Appraisal of 1 East Main Street, Madison, Wisconsin. December 14, 1984

Richman, Lisa B.
[s.l.]: [s.n.], December 14, 1984

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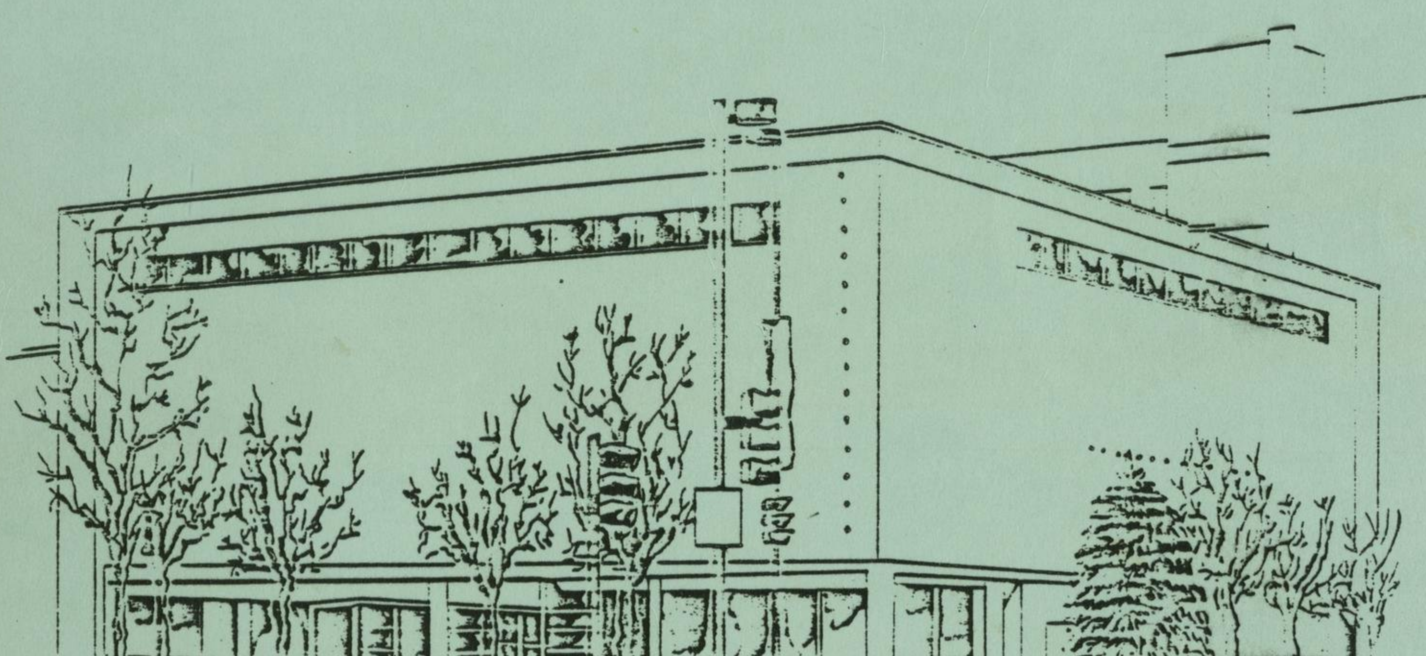
1 East Main



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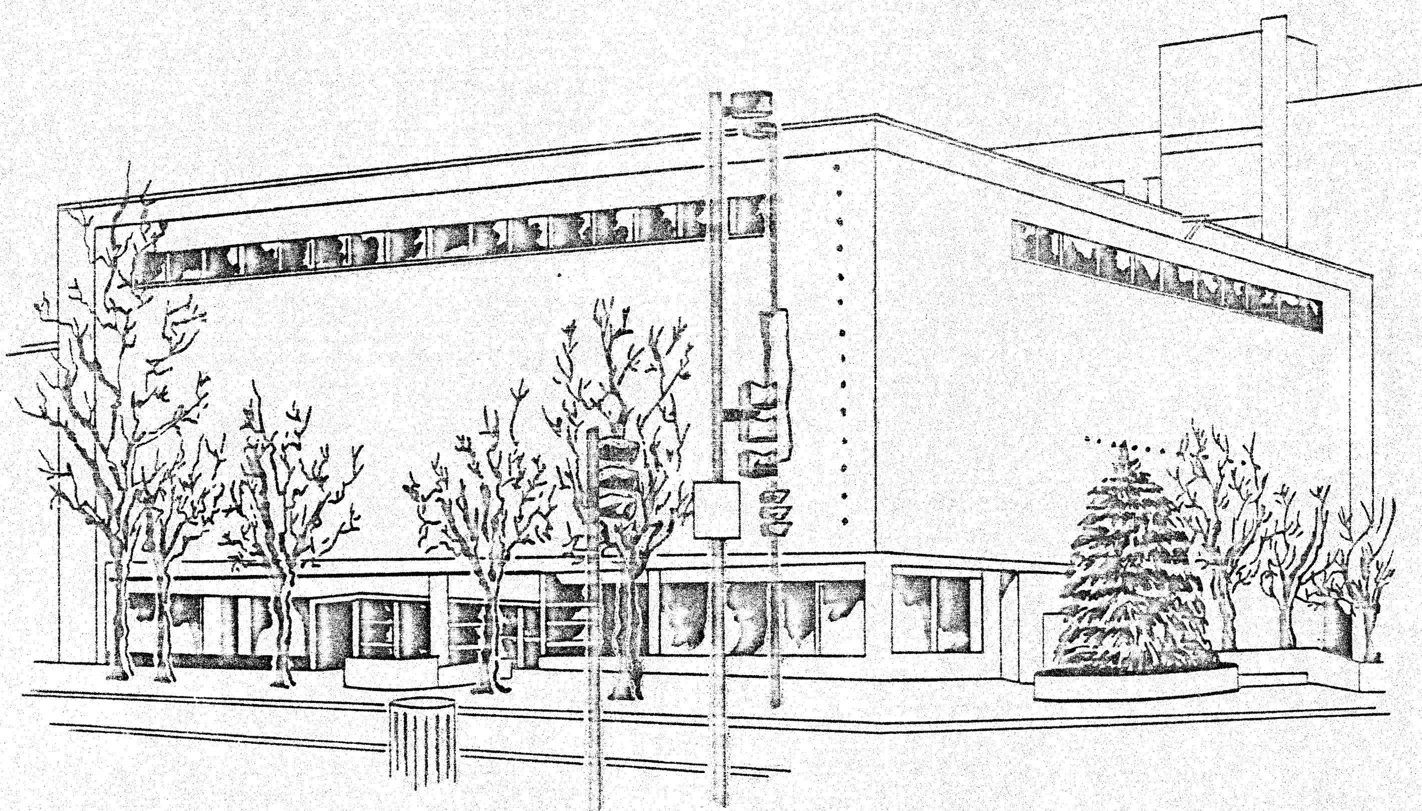

APPRAISAL OF

1 EAST MAIN STREET,

MADISON, WISCONSIN

Lisa B. Richman

December 14, 1984

December 14, 1984

Dr. James Graaskamp
1155 Observatory Drive
Madison, WI 53706

Dear Dr. Graaskamp:

Enclosed is the appraisal report that you requested on the property known as the J. C. Penney Building, 1 East Main Street, City of Madison, County of Dane, Wisconsin.

In your letter authorizing this work, you indicated that the conclusion would serve as a benchmark for listing and negotiating the sale of the subject property.

The enclosed report concludes that fair market value of the property on September 8, 1984 is

SEVEN HUNDRED THOUSAND DOLLARS ($700,000)

cash to the seller. This value represents the central tendency of cash sales derived using the market comparison approach and may be used for assessment value appeal.

Given Northwestern Mutual's favorable bargaining position, they do not seem likely to accept a sales price below fair market value. Therefore, most probable selling price of the property on September 8, 1984 has been determined equal to fair market value. The probable transaction zone, a function of external circumstances introducing error, is from $700,000 to $720,000, depending on terms. Municipal financing in the form of Industrial Revenue Bonds at 9.75% interest might achieve the upper limit of $720,000.

Value conclusions are sensitive to the estimated costs of renovation, particularly efforts directed to improve the aesthetic quality of the interior. In addition, investment is sensitive to forecasts of market demand for retail and office space.

According to your dictates, no funds for architectural, legal or engineering investigation were spent, and so the feasibility of the most probable use assumption, which is critical to a value estimate, must be regarded as only preliminary. However, these and other relevant factors were extensively analyzed, and I believe that the conclusions are reasonable and well-documented. Please note the assumptions, limiting conditions, and controls on use that are included in Section V of this report.

I trust you will find the details of the narrative appraisal relevant to your decision, and I would be happy to answer any questions you might have.

Sincerely,

Lisa B. Richman

Lisa B. Richman

LBR/jms

Enclosure

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LIST OF EXHIBITS
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DIGEST OF FACTS, ASSUMPTIONS, AND CONCLUSIONS

Property: A vacant three-story department store known as the J.C. Penney Building at 1 East Main Street, Madison, Wisconsin.

Type of Estate: Fee simple, encumbered by building code restrictions.

Present Owner: Northwestern Mutual Life Insurance Company.

Age of Building: 25 years (too young for Investment Tax credit renovation). space

City Description: Madison, Dane County, Wisconsin; State Capital, County Seat, Site of University of Wisconsin, and second largest city in Wisconsin (population 170,616).

Neighborhood: The original plat of Capitol Square, the Central Business District, and facing the State Capitol Building.

Lot Size: Southwest 90 feet of Lots 1 and 10 and Southwest 90 feet of Northwest 12 feet of Lot 9, Block 89 of original plat, 90' X 144', 12,960 square feet.

Improvements: Three-story building plus basement with approximately 51,840 square feet of gross floor area. Constructed of reinforced concrete with brick walls. Building was designed and built for use by J.C. Penney Department Store and has had no major renovations.

Legal Constraints: Zoning C-4, Capitol Preservation View District, Capitol Fire Zone District, Capitol Concourse Plan District (special assessment and conditional use approvals), Building Code Violations (requires occupancy permit).

Most Probable Use: Renovation to office-retail space consisting of 8,252 square feet of open-air retail space and 31,451 square feet of office space.

Most Probable Buyer: A local developer/investor partnership that will renovate and redirect the marketing of subject property.

Probable Terms of Sale: Cash to seller.

Market Transaction Inference: Comparable sales, ranked with a weighted point score procedure, predict central tendency of sales price of $700,000 with a range of $670,000 to $720,000.

DIGEST OF FACTS, ASSUMPTIONS, AND CONCLUSIONS
(Continued)

Most Probable Selling Price: As of September 8, 1984, the seller might obtain a price of $700,000 for an all cash sale. This price could range as low as $700,000; more favorable financing terms, in the form of tax-exempt Industrial Revenue Bonds at 9.75% interest, might achieve the upper limit of $720,000.

1984 Assessed Value:	Land	$430,000
	Building	451,000
	Total	$881,000

1983 Taxes	$11,654.23
Payment made to City 1/31/84	5,827.12
Balance due by 7/31/84	$5,827.12

Special Assessments:	1.	Street	$5,039.80 + $302.39 (interest)
	2.	Street	189.74 + 11.38 (interest)
	3.	Mall Maintenance	368.60
		Balance due	$5,911.91

I. PROBLEM ASSIGNMENT

Content of an appraisal report is determined by the decision for which it will serve as a benchmark and the limiting assumptions inherent in the property, data base, or other factors in the decision context. This appraisal is made to assist the owner and his broker in the sale of the subject property in terms of both listing price and expectations regarding a negotiated sales price.

