2113
14.	63,326.	290,000.	63,326.	.2184	.2184
15.	65,331.	290,000.	65,331.	.2253	.2253
16.	53,634.	290,000.	53,634.	.1849	.1849
17.	55,535.	290,000.	55,535.	.1915	.1915
18.	57,362.	290,000.	57,362.	.1978	.1978
19.	59,097.	290,000.	59,097.	.2038	.2038
20.	60,718.	290,000.	60,718.	.2094	.2094

ORIGINAL EQUITY: $ 290000