



Review of an appraisal dated February 17, 1989 and prepared by John E. Klein, MAI, SRPA and further analysis of a mixed use property located at 116 and 116 1/2 S. Vine Street, Horicon, Wisconsin and k...

Landmark Research, Inc.
[s.l.]: [s.n.], June 1, 1989

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**REVIEW OF AN APPRAISAL
OF A PROPERTY LOCATED AT
116 AND 116 1/2 S. VINE STREET
HORICON, WISCONSIN**

**Landmark
Research
Inc.**

Landmark Research, Inc.

REVIEW OF AN APPRAISAL DATED FEBRUARY 17, 1989

AND PREPARED BY JOHN E. KLEIN, MAI, SRPA

AND FURTHER ANALYSIS

OF A MIXED USE PROPERTY LOCATED AT

116 AND 116 1/2 S. VINE STREET

HORICON, WISCONSIN

AND KNOWN AS THE

HORICON REPORTER BUILDING

APPRAISAL REVIEW PREPARED BY

LANDMARK RESEARCH, INC.

JUNE 1, 1989

June 1, 1989

Mr. Julius Marolla
Horicon Reporter
116 S. Vine Street
Horicon, WI 53032

Jean B. Davis, President

James A. Graaskamp, 1933-1988

Dear Mr. Marolla:

Landmark
Research
Inc.

With this letter, we transmit to you our analyses and value conclusions regarding the mixed use property known as the Horicon Reporter building located at 116 & 116 1/2 S. Vine Street, Horicon, Wisconsin. Our report is essentially a review and analysis of the appraisal, dated February 17, 1989, done for the City of Horicon by John E. Klein, MAI, SRPA.

Based on the assumption that the John Deere Company is the most probable buyer, our analysis of the appraisal, and a review of additional sales transactions which have occurred since February 17, 1989, we concur that the fair market value of the real property including land and improvements before the taking is \$48,000 assuming cash to the seller, and subject to the assumptions and limiting conditions discussed in the appraisal. If the John Deere Company is the most probable buyer, we concur with Mr. Klein's conclusions that the value of the remaining property after the taking is \$28,500, the value of the real property to be taken is \$19,500, and the value of the temporary limited easement is \$4,500.

Based on the assumption that the John Deere Company is not the most probable buyer of the remainder, the value of the remaining property after the taking is approximately \$7,250, the value of the real property including land and improvements to be taken is approximately \$40,750, and the value of the temporary limited easement is approximately \$1,150. The differences in the values based on the most probable buyer are explained in the report.

We further certify that, to the best of our knowledge, the statements made in this report are true, and we have not knowingly withheld any significant information; that P. Diane Atwood has personally inspected the subject property; that we have no interest, present or contemplated, in the subject property or the participants in the transaction; that neither the employment nor compensation to make said appraisal is contingent upon our value estimate; that all contingent and limiting conditions are stated herein; and that the fee charged is consistent with our usual charge for appraisal services.

We are pleased to have been of service to you and remain available to answer questions you may have regarding this review.

FOR LANDMARK RESEARCH, INC.

Jean B. Davis
President

K. Edward Atwood
K. Edward Atwood, Ph.D., CPA
Real Estate Appraiser/Analyst

Diane Atwood
P. Diane Atwood, M.S.
Real Estate Appraiser/Analyst

Enclosures

I. PURPOSE OF THE REVIEW AND ANALYSIS

The purpose of this review and analysis is to determine the appropriateness of the methodology used and the valuation conclusions reached by John E. Klein, MAI, SRPA in an appraisal of a property known as the Horicon Reporter building. The purpose of that appraisal was to estimate the Fair Market Value of lands and interests to be acquired by Right-of-Way Project No. 1412-05-00 for a mixed use property located at 116 and 116 1/2 S. Vine Street in Horicon, Wisconsin.

II. DEFINITION OF FAIR MARKET VALUE

The definition of Fair Market Value used by the Wisconsin Department of Transportation is: [1]

The amount of money which a property will bring in a competitive and open market under all conditions needed for a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue motivation.

Our review and analysis is also based on an expanded definition given by the American Institute of Real Estate Appraisers is: [2]

The most probable price in cash, terms equivalent to cash, or in other precisely revealed terms, for which the appraised property will sell in a competitive market under all conditions requisite to fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self interest, and assuming that neither is under undue duress.