A. The Appraisal Issue

The real estate market for the subject property is in a state of transition. J. C. Penney's vacated the building on December 30, 1983, before its lease expired. Northwestern Mutual Life Insurance Company (NML) has not attempted to lease the space because of uncertainty regarding assemblage and future development of Block 89. Consequently, the space has been vacant since J. C. Penney's left. The City of Madison hired Real Estate Research Corporation (RERC) to do a market analysis of the Capitol Square area retail potential. In addition, Jacobs, Visconsi, Jacobs (JVJ), a Cleveland-based developer, is preparing a report on the development potential of the subject block. Both reports are expected to be complete this fall, and the City will then be better able to decide possible land uses for block 89.

Holding costs include utilities, insurance, maintenance, and real estate taxes. Information in Exhibit 1 is provided by Louis J. Cunningham, property manager of the building for Northwestern Mutual Life Insurance Company. NML

EXHIBIT 1

Estimated One-Year Holding Costs for Subject Property

Cost	Amount
Utilities	$ 4,800
Insurance	7,500
Maintenance	5,000
Real Estate Tax	28,000
Total	$45,300

This appraisal is made to assist Northwestern Mutual NML Life, present owner, in estimating fair market value of fee simple ownership of the property at 1 East Main Street as of September 8, 1984 for tax assessment purposes. The second issue addressed is probable cash sales price to measure opportunity costs and holding costs to evaluate a hold or sell strategy.

B. Legal Interest to Be Appraised

The legal description for the subject property, 1 East Main Street, is as follows:

> Southwest 90 feet of Lots 1 and 10 and
> Southwest 90 feet of Northwest 12 feet of Lot 9, Block 89 original plat of Madison, County of Dane, in the State of Wisconsin.

The fee is presently unemcumbered, but an occupancy permit is required to reopen the building if it remains closed for at least one year prior to sale.

This appraisal includes neither fixtures nor personalty. Only the land and building are considered in the estimate of value.

C. Value Definition

The definition of fair market value and its implicit assumptions are outlined in Appendix A. However, for the purpose of this appraisal the most appropriate definition of value is that of "most probable selling price," as defined by Professor Richard U. Ratcliff:

> The most probable selling price is that selling price which is most likely to emerge from a transaction involving the subject property if it were exposed for sale in the current market for a reasonable time at terms of sale, which are currently predominant for properties of the subject type.[1]

D. Implicit Assumptions

The Ratcliff definition recognizes that prediction of a future sales transaction price is a business forecast under uncertain conditions. It is therefore appropriate

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[1] Unpublished quotation of R. U. Ratcliff speaking on his book, Valuation for Real Estate Decisions (Santa Cruz, CA: Democrat Press, 1972).

to state the value conclusions as a central tendency within a range of alternative price outcomes that reflect the imperfections of the real estate market and the negotiation postures of the buyer and seller. A range of sales prices is more useful to the decision maker than the traditional point estimate of fair market value because it provides the necessary dimensions for establishing listing and bargaining strategy and anticipating probable buyer expectations and market-determined attitudes. The method requires the appraiser to determine the most probable use of the property and then to infer a probable transaction price from recent transactions of similar properties. In the absence of market sales or as a test of value conclusions based on sales data, the appraiser may simulate the buyer calculus in making an offer to purchase.

E. Application to Subject

Sales transactions in the area of the subject property have generally been cash to seller. Seller financing on buildings requiring redevelopment must be subordinated and this would probably be unacceptable to the present owner. Northwestern Mutual Life would prefer a cash sale if the price were acceptable.

NMC

The former tenant took full responsibility for operations, and its records are unavailable. Therefore, no valid history of operating expenses was reviewed. No major renovations have been made to the subject property.

The building meets fire code requirements set forth by the Madison Building Department. However, minor deficiencies in structural condition must be corrected before issuing an occupancy permit. Therefore, key dollar estimates and projections must be based on preliminary cost-to-cure assumptions of the appraiser and recognized as limitations on the reliability of the most probable price estimate.

II. PROPERTY ANALYSIS TO DETERMINE ALTERNATIVE USES

The first step in the identification of the most probable use of a property is to take inventory of its attributes and to analyze those that appear significant. These attributes include physical characteristics of the site and improvement therein, legal constraints on the nature and timing of the use, the relationship (linkages) of the site to various environmental aspects that might attract or repel users, and the preestablished perceptions of the site that citizens tend to have (e.g., prestige or anxiety).

A. Physical Attributes

Located at 1 East Main Street, the subject site is rectangular with 90' of frontage on East Main Street and 144' of frontage on Monona Avenue for a total gross area of 12,960 square feet (Exhibit 2). The back of the site is bordered by a 20' public alleyway that provides access between Monona Avenue and South Pinckney Street. The site has a 2.3 percent slope, sloping from 73.4' on its northwest side to 70.1' on its southeast side. These elevations are given in reference to the city datum (0.00) which has been established at 845.6' above sea level. Exhibit 3 provides a schematic of the subject property and indicates maximum allowable building height. Site elevation is taken from a topographical map prepared by the City of Madison for redevelopment of the Square. The front of the site has

EXHIBIT 2

PLAT MAP OF SUBJECT PROPERTY

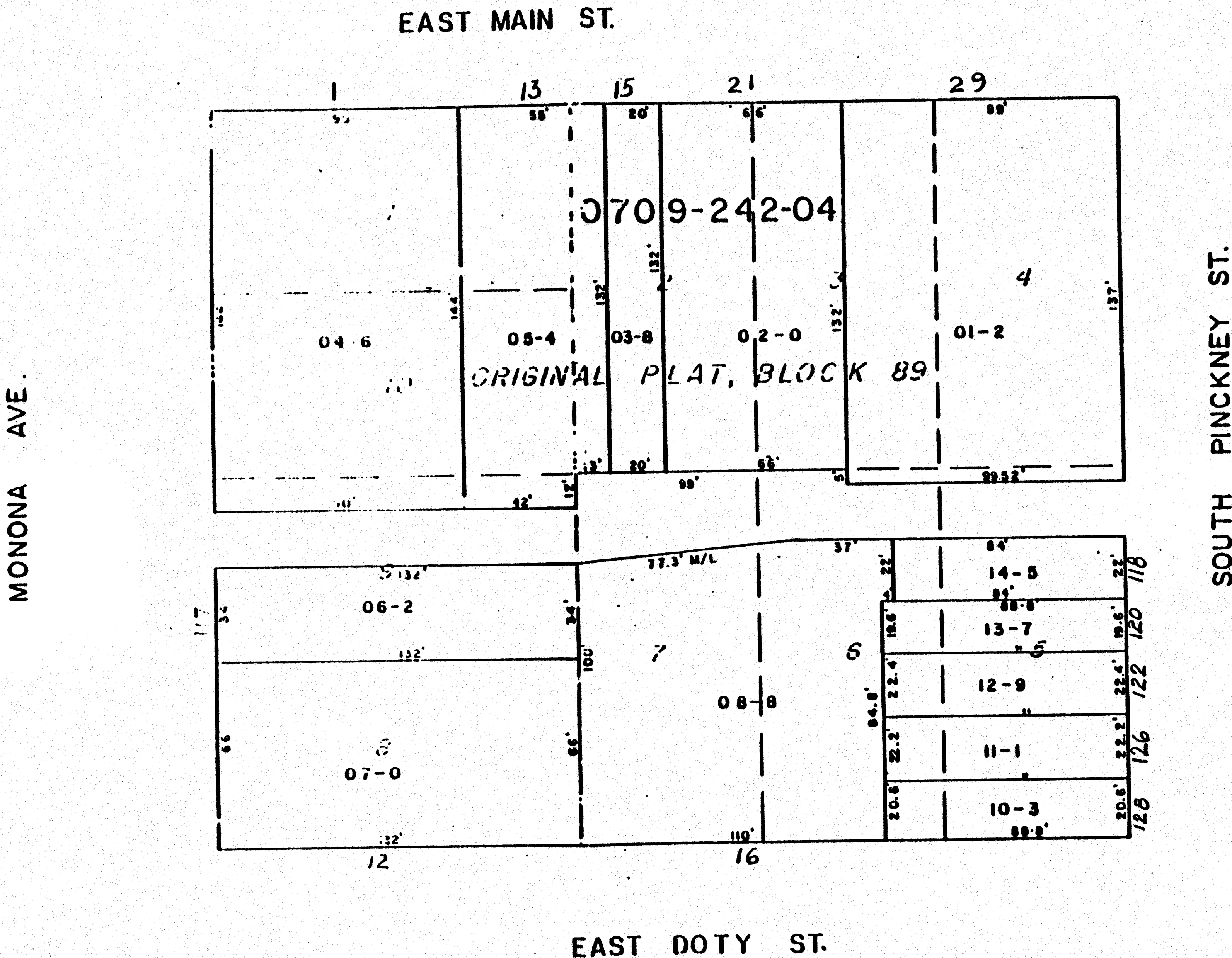
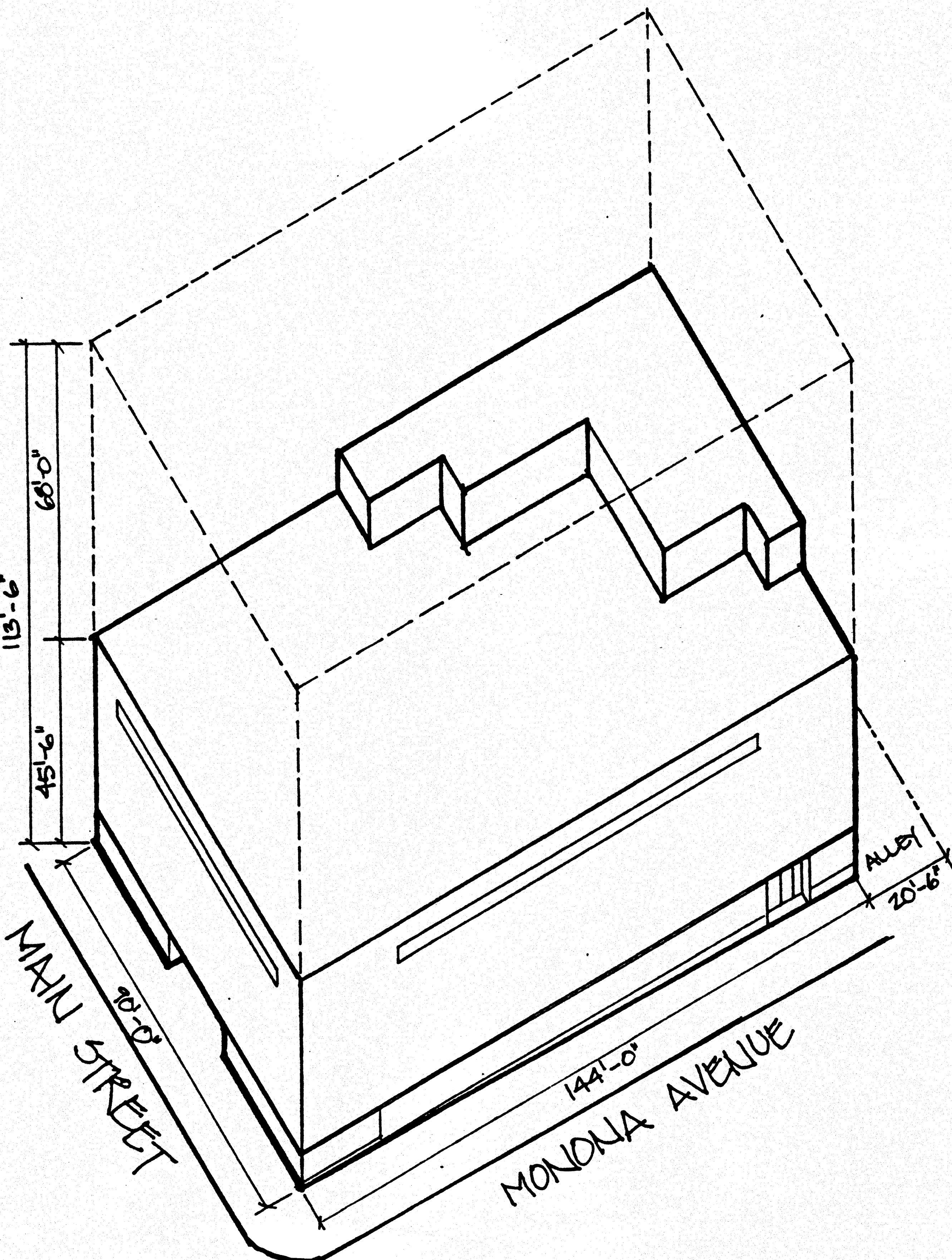


EXHIBIT 3

SCHEMATIC OF SUBJECT PROPERTY



a northwest exposure on East Main Street while the side of the building has a southwest exposure on Monona Avenue.