Fundamental assumptions and conditions presumed in this definition are:

1. Buyer and seller are motivated by self interest.
2. Buyer and seller are well informed and are acting prudently.
3. The property is exposed for a reasonable time on the open market.
4. Payment is made in cash, its equivalent, or in specified financing terms.
5. Specified financing, if any, may be the financing actually in place or on terms general available for the property type in its locale on the effective appraisal date.
6. The effect, if any, on the amount of market value of atypical financing, services, or fees shall be clearly and precisely revealed in the appraisal report.

[1] Wisconsin Statutes, Section 32.09.

[2] American Institute of Real Estate Appraisers, The Appraisal of Real Estate, Eighth Edition, Chicago, IL, 1983, p. 33.

Research Inc.

III. DESCRIPTION OF PROPERTY INTERESTS

We have reviewed and verified the factual data concerning the property interests as presented in the Klein appraisal. In this section, we are including this data and providing clarifications where needed.

A. Location of Subject Property

The subject property, consisting of 3,298 square feet, is located at 116 and 116 1/2 S. Vine Street in Horicon, Wisconsin. The property was described as Parcel No. 4 in the taking. The total land required for the taking is 1,340 square feet. A temporary limited easement for an additional 1,112 square feet was also valued. The 1,112 square footage needed for the easement is part of the 1,958 square foot remaining parcel.

B. Legal Description

The legal description of the subject property found in the Dodge County Register of Deeds office is:

The south 30 feet of the east three quarters of Lot 14 and south 30 feet of Lots 15 and 16, Block 16, on the Original Plat of the Village of Horicon, now known as the City of Horicon, Wisconsin.

C. Tax Assessment as of January 1, 1988

Parcel Tax No. 236-0116-00000

Assessed Valuation	- Land	\$ 5,200
	- Improvements	<u>26,400</u>
	TOTAL	\$31,600

Current assessment ratio equals 98.8%.

D. Owner of Record

Edward Marolla, Jr. and wife, Elizabeth Marolla; and Julius Marolla and wife, Barbara Marolla.

E. Lease Encumbrance

The property is assumed to be free of any lease encumbrances.

F. Mortgage Liens

The property is assumed to be free of any mortgages.

G. Other Licenses, Easements, and Encumbrances

The property is currently subject to a special assessment levied by the City of Horicon for banners, trees and grades. The

balance owing at the time of the appraisal was \$22.08 for the banners and \$228.96 for trees and grades. Two annual future installments remain to be paid on the assessment. These installments are due at the same time as the real estate taxes.

IV. SITE AND IMPROVEMENTS DESCRIPTIONS

The site and improvements descriptions given in the appraisal were reviewed and verified. We compared the descriptions given in the appraisal with descriptions of property features noted and pictures taken during our site visit. The descriptions found in the appraisal are adequate and correct.

V. HIGHEST AND BEST USE

The estimation of market value requires the appraiser to first identify potential uses. An analysis of these uses determines the highest and best use and most probable buyer.

A. Potential Uses

After completing an inventory of the property's positive and negative attributes, any limitations on future use, and immediate linkages, the appraiser must then identify possible or potential uses. Each use must exploit the marketable attributes of the property, neutralize its negative characteristics, and operate within limits of a justified prudent investment.

Three potential uses exist: Use of the property by an owner/occupant, use of the existing property as an investment, and conversion of the property to a parking lot.

B. Determination of Highest and Best Use

In analyzing the potential retail/commercial use of the property by an owner/occupant, we considered similar properties currently for sale in the immediate area. We found marketing of this type property typically takes a year or more. In comparison with other available properties, we found the subject property is in poorer condition and offers less utility. The flat economy of Horicon and the abundance of available alternate properties indicates this use has very little future potential.

In considering the potential use of the property for investment purposes, uses for retail/commercial and office space must be analyzed. The subject property is presently used for commercial purposes. We feel conversion of the subject property to office space would not be feasible based on the soft rental market in Horicon. Office space in the Wisconsin Bell building has been available for several months and their marketing office advised there has been very little interest in the space. We believe there is little demand for office space in Horicon at this time.

Based on the potential use of the property for investment purposes, the current retail/commercial rental market was analyzed. The most comparable property found is located at the southeast corner of Vine and Lake Street. This property has approximately 2,500 square feet available and was recently refurbished with new drywall, ceiling, lighting, carpeting, central air conditioning, and a gas furnace. The space is available for \$500 per month or \$2.40 per square foot annually. The rental rate does not include utilities. The Vine and Lake Street property is very similar in physical attributes to the subject property. It is an older building, similar in size and could be used for retail or commercial use as could the subject property. In order to be competitive in the marketplace, the subject property would require substantial cash expenditures for remodeling the property. The downstairs would require similar improvements to those made at the Vine and Lake Street property. Also, new tenants in the upstairs apartment would probably require new interior paint and carpeting.