As indicated in the Soil Survey of Dane County, Wisconsin, published by the U.S. Department of Agriculture Soil Conservation Service, the soil of the subject property is Dodge Silt Loam. The Dodge Series consists of deep, well-drained, gently sloping soils on glaciated uplands. These soils formed under mixed harwoods in 26 to 36 inches of loess over sandy loam glacial till. Dodge series soils have high fertility, high water capacity, and moderate permeability. Seasonal water table is at a depth of more than five feet. Percolation is 45-60 minutes per inch and the depth of bedrock is 5'-10' from the surface. Having been removed many years ago, soils are not a concern for the site. Geological studies have shown that sand and gravel extend to a depth of 80' beneath the surface. Clay, sandstone gravel, and white sandrock are present to a depth of 760', with white quartz, clay, and mixed rock beyond. Lack of settling cracks in the building's foundation dismisses doubt of a strong, dry support for the J. C. Penney improvements.

Utilities required to service the site are in place and pose no problem for future development. Service specifications are outlined in Exhibit 4.

EXHIBIT 4

UTILITY SPECIFICATIONS

Electric: Madison Gas and Electric provides 4,000-5,000 amp service. Transformer vault located on west side of building.

Gas: A ten-inch Madison Gas and Electric line passes under the side along Monona Avenue.

Storm Sewer: A catch basin is located in alleyway near southwest corner of subject property. A 12" to 15" pipe leads from the catch basin to a pipe located and running under Monona Avenue.

Sanitary Sewer: Two hookups located at southwest middle and corner of subject property. Empties into Madison Metropolitan Line running perpendicular to John Nolen Drive.

Water: An eight-inch main enters site off of Monona Avenue from the public alleyway. Sufficient capacity for sprinkler system in building.

B. Legal Constraints

1. Zoning

Zoning governing use of the site is City of Madison C-4, which provides broad authority for retail, office, and residential uses (Exhibit 5). The basic goal of C-4 zoning is to encourage professional and governmental offices, prime and specialized retailing, cultural, recreational, and educational activities of citywide significance. C-4 represents the Central Business District where no off-street parking is required-a generous option compared with other commercial zones in Madison where parking space for every 300 square feet of commercial area is required. As stressed in the code, virtually any use is conditional.

Although liberal in appearance, the broad general provisions of this zone are deceptive. Any major alteration of a building must conform to remodeling and new construction guidelines established by the City Planning Commission. The municipal administration has an expressed goal of concentrating activities in efficient, functional districts to optimize movement between residential, shopping, employment, and recreation areas. Furthermore, strongly favored on the first floor of all buildings contiguous to the Square are pedestrian generators, such as retail and restaurants. Office space is discouraged on the first level.

Demolition of existing structures is vigorously

EXHIBIT 5

C-4 ZONING ORDINANCE

C-4 Central Commercial District

(a) Statement of Purpose. The C-4 Central Commercial district is established to accommodate those uses which are of City-wide, regional or state significance. Within this district, which is located in close proximity to the State Capitol Building and State Street, and which is readily accessible by public transportation from all parts of the City, are permitted the retail, service and office uses characteristic of a central business district. In addition to commercial activities, residential use above the ground floor is permitted and encouraged. No accessory off-street parking is required in this district, and any off-street parking which is provided is controlled as to the location, type and size of such facility so as to reduce congestion on streets within or leading to this district. All new buildings and any major alteration of an exterior building face must be approved by the Plan Commission because of the community's objective to maintain the aesthetic qualities of the district. (Am. by Ord. 6052, 11-29-77.)

(b) General Regulations. Uses permitted in the C-4 district are subject to the following conditions:

1. All business, servicing or processing, except for off-street parking, off-street loading, automobile service station operation, drive-in banks and outdoor eating areas of restaurants approved as a conditional use by the Plan Commission, shall be conducted within completely enclosed buildings. (Am. by Ord. 4304, 8-29-73.)
2. Establishments of the drive-in type are not permitted, except automobile service stations and drive-in banks.
3. Any major alteration of the exterior face of a building shall conform to the remodeling and new construction guidelines for State Street and the Capitol Square adopted as administrative guidelines by the City Plan Commission on September 23, 1968 and as modified on December 7, 1970 and shall be permitted only after the written approval of the City Department of Planning and Development, provided that any action by the department may be appealed to the City Plan Commission by the applicant. (Am. by Ord. 6568, 3-22-79.)
4. To insure a variety of housing types in the central area, the following point values are established.

EXHIBIT 5
(Continued)

Type of Dwelling Unit for Lodging Room	Point Value
Lodging Room	0
Efficiency Unit	0
One Bedroom Unit	1
Two Bedroom Unit	2
Three or More Bedroom Unit	3

In any building, the average point value for all dwelling units and lodging rooms shall be not less than 1.5. (Cr. by Ord. 6052, 11-29-77.)

5. All new buildings and any major alteration of an exterior building face shall be considered by the Urban Design Commission and their recommendations regarding design and appearance shall be submitted to the City Plan Commission. (Cr. by Ord. 8107, 9-19-83.)

Source: City of Madison, General Ordinance, § 28.09(5).

opposed to prevent the creation of parking lots or the avoidance of cash responsibilities for returning a structure to its full use. If a wrecking permit is granted, the previously approved proposal must be initiated immediately upon clearing the site.

Renovation of existing structures is also limited by pragmatic zoning ordinances regarding fire provisions, height, and frontage for buildings in the Square area. Madison Building Code 29.37(4) restricts building materials to fire-resistant Types 1 or 2, prohibits reconstruction when the casualty loss exceeds 50 percent of assessed valuation, and prevents new use and occupancy until non-conforming fire provisions are corrected. Madison Zoning Code 28.04(14) states that no part of any building within a mile of the State Capitol can exceed the elevation of the base of the Capitol dome columns (187.2'). Since the elevation of the J.C. Penney site is 46', construction is limited to 141'. Madison Zoning ordinances 28.04(6)(b) and 28.04(9)(a) require that parcels created by subdivision each have a minimum of 50' frontage on the principal street and 6,000 square feet of gross area. Because frontage on the principal street, Monona Avenue, is 144', subdivision is technically possible, although highly unlikely.

2. Special Assessment District

During the past several years construction has progressed to implement the downtown-redevelopment proposal known as the Capitol/State Street Mall. Project goals focus on improving commercial and retail viability while capitalizing on the positive attributes of the City, Capitol, and University. Minimization of vehicular traffic has been of prime importance to past city administrations. Success on the Square was believed to depend on a conducive environment for pedestrians and employees of the Central Business District. To achieve this goal, sidewalks were widened, street furniture provided, and landscaping improved. Narrowing the street encircling the Capitol reduced vehicular traffic. One lane each has been allotted for parking, automobiles, and public transportation. All traffic proceeds in a counterclockwise direction.

Missing from the mall is an attempt to improve present parking in relationship to the downtown commercial area. All major parking is provided at least one block away from shopping areas with no protected or enclosed pedestrian circulation between stores and parking. In the area of the Capitol Concourse a major one-way traffic loop separates existing parking facilities from the shopping square. No attempt has been made to provide accessible, ample, free parking as is provided in competitive suburban centers.

To perform the described renovations, properties facing directly on the mall received capital assessments. In 1978 the J. C. Penney property was taxed $21,814.36 for street improvements, and $1,242.00 for alley repairs. A maintenance assessment is levied annually. This year's net assessment was $638.18 ($725.36 less a rebate of $87.18). Exhibit 6 presents the assessment for the subject property, as currently estimated by city engineers.

EXHIBIT 6

MALL SPECIAL ASSESSMENT FOR SUBJECT PROPERTY

Date of Asessment	Purpose	Amount and Terms	Amortized Payment	Presently Owe
1978	Street	$21,814.36 (10 yr. 6%)	$2,704.97	$8,725.72
1978	Alley	$ 1,242.00	$ 178.83	$ 310.50
Typical Annual Payment:		$2,883.80		

3. Political Constraints

The Madison City Council has had a reputation with the private sector of being antibusiness, antigrowth, and antidevelopment. Recent significant occurrences, such as departure of some of the Square's major retailers and deferral or cancellation of several redevelopment proposals for the Square, led the current administration to alter some of its restrictive attitudes. The mayor's office has initiated new programs to improve Madison's reputation in the private business sector, particularly with small businesses. To assist the city in its efforts, Downtown Madison Inc. was established to enhance the economic base and human environment of the central city through a partnership between private and public sectors.[1]

Further evidence of the city's attempt to upgrade the Square is the newly developed Olin Place proposal, a $90 million redevelopment plan for the nine blocks south and southeast of the Capitol Square, including the J. C. Penney property. The proposal, prepared by John Urich of the Madison Planning and Development Department and approved in 1982, identifies development opportunities for the downtown area. A 15- to 20-year phase joint public-private sector development, Olin Place is to support objectives adopted for downtown by the Common Council in May, 1981 as part of Madison's Master Plan. The Olin Place proposal for Block 89, where the J. C. Penney building is located, initially envisioned the redevelopment of the block to a specialty shopping mall anchored by Penney's and a new department store, a new hotel, an office complex, and a parking facility. However, since the closing of J. C. Penney's, Urich recommended razing the entire block. — ~~This is~~ a rather extreme recommendation given the economics of downtown Madison.

dash (to avoid lonely "this")

JVJ

Concurrently, Jacobs, Visconsi and Jacobs, a Cleveland development firm, is examining the feasibility of putting a hotel-office complex on Block 89. Jacobs, Visconsi and Jacobs undertook the study on the condition

(already on p.1)

JVJ

[1]Downtown Madison Inc. Mission Statement.

that the city assist no other developers in planning projects on the same block. Another firm, Real Estate Research Corporation, conducted a study indicating that students, downtown employees, and shoppers at outlying centers desire specialty shops in downtown Madison.

Because city planners are anxious to realize their goals for the Capitol/State Street Mall, proposals in accordance with City goals are likely to be accepted. An important consideration is that most of the subject property block is owned by Northwestern Mutual Life Insurance Company. In addition to granting variances for zoning requirements, cooperation in the form of Industrial Revenue Bonds and Tax Incremental Financing is also possible. The strong political necessity of reviving the Square and attracting new business could provide an investor on the subject site considerable negotiation leverage on fire and zoning codes by City Hall.

C. Linkage

Linkage attributes are the relationships of the site to its immediate environs, activity centers, and hinterland. Any measurement of these relationships must consider transportation costs, convenience, time requirements and personal values.[1]

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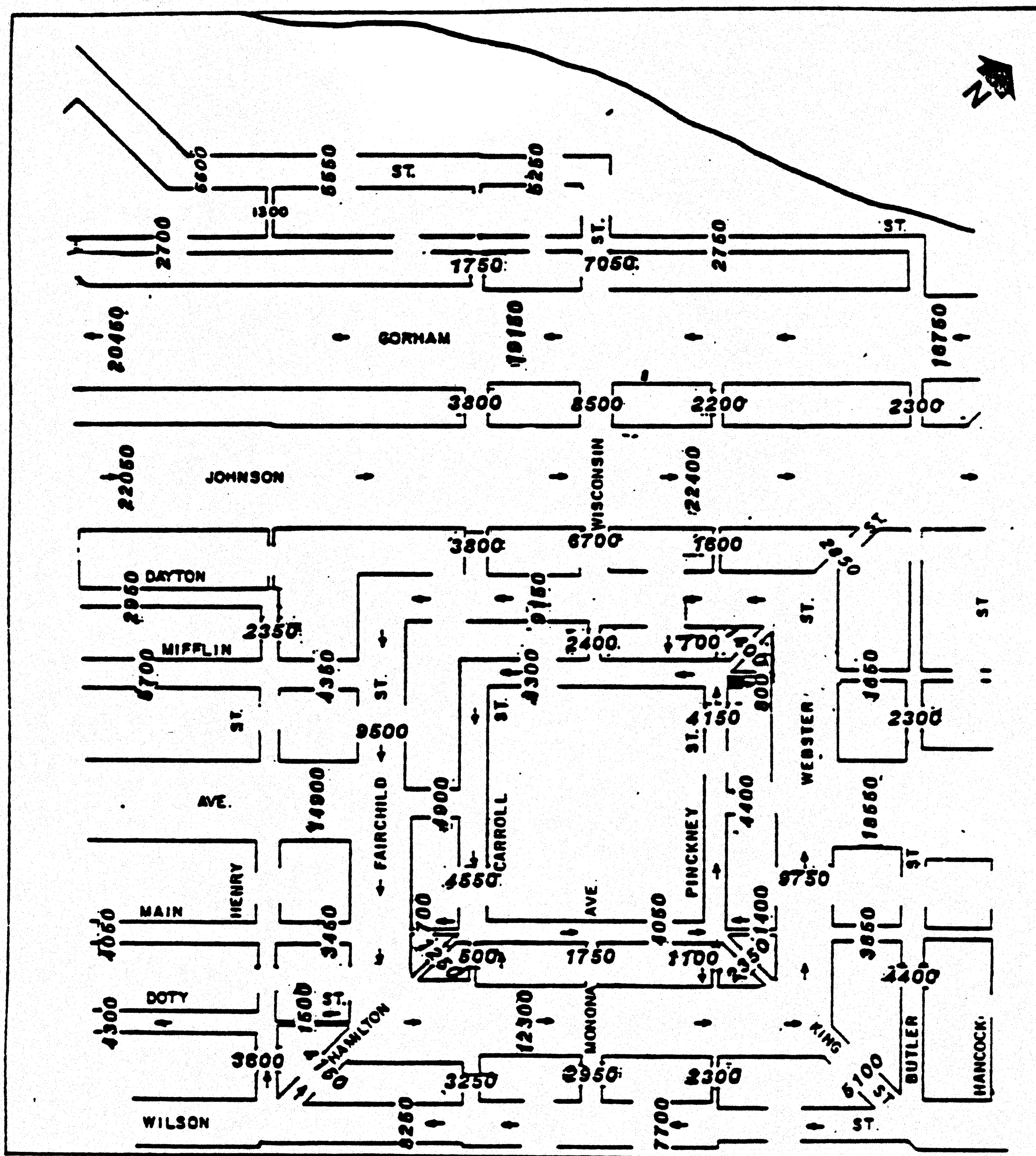
[1] Richard Ratcliff, Valuation for Real Estate Decisions (Santa Cruz, CA: Democrat Press, 1972), p. 58.

Traffic patterns and parking limitations have impacted negatively on the Square. Counts taken by the Department of Transportation for vehicle and bicycle traffic in the downtown area are illustrated in Exhibits 7 and 8. Eight access points to the Square exist, yet only one lane is provided for private vehicles. Restriction of flow to one direction is a source of irritation to drivers entering and exiting the Concourse (Exhibit 9). An inner lane is designated for public transportation, including shuttle buses circulating around the Square and traveling toward the University of Wisconsin campus. Access to the front of the subject property is possible via East Main Street or Monona Avenue. Parking is limited along the Capitol border to one-hour zoned spaces and vehicles with permits, and to 15, 30, and 60 minute metered stalls along diagonal and perpendicular arteries. Consequently, primary travel around the Concourse is pedestrian originating from bus loading points on the Square and metered parking ramps on the periphery (Exhibit 10). Meters requiring repeated deposits of money are another source of friction.

Parking ramps in close proximity to the subject property are the Doty Street and Dane County Ramps. The Doty Street Ramp has 468 monthly rental spaces and is in high demand with 100 percent occupancy. Alternatively, the Dane County Ramp has 2½, 4, and 10 hour restricted parking, along with monthly rentals. Occupancy rates are approximately

EXHIBIT 7

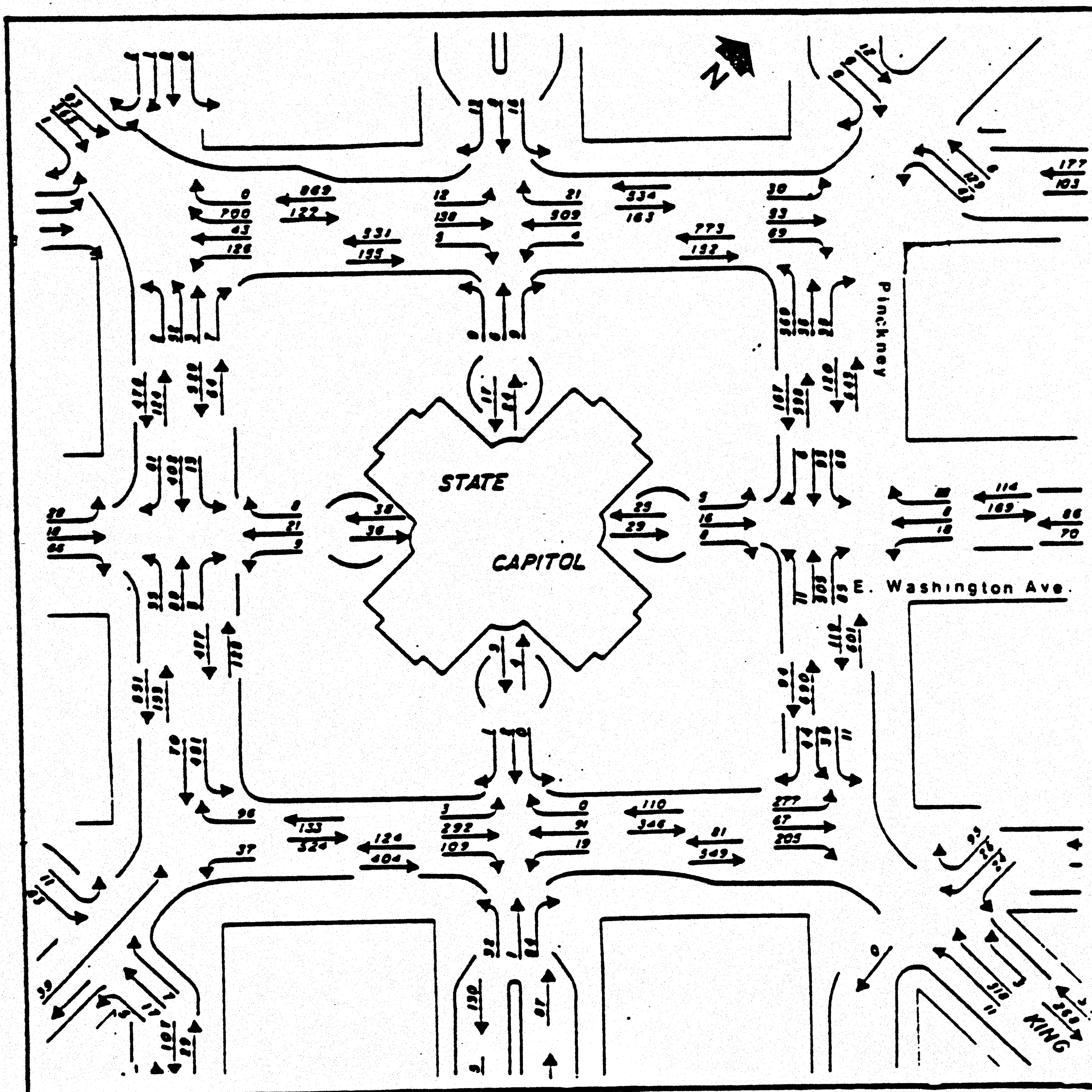
TRAFFIC COUNTS ON THE SQUARE



Source: City of Madison, Wisconsin
Department of Transportation
Division of Traffic Engineers
1982 Traffic Counts

EXHIBIT 8

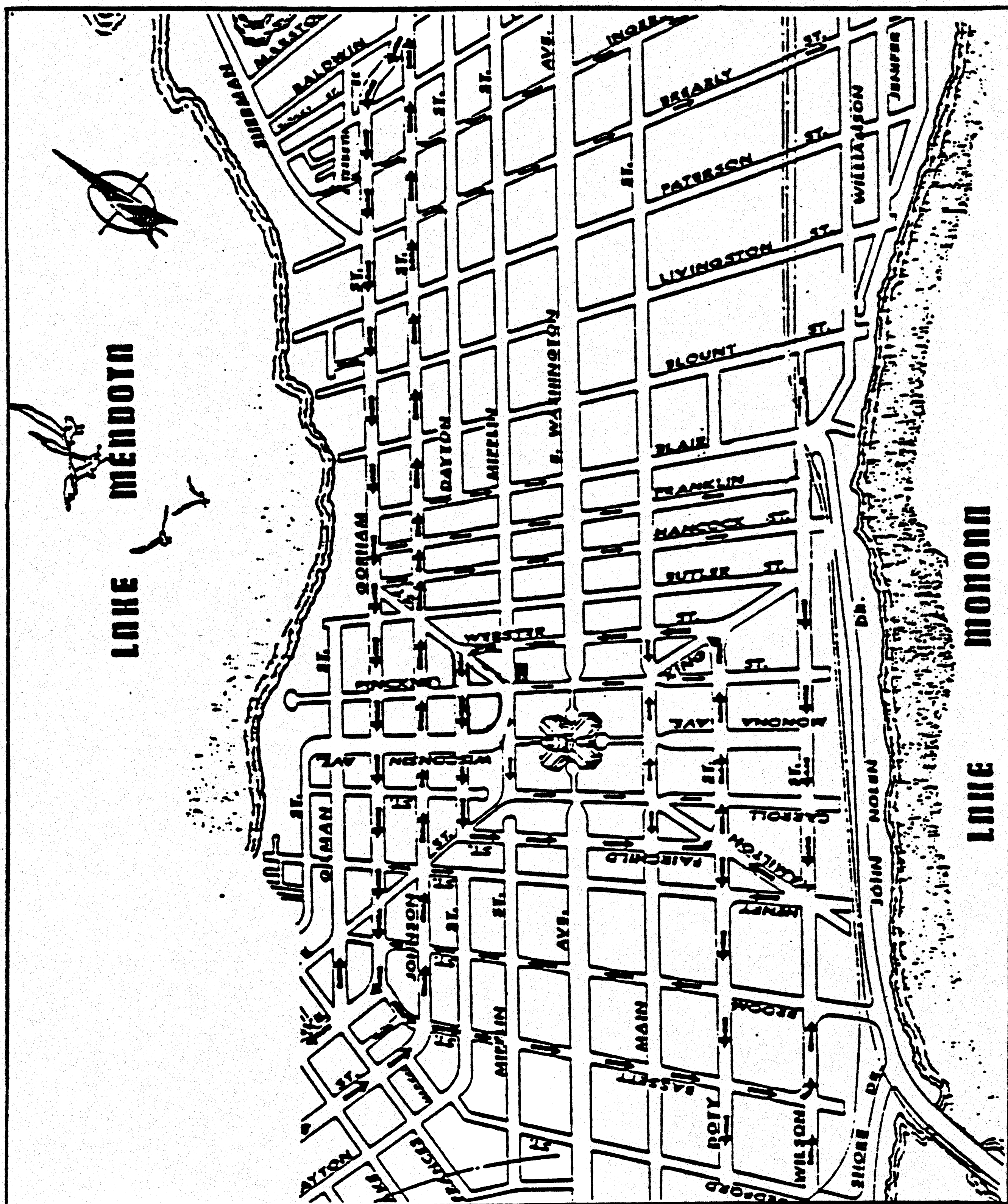
BICYCLE COUNTS ON THE SQUARE



Source: City of Madison, Wisconsin
Department of Transportation
Division of Traffic Engineers
1982 Bicycle Counts