The apartment rental market in Horicon indicates rents range from \$225 to \$400 per month depending on the size of the unit, whether the unit is furnished or unfurnished, location, and if utilities are included. Also, some of the rental units are available based on income. We will estimate the second floor apartment rental rate to be \$250 without utilities.

In valuing the subject property for investment purposes, as a retail/commercial use, we would use the an income approach. The first floor rents are estimated to be \$2.40 per square foot annually and the upstairs apartment at \$250 per month. Vacancies are estimated to be one month per year. Neither of these rental rates would include utilities. Properties of this nature sell at a capitalization rate of 14 to 16%. Using a 14% capitalization rate which indicates the highest possible value, and assuming a flat market for the next five years, the value of the property net of improvements is estimated to be \$53,448 (Exhibit 1). The cost of remodeling the subject property is estimated to be approximately \$5 per square foot or \$14,720. Therefore, the value of the property after remodeling costs is estimated to be approximately \$37,728.

The existing supply of retail/commercial rental space currently available in Horicon coupled with the value of the property after improvements of \$37,728 would not support this scenario as the highest and best use of the subject property.

The third potential use, conversion to a parking lot, is consistent with the surrounding uses. If an investor purchased the property to operate as a parking lot, there would have to be demand for paid parking stalls in Horicon. We believe this demand does not exist and, therefore, the income approach to value is not appropriate in estimating the market value of this property.

Therefore, we concur with the appraiser's conclusion that the highest and best use of the subject site is conversion to a parking lot for use by the adjacent property owner to expand their existing lot.

C. Most Probable Buyer

Identification of the most probable buyer comes directly from the subject property's highest and best use. As discussed in the appraisal, this parcel is the only parcel on the block not currently owned by John Deere. The parcel's north and west boundaries are adjacent to John Deere's parking lot. John Deere has been continuously acquiring properties on this block when they become available to enlarge its parking lot. The most recent sale and the main comparable used by the appraiser was the Leon Eddy (Leon Cleaners) to John Deere Company sale on July 1, 1988. The appraiser contacted John Deere and they indicated an interest in acquiring the property.

We concur with the appraiser's conclusion that the most probable buyer is deemed to be the John Deere Company.

VI. **MARKET VALUE**

Based on its highest and best use as a parking lot by the John Deere Company, the most appropriate method to determine the value of the subject property is by the Market Comparison Approach. The Market Comparison Approach first requires the identification of similar properties. Through an orderly process of comparing attributes of comparable properties to the subject property and inferring from the market pricing of past transactions, the market value of the subject property is estimated.

Sales of vacant land and improved properties similar to the subject were reviewed by the appraiser. Mr. Klein found values per square foot ranging from as high as \$16.00 and as low as \$0.97. We believe sales over five years old should not be considered. The values over the past five years have ranged from \$0.97 to \$14.50 per square foot.

During our research, we found information regarding two additional transactions which both occurred on April 12, 1989. The transactions involved the property known as the Refuge Bar located at 315-317 E. Lake Street approximately two blocks from the subject property (see Exhibits 2 and 3). The property is similar to the subject property in that its first floor is used for commercial purposes and the second floor has been used as a two bedroom, one bath apartment. The basement is used for storage and includes a large cooler used by the bar. The total square footage of the building is estimated to be 4,691 square feet. The lot size is estimated to be 3,120 square feet. The property was not in use at the time of the sale.

The first transaction was a warranty deed transferring the property from Clarence E. and Selma Metzdorf to Ruth E. Mullen in fulfillment

of the terms contained in a land contract entered into approximately 15 years ago. The transaction price in the land contract was \$50,000.

The second transaction transferred the property from Ruth E. Mullen to William P. and Kathryn J. Waschow. The sales price of the property was \$36,000 cash to Ms. Mullen. Mr. Waschow indicated the property is in poor condition and needs complete remodeling indicating the reason it is not currently being used. He advised he would request a tax assessment reduction for 1989. Telephone conversations with the Tax Assessor confirmed the property's tax assessment was recently decreased to \$36,000.

The first transaction is not a valid comparable because the \$50,000 sales price represents the sales price from 15 years ago. However, the second transaction is a valid comparable. Based on the \$36,000 sale price and the estimated 3,120 square footage of the land (assuming the value is based on the site as vacant), we find a square foot value of \$11.54 per square foot. Valuing the site as vacant is appropriate since the improvements are in such poor condition. The \$11.54 per square foot fits in the estimated range of \$14.50 to \$0.79 per square foot from the other comparables.