EXHIBIT 9

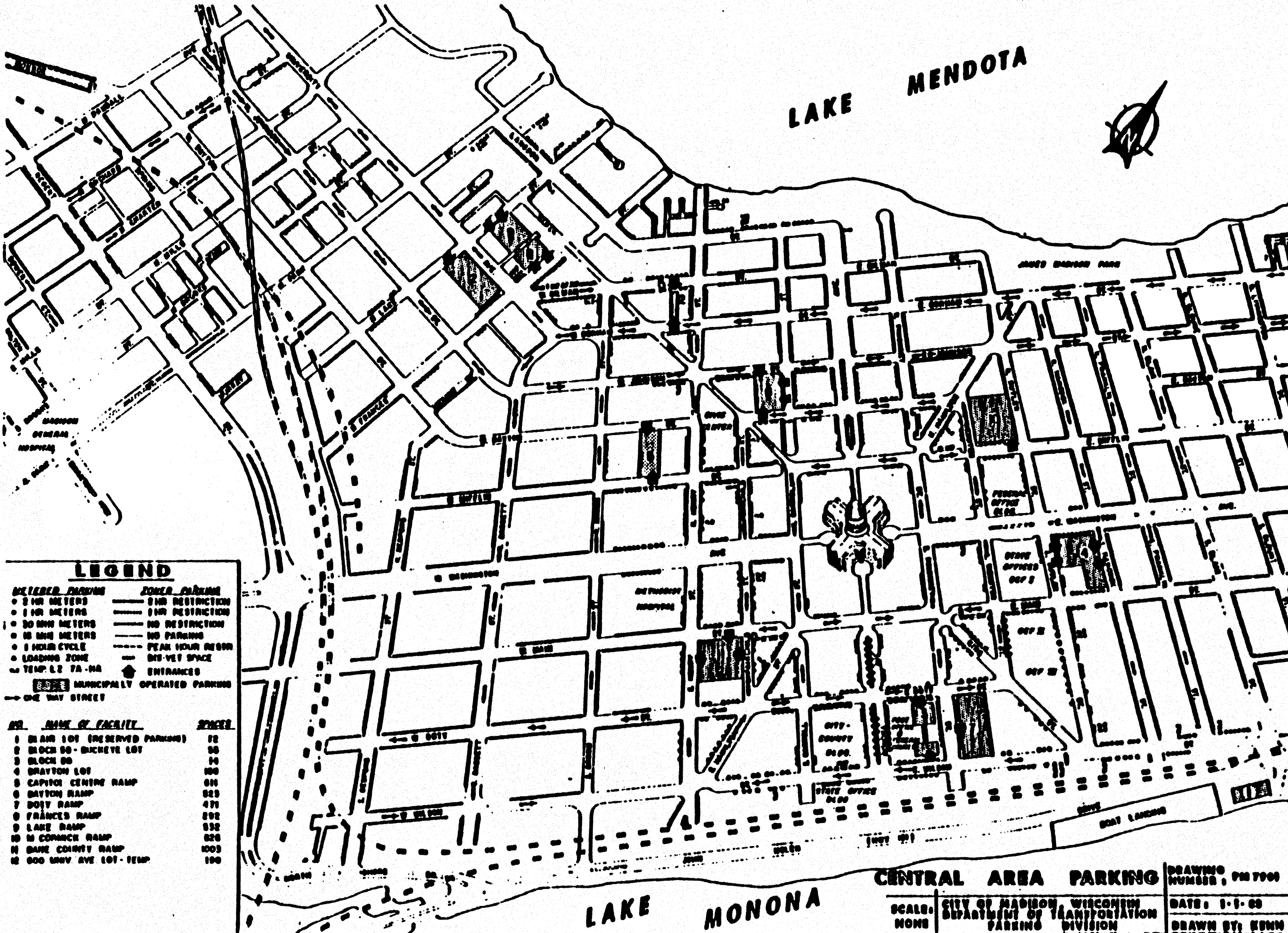
TRAFFIC FLOW



Source: City of Madison, Wisconsin; Department of Transportation
Division of Traffic Engineering; 1982 Traffic Flow

EXHIBIT 10

LOCATION OF RAMPS IN DOWNTOWN AREA



50 percent for the short term and monthly stalls. Demand for the 10 hour parking spaces is low with a reported usage of only 25 percent. These statistics are indicative of the city's success in promoting public transportation usage.

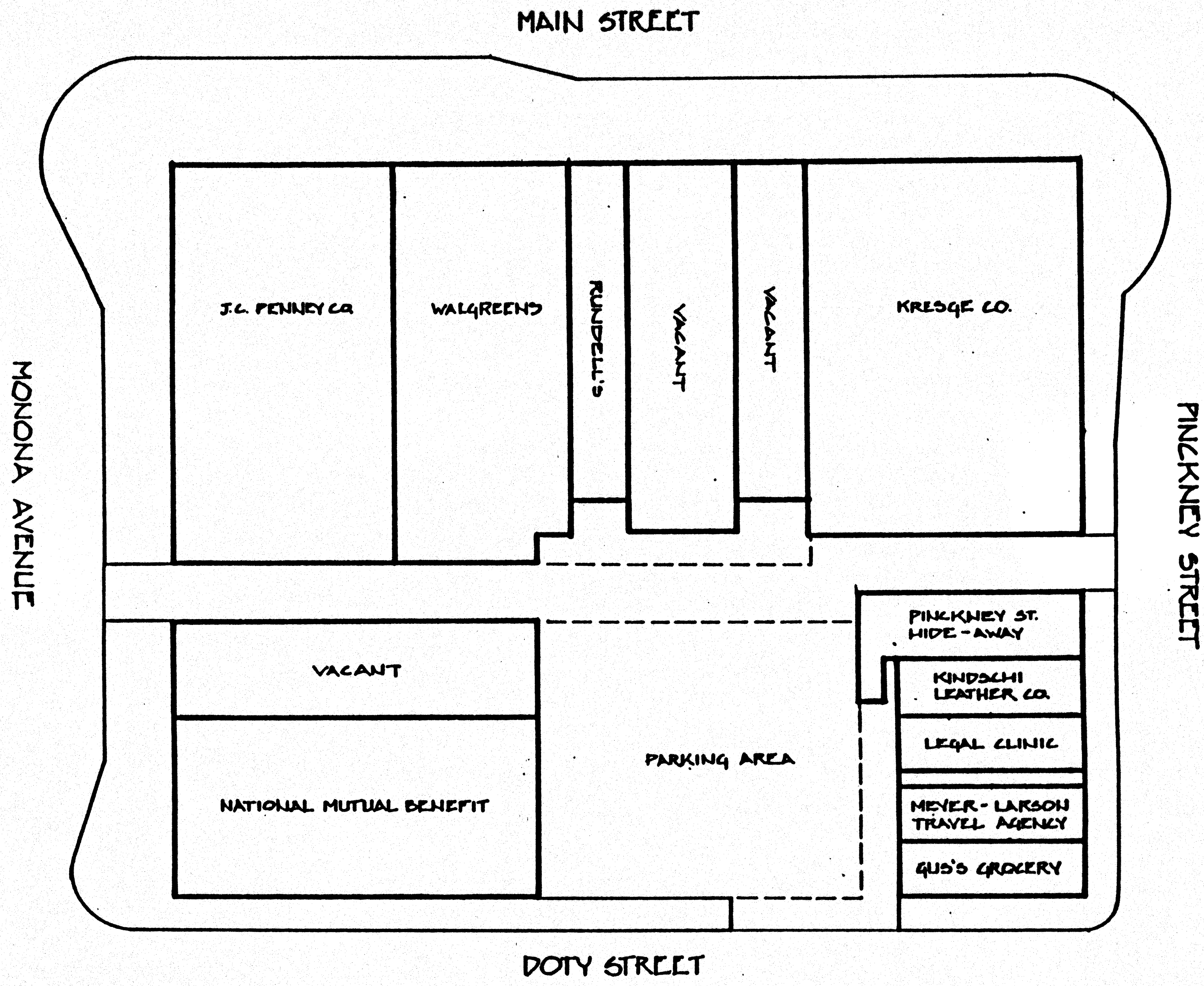
Regarding the subject property, ten permit spaces are located in front of the building on East Main Street, and 25 metered spaces are on Monona Avenue adjacent to the southwest side of J.C. Penney's. The existing 20' alley is adequate for delivery of goods. This alley is one of the most heavily traveled in the downtown area, providing a route between State office buildings and the Courthouse.

Current tenant mix on the J.C. Penney block on East Main Street encourages minimal consumer activity. The block presently contains 13 ownership parcels, nine first-floor retail and/or service entities, and one major office structure (Exhibit 11). With the closing of J.C. Penney's, the block has four major vacancies and several buildings that are underutilized. The block is characterized as in transitional retail/office mixed use. Because of the recent sluggish economy, weak anchor commitment, mixed ownership and uncertainty regarding future City plans for the area, little vitality is displayed on the block.

The block face of 0-100 East Main Street facing the southeast side of the State Capitol has historically been used for retail purposes, and is presently occupied

EXHIBIT 11

BLOCK 89 EXISTING USE MAP



BLOCK 89 EXISTING USES

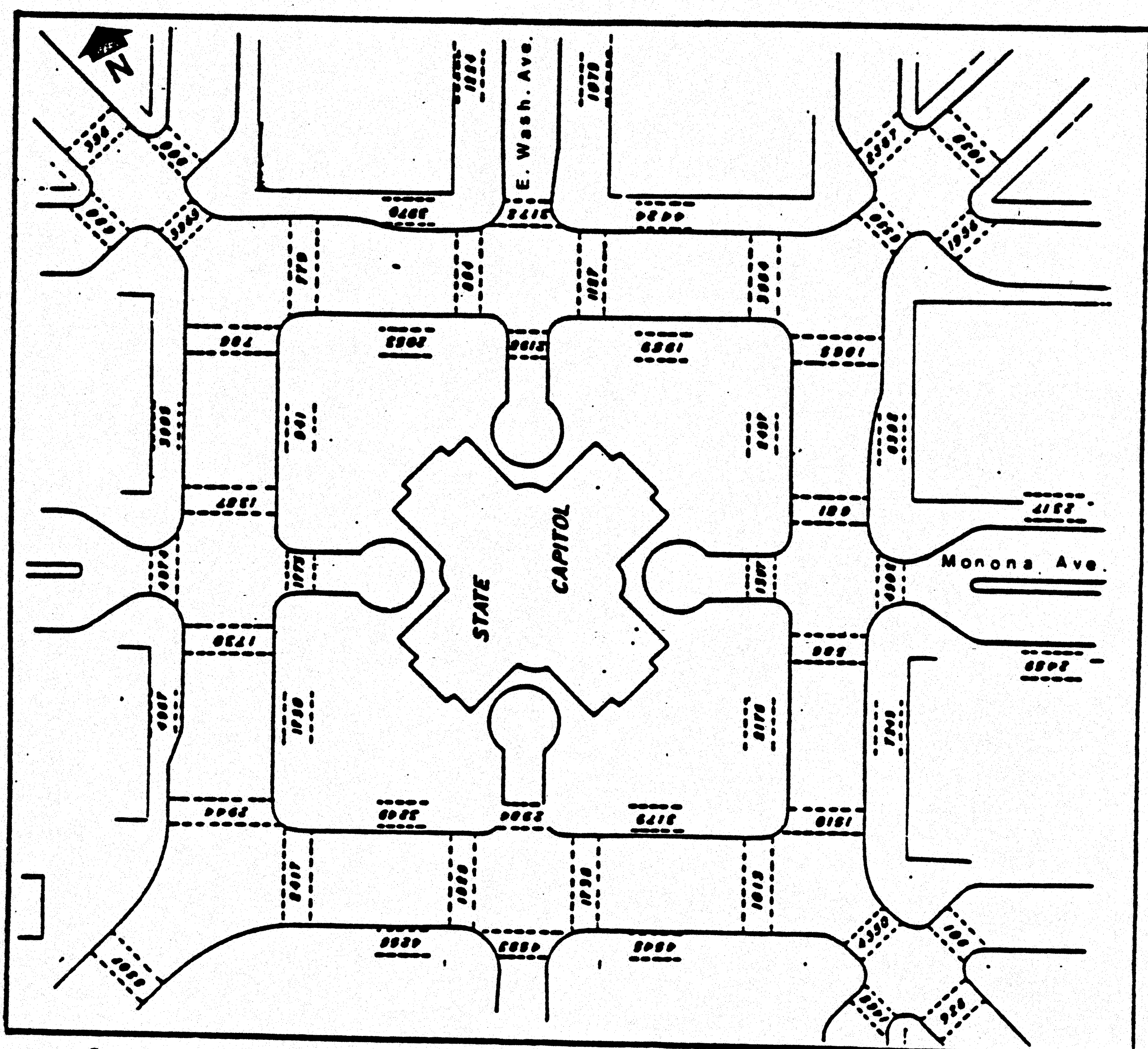
by Rennebohm-Walgreens Pharmacy. Rundells Inc. and S. S. Kresge Company, whose lease expires in 1987. Currently, the Capitol City Bank Building storefronts (17-21 East Main Street), and the J. C. Penney building (1 East Main Street) are vacant.

Pedestrian traffic on the Square is greatest on the southeast blocks fronting East Main Street (Exhibit 12). The M & I Bank of Madison and Anchor Savings and Loan on the block southwest of the subject property provide strong drawing power. North of the subject property, on the northeast side of the Square, are the Tenney Building and First Wisconsin Bank, providing a strong contribution to employment and pedestrian traffic. Located between these heavily traveled areas, the subject property has a substantially higher pedestrian traffic flow than does the rest of the Square. Focusing on the north and west sides of the Square, East Mifflin Street-with the Emporium, Manchester's, and Woolworth's-and North Pinckney Street are equally weak in drawing power.

Several redevelopment proposals are either under construction or planned for sites in the downtown area. The Tenney Building located at 110 East Main Street is constructing a five-level parking garage in conjunction with the First Wisconsin Bank. The structure will include two levels of underground parking attached to the First Wisconsin Bank and three stories of parking (320 stalls) accessed to the Tenney Building. The Manchester Building, located at the

EXHIBIT 12

PEDESTRIAN COUNTS ON THE SQUARE



Source: City of Madison, Wisconsin
Department of Transportation
Division of Traffic Engineering
1982 Pedestrian Counts

corner of East Mifflin and Wisconsin Avenue, is currently owned by local developer, Glen Hovde, who proposed demolishing it and building a mixed use project comprised of 65,000 square feet of office space, 60,000 square feet of retail space, and five floors of condominium units. The triangular, two-story building currently under renovation at 102 North Hamilton Street is the old Montgomery Ward building owned by Gary DiVall. Another project in the planning stage is the addition of office space to the American Exchange Bank located at 1 North Pinckney. The resulting impact of these projects on the subject property is uncertain at this time.

Numerous advantages to the location of J. C. Penney's are apparent. The building is within walking distance of significant employment and activity centers. Directly across the street is the State Capitol and within two blocks are financial institutions, a federal office, GEF 1-2-3, and state, county and local government employment centers. The three levels of government provide the Square with approximately 9,000 daytime employees as potential customers. Proximity to a major hotel is a source of potential demand or competition for a succeeding use on the subject site. Visitors to Madison are attracted to the Square, given its closeness to Lakes Mendota and Monona and the University campus. Successful redevelopment of the Square would create a synergism with the State Street Mall. Madison is proud of its accomplishment in creating a specialty shopping area catering to the retail, commercial, and recreational needs of the University of Wisconsin students and faculty. Decorative fountains, pedestrian rest areas, and the Madison Civic Center are examples of the Mall redevelopment.

D. Dynamic Attributes

Dynamic attributes are the perceptions and emotional responses of individuals to a property and its location. Given their impact on decision making, such attributes as related to the subject property must be considered.

The subject site has a southwest exposure from its broadside. This sunny broadside is highly visible to one-way traffic on Main Street, Doty Street, and Monona Avenue. Converting the building would suggest placing the main office entrance on Monona Avenue.

While the building faces well-maintained Capitol grounds, the surrounding area is dominated by offices and vacant storefronts, and suffers with respect to security. Activities associated with the nearby redlight district, loitering panhandlers, and abusive individuals around the Square create anxiety for many of the Square's users and potential users. Despite efforts made by police to control this activity, the problem still exists in the minds of potential visitors.

Although the Capitol Square area is presently undergoing transition, it lacks both a clear image and direction. This poorly-defined tenant mix is a primary cause of this lack of clarity. Furthermore, limited parking on the Square heightens anxiety and is a primary reason for the Square's failure to thrive.

E. Existing Improvements

1. Background and Classification

The subject property was built on a sale leaseback in 1958 to house the J. C. Penney retail store. Northwestern Mutual Life Insurance Company, the present owner, has financially supported Penney's since the building was erected. No significant alterations were made over the life of the building.

The building dimensions convert to an estimated gross square footage area of 51,840 square feet excluding the penthouse area (Exhibit 13). Since the volume of this building exceeds 50,000 cubic feet, all remodeling work must be done by licensed engineers or architects and approved by the State of Wisconsin Industrial Commission [Wisconsin Administration Code 50.07(2)(a)]. However, the square footage of floor space is significantly above the legal standard of 20,000 square feet which requires a full-service elevator and other interior circulation features for the handicapped (Wisconsin Administration Code 52.04, register, December 1976, No. 252). Floors used entirely for storage or mechanical purposes need not be included in determining gross area.

EXHIBIT 13

GROSS FOOTAGE OF THE SUBJECT PROPERTY

LEVEL	TOTAL SQUARE FEET		CEILING HEIGHTS	ESTIMATED CUBIC FEET
Basement	12,960	X	13	168,480
First Floor	12,960	X	17	220,320
Second Floor	12,960	X	14	181,440
Third Floor	12,960	X	13	168,480
TOTAL	51,840			738,720

2. Type of Construction

A general description of the structure is summarized in Exhibit 14 and photographs are provided in Exhibit 15. The subject property is a steel-framed building comprised of precast concrete floors with block and brick curtain walls on 1'4" thick poured concrete foundation walls. Above-grade walls are 1' thick and are block with brick fascia. Six bays with 24' spacing are situated in the Monona Avenue direction while four bays with 22' spacing are situated in the Main Street direction. The roof is five ply built up with a gravel surface over 1½" of rigid insulation.

Floor loadbearing capacity is 100 pounds per square foot, and will adequately accommodate office or residential use. The floors are supported by 12" deep concrete floor joists covered by a 2½" wire mesh reinforced concrete slab. Running parallel to Main Street, the joists sit on 2' deep, wide flange steel beams. A 12" steel beam at the end of each bay runs parallel with the concrete joists.

3. Structural Condition and Code Conformity

The City of Madison Building Inspection Department requires a new occupancy permit to reopen a building that has been closed at least one year prior to sale. This occupancy permit is conditional upon formal inspection of the building. Property manager Louis Cunningham indicated that all fire code requirements for the J. C. Penney building conform to standard codes (Exhibit 16). Sprinkler heads (110)

EXHIBIT 14

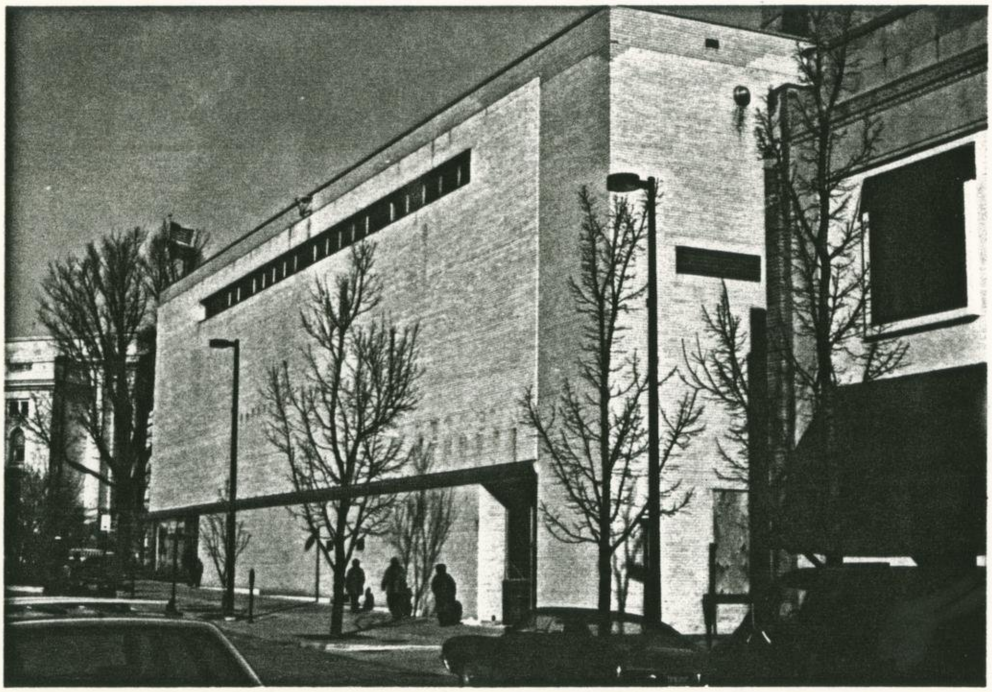
DESCRIPTION OF IMPROVEMENTS

NUMBER OF STORIES:	Three stories (without penthouse)
AGE:	Approximately 25 years
ROOMS:	
Basement	One large retail area
First Floor	One large retail area
Second Floor	One large retail area
Third Floor	Storage rooms and office
Penthouse	Utilities
EXTERIOR:	
Foundation	Concrete and steel
Walls	Block with brick fascia
Roof	Flat, three-ply tar and rock
Store front	Block with brick facia and glass
CONSTRUCTION:	
Floor	Precast concrete with steel rod, tile and carpet surface covering
Walls	Putty coat plaster
BASEMENT:	Fully finished retail area
HEATING:	Cleaver Brooks 12-pound low pressure steam heat, forced air with coil
AIR CONDITIONING AND VENTILATION:	Two 50-ton Trane coolers to service basement, first, and second floor, and one 25-ton Trane cooler to service third floor. Air blown through wall vents.
UTILITIES:	2" municipal water service; 6" municipal sewer service; 4,000 to 5,000 amp electrical service.