The appraiser was correct in not considering the offer to purchase by Hardee's Restaurant as a valid indication of the site's value. The offer to purchase had contingencies concerning purchases of adjoining lands. As pointed out by the appraiser, required approval by the City of Horicon was probably unattainable. Furthermore, the most valid indication of most probable price is from consummated sales of comparable properties.

The John Deere Company has been assembling property on the block where the subject property is located. These purchases have been for sites which currently have improvements in place and have other possible alternative uses. The most recent purchase was the Eddy property at a price of \$14.50 per square foot. We believe this sale is a valid indication of the market value of the subject property. Based on the highest and best use as a parking lot and sale of the entire parcel (including 3,298 square feet of land and the existing improvements) to the John Deere Company for assemblage purposes as the most probable buyer, we concur with Mr. Klein's market value of \$14.50 per square foot.

VII. CONCLUSIONS AND LIMITING CONDITIONS

A. Value Conclusions

We concur that the market value of the subject property, including, land and improvements is \$14.50 per square foot or

**FORTY EIGHT THOUSAND DOLLARS
(\$48,000)**

1. Value based on the assumption that the John Deere Company will be the Purchaser

Based on the assumption that the John Deere Company will be the purchaser, we concur with the real property values established by the appraiser as of February 17, 1989 as stated below:

VALUE BEFORE THE TAKING:

3,298 square feet @ \$14.50 per square foot	
(including land and improvements) equals	\$48,000

LESS THE:

VALUE OF THE REMAINDER:

1,958 square feet @ \$14.50 per square foot	
(including land) equals	28,500

EQUALS THE:

VALUE OF THE TAKING:

1,340 square feet @ \$14.50 per square foot	
(including land and improvements) equals	\$19,500

VALUE OF THE TEMPORARY LIMITED EASEMENT:

1,112 square feet at \$14.50 per square foot	
at a 14% rental rate of per year for two	
years equals	\$ 4,500

2. Value of the remaining parcel based on the assumption the John Deere Company is not the Purchaser

If the most probable buyer of the remaining vacant parcel (without building improvements), consisting of 1,958 square feet, is someone other than the John Deere Company, we believe the value per square foot of the remaining parcel is reduced to the market value reflected by recent comparable vacant land sales in Horicon. The most recent sales are described as Comparable No. 4 at \$5.26 per square foot and Comparable No. 6 at \$2.15 per square foot in Mr. Klein's appraisal. Comparable No. 4 occurred in 1984, whereas Comparable No. 6 occurred in early 1988. The economy in Horicon has been flat for sometime, therefore, we will not make a time adjustment for the 1984 sale. The size of Comparable No. 6 is also considerably larger than Comparable 4. As discussed by Mr. Klein, normally the larger the parcel the lower the price per square foot. Averaging the two sales on a per square foot price, the average value is \$3.70 per square foot. Therefore, the remaining parcel, consisting of 1,958 square feet, has a value of approximately \$7,245.

Therefore, if the most probable buyer of the remaining parcel is someone other than the John Deere Company, the approximate values would be as follows:

VALUE BEFORE THE TAKING:

3,298 square feet @ \$14.50 per square foot
(including land and improvements) equals \$48,000

LESS THE:

VALUE OF THE REMAINDER:

1,958 square feet @ \$3.70 per square foot
(including land) equals 7,250

EQUALS THE:

VALUE OF THE TAKING:

1,340 square feet @ \$14.50 per square foot
(including land and improvements) equals \$40,750

VALUE OF THE TEMPORARY LIMITED EASEMENT:

1,112 square feet at \$3.70 per square foot
at a 14% rental rate of per year for two
years equals \$ 1,150

B. Certification of Independent Appraisal Review Judgment

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

Based on the information and subject to the limiting conditions contained in the Klein appraisal, we concur that the fair market value of the real property including land and improvements as defined herein, of the fee title of the subject property, consisting of 3,298 square feet, located at 116 and 116 1/2 S. Vine Street, Horicon, Wisconsin as of February 17, 1989 is:

**FORTY EIGHT THOUSAND DOLLARS
(\$48,000)**

Jean B. Davis, President

K. Edward Atwood

K. Edward Atwood, Ph.D, CPA
Real Estate Appraiser/Analyst

Diane Atwood
P. Diane Atwood, M.S.
Real Estate Appraiser/Analyst

Date: *June 1, 1989*

EXHIBIT 1

**INCOME APPROACH TO VALUE FOR
SALE OF THE PROPERTY
TO AN INVESTOR**

HORICON REPORTER BUILDING						
REVENUE:	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6
Retail Apartment	\$3,533 3,000	\$3,533 3,000	\$3,533 3,000	\$3,533 3,000	\$3,533 3,000	\$3,533 3,000
GROSS REVENUE	\$6,533	\$6,533	\$6,533	\$6,533	\$6,533	\$6,533
LESS VACANCY (1 month per year)	(544)	(544)	(544)	(544)	(544)	(544)
EFFECTIVE GROSS REVENUE	\$5,989	\$5,989	\$5,989	\$5,989	\$5,989	\$5,989
EXPENSES:						
Insurance	\$200	\$200	\$200	\$200	\$200	\$200
Real Estate Taxes	1,091	1,091	1,091	1,091	1,091	1,091
TOTAL EXPENSES	\$1,291	\$1,291	\$1,291	\$1,291	\$1,291	\$1,291
NET OPERATING INCOME	\$4,698	\$4,698	\$4,698	\$4,698	\$4,698	\$4,698
LESS DEBT - Interest [1] - Principal [1]	(\$4,196) (\$560)	(\$4,131) (\$625)	(\$4,059) (\$697)	(\$3,978) (\$778)	(\$3,888) (\$868)	(\$3,788) (\$968)
CASH FOR EQUITY AND INCOME TAX	(\$58)	(\$58)	(\$58)	(\$58)	(\$58)	(\$58)

[1] Estimated mortgage of \$38,400 @ 11% for 20 years (monthly amortization)
(i.e. \$48,000 appraised value X 80% loan-to-value ratio)

ASSUMING A 12% DISCOUNT RATE AND A 14% CAP RATE:

PRESENT VALUE OF THE CASH FLOWS IS:

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
NET OPERATING INCOME	\$4,698	\$4,698	\$4,698	\$4,698	\$4,698
Multiplied by: PVIF of 12%	0.893	0.797	0.712	0.636	0.567
PRESENT VALUE	\$4,195	\$3,744	\$3,345	\$2,988	\$2,664 = \$16,936

REVERSION IN YEAR 6:

NOI \$4,698 / .14 =	\$33,556 SALES PRICE
LESS:	(34,872)MORTGAGE BALANCE
+	(2,013)COMMISSION @ 6%
	(\$3,330)REVERSION AMOUNT
x	0.567 PVIF @ 12%
	(\$1,888)PV OF REVERSION
PLUS:	16,936 PV OF CASH FLOWS
+	38,400 MORTGAGE
VALUE FROM INCOME APPROACH	\$53,448 AS IF IMPROVED

PV OF CASH
FLOWS

EXHIBIT 2

NEW COMPARABLE SALE NO. 1

ADDRESS: 315-317 E. Lake Street

LOCATION: Approximately two blocks from the subject site

SALES PRICE: \$50,000 as agreed on a land contract approximately 15 years ago

SALES DATE: April 12, 1989

SELLER: Clarence E. and Selma Metzdorf

BUYER: Ruth E. Mullen

RECORDING DATA: Volume 673, Page 118, Dodge County Register of Deeds; Document No. 719799

INSTRUMENT TYPE: Warranty Deed

SITE SIZE: Approximately 3,120 square feet

ZONING: C-1

PARKING: None

YEAR BUILT: Unknown

CONSTRUCTION TYPE: Wood frame and brick

GROSS FLOOR AREA: Approximately 4,691 square feet

COMMERCIAL AREA: Approximately 1,474 square feet

APARTMENT AREA: Approximately 1,474 square feet

BASEMENT AREA: Approximately 1,742 square feet

HEAT: Hot water; oil furnace

AIR CONDITIONING: Window units

EXHIBIT 3

NEW COMPARABLE SALE NO. 2

ADDRESS: 315-317 E. Lake Street

LOCATION: Approximately two blocks from the subject site

SALES PRICE: \$36,000

SALES DATE: April 12, 1989

SELLER: Ruth E. Mullen

BUYER: William P. and Kathryn J. Waschow

RECORDING DATA: Volume 673, Page 119, Dodge County Register of Deeds; Document No. 719800

INSTRUMENT TYPE: Warranty Deed

SITE SIZE: Approximately 3,120 square feet

ZONING: C-1

PARKING: None

YEAR BUILT: Unknown

CONSTRUCTION TYPE: Wood frame and brick

GROSS FLOOR AREA: Approximately 4,691 square feet

COMMERCIAL AREA: Approximately 1,474 square feet

APARTMENT AREA: Approximately 1,474 square feet

BASEMENT AREA: Approximately 1,742 square feet

HEAT: Hot water; oil furnace

AIR CONDITIONING: Window units