EXHIBIT 15

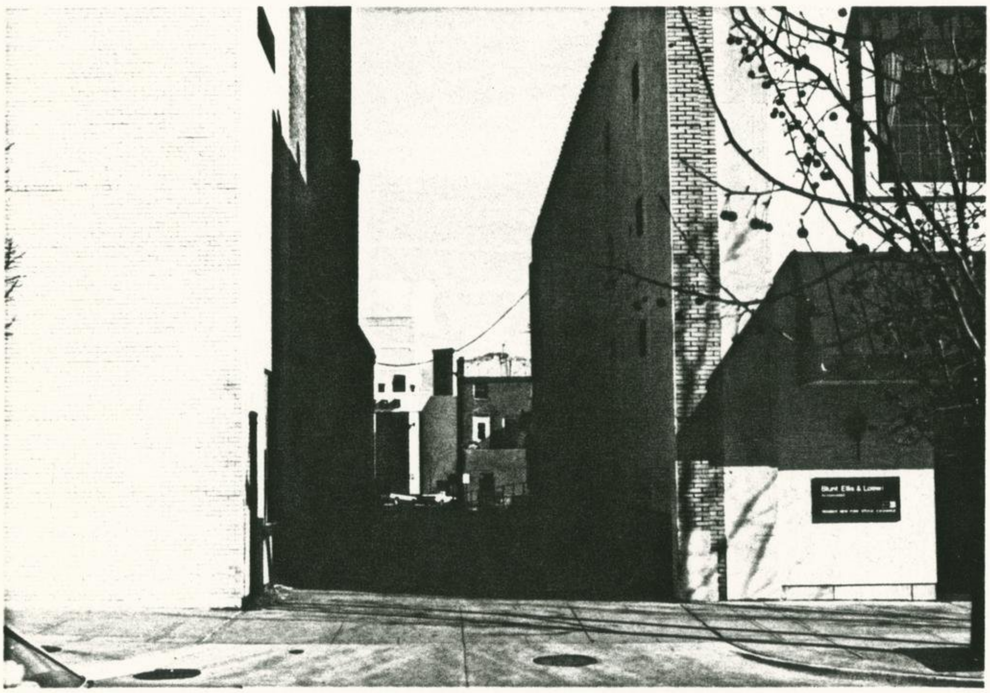
CURRENT PHOTOS OF SUBJECT

East view of subject property



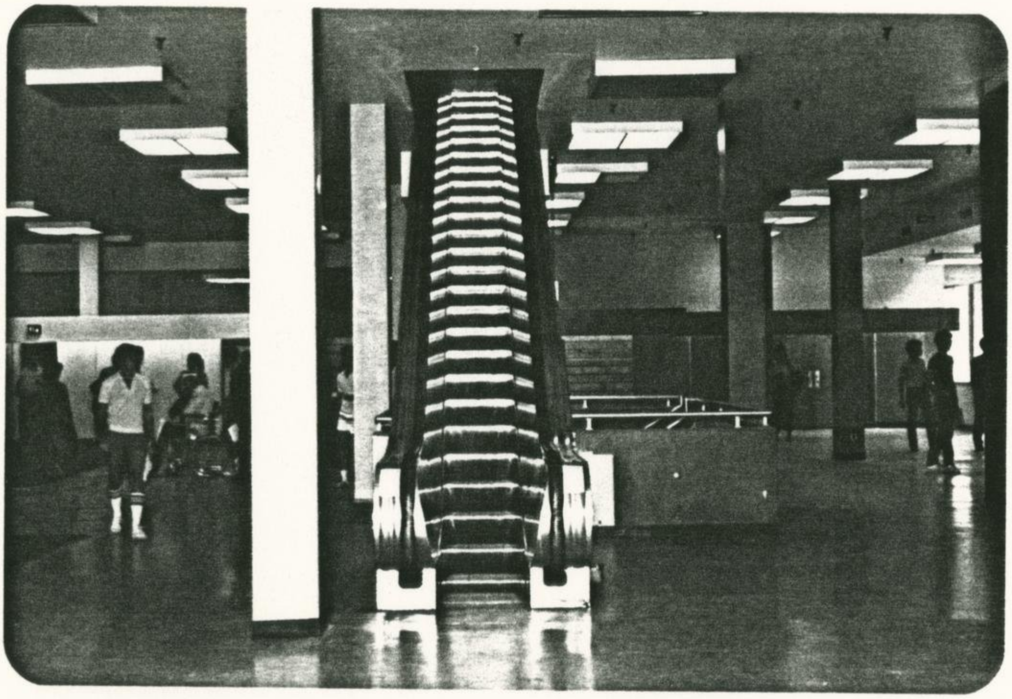
North view of subject property

EXHIBIT 15
(Continued)

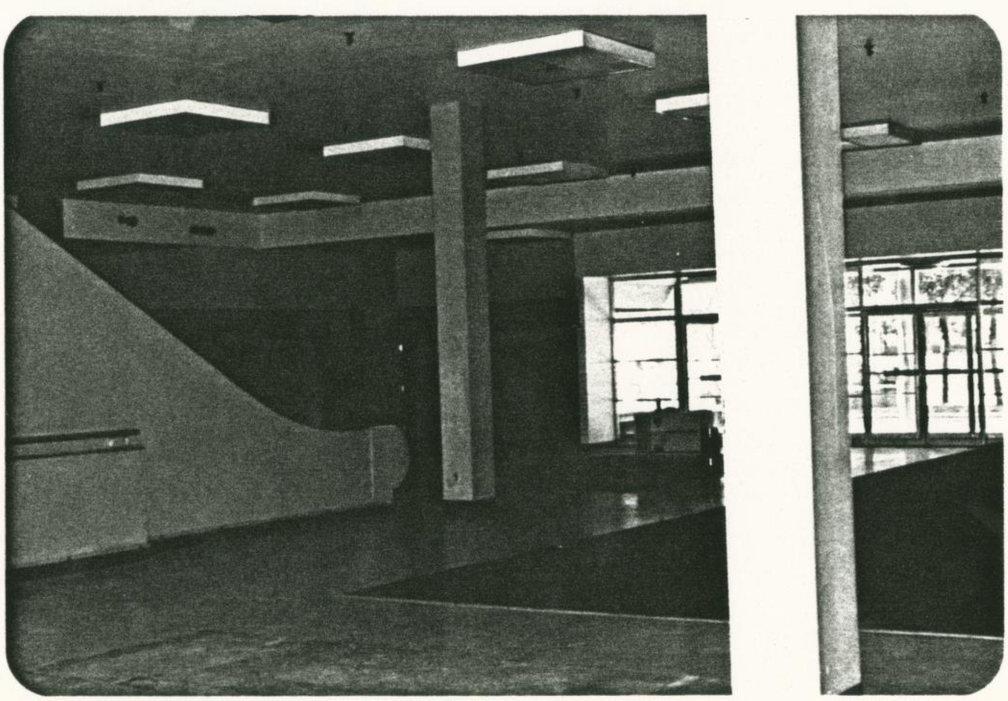


Northeast view of rear alleyway

EXHIBIT 15
(Continued)

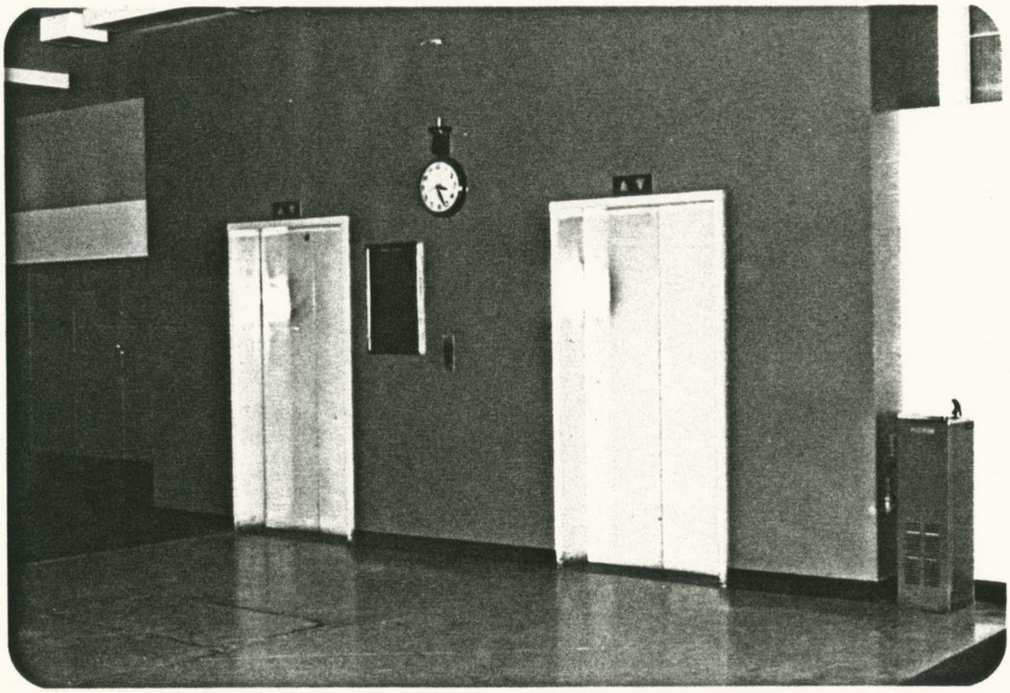


First floor retail area and escalator

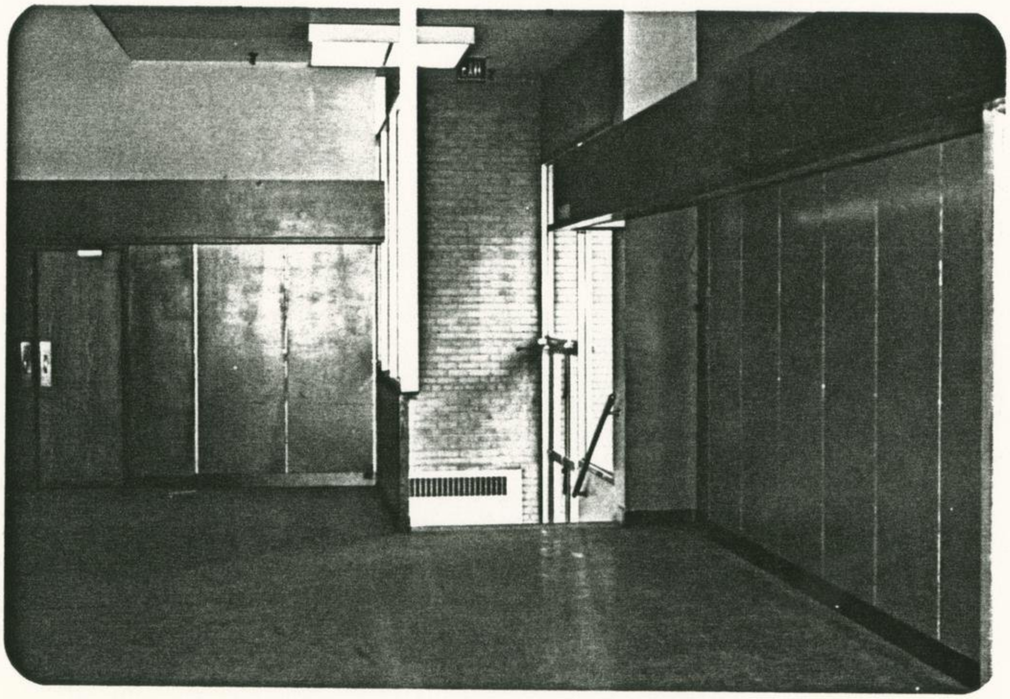


Main street entrance and retail area

EXHIBIT 15
(Continued)

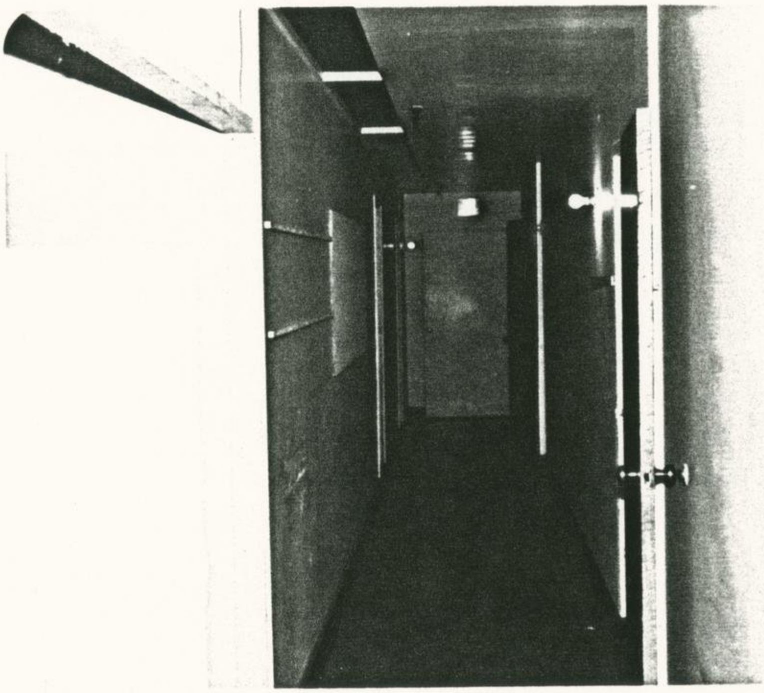


First floor elevators and retail area

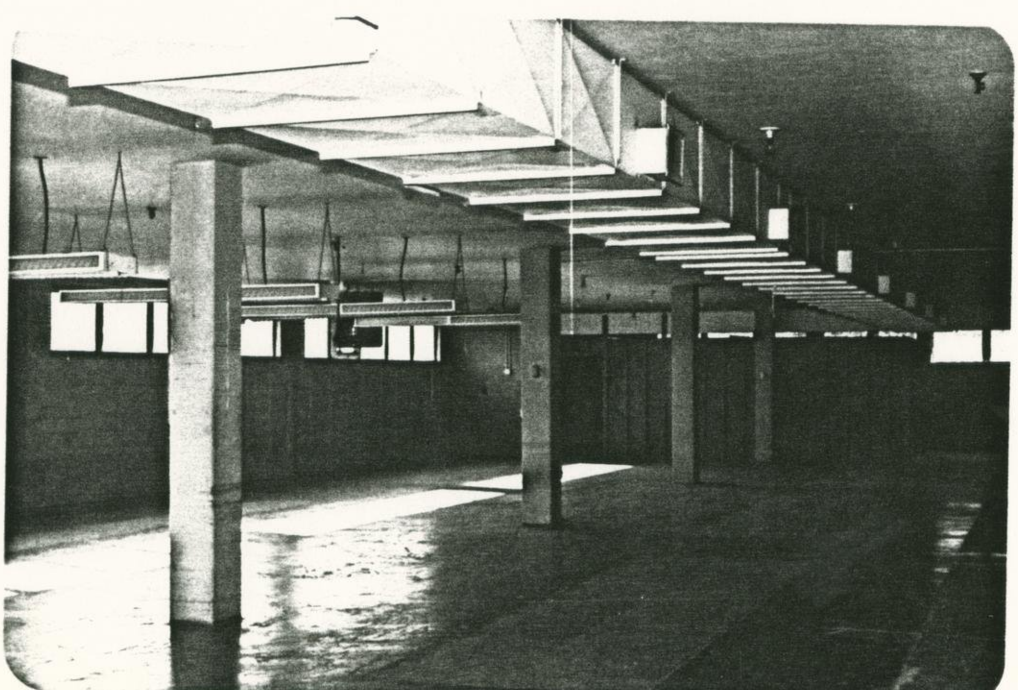


Monona Avenue entrance and retail area

EXHIBIT 15
(Continued)

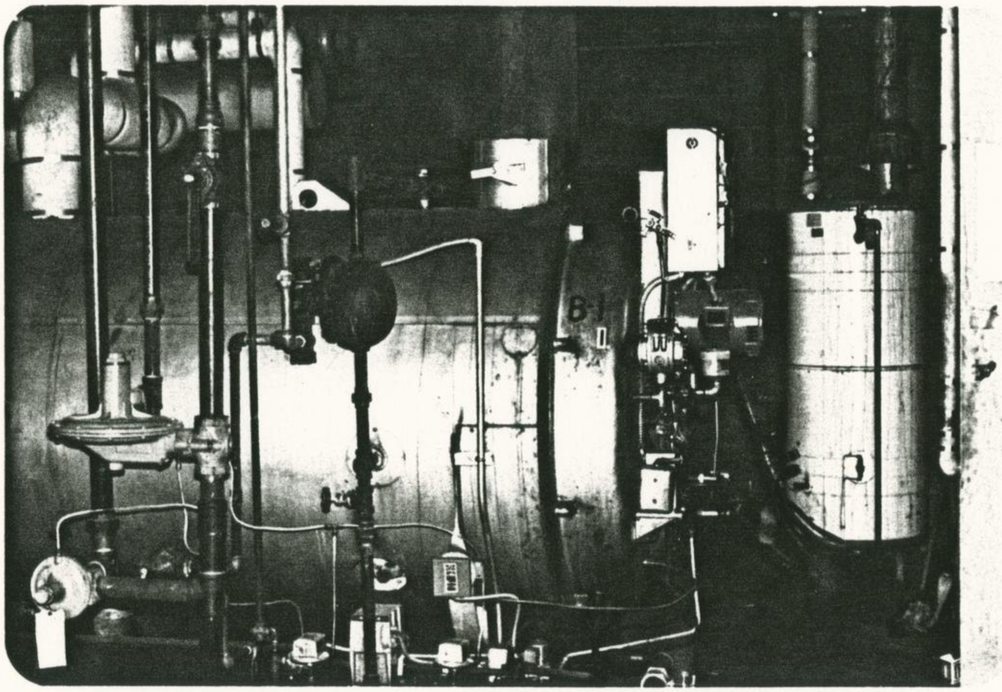


Typical hallway

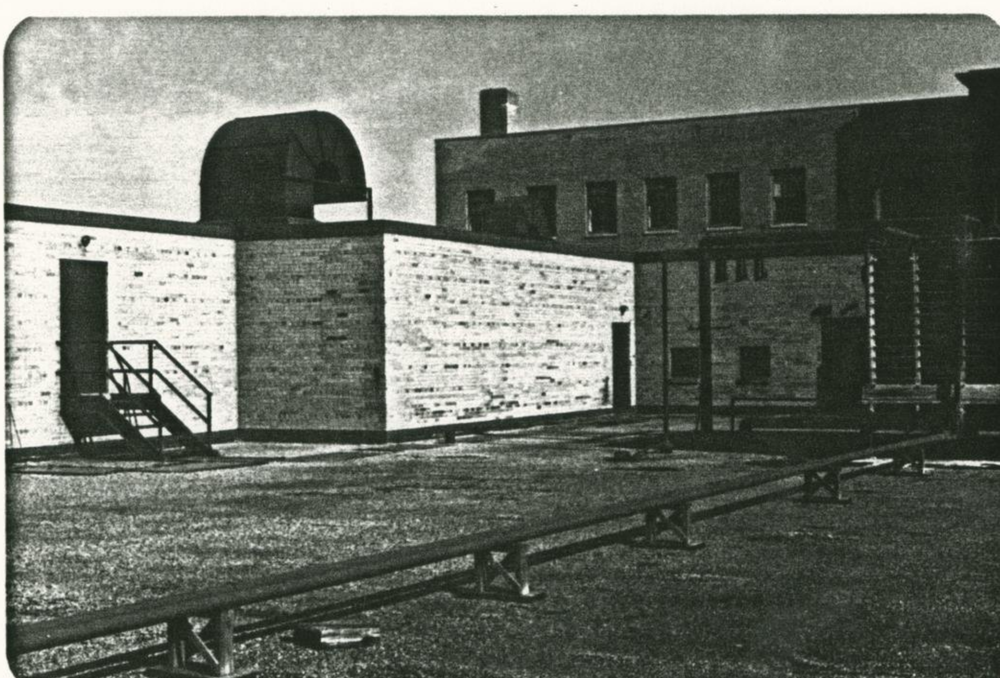


Third floor storage room

EXHIBIT 15
(Continued)



Utility room



Exterior view of utility room and roof

EXHIBIT 16

CAPITOL FIRE ZONE REQUIREMENTS

General Requirements.

Every building or portion of a building except private residences, within such Capitol Fire Zone hereafter altered, remodeled or repaired to an extent of more than fifty percent (50%) of the building's assessed value shall be of fire resistive construction, as specified in Ind. 51.03 Type 1 or 2.

All roof repair or replacement shall be of Class A rated material or equal.

All new buildings and additions to existing buildings hereafter constructed in the Capitol Fire Zone shall be of fire resistive construction as specified in Ind. 51.03 Type 1 or 2.

Note: Residences within the Capitol Fire Zone are subject to the limitations prescribed in Section 29.37 (2)(a) relating to construction and repair of buildings within fire limits.

Rooms or groups of rooms used for the housing of heating equipment, fuel storage, storage of oils, waste paper or volatile inflammable liquid, or similar use shall be separated from the rest of the building by permanent, fire-rated walls and ceiling complying with Wis. Admin. Code Ind. 51.03, with openings protected by means of approved standard fire windows and doors, complying with Wis. Admin. Code Ind. 51.04(7).

(Sec. 29.37(4)(b) Am. by Ord. 7683, 4-2-82.)

Source: City of Madison Building Code, § 29.37(2)(f)5.

are situated on each floor, and stairwells are also sprinklered. The system has capacity to pour out 1,000 gallons of water per minute.

The structural system is stable. By contemporary standards the walls are very thick and provide sound insulation from street noise. The only apparent repairs necessary to meet code are widening the entrance of the Main Street building entrance at an estimated cost of $3,000; the installation of restroom facilities on the first floor, and renovation of existing restroom facilities to accommodate handicapped persons, at an estimated cost of $27,500.

4. Interior Finishes

Only the basement and first two floors of the three-story structure have been used for retail purposes; the third floor has been used for storage and office space, and the penthouse for utilities (Exhibit 15). Floors have tile and carpet surface covering, and walls are putty coat plaster. Present ceiling heights are adequate to allow for drop ceilings. General building maintenance is adequate, and no major interior renovation is necessary at present.

5. Renovation Problems

The J. C. Penney building has a minimal amount of deferred maintenance. The only significant item needing replacement is the cooling tower, at an estimated cost of $12,000. Regraveling of the roof is recommended, although it is not of immediate concern.

III. MOST PROBABLE USE

Having completed an inventory of positive and negative attributes of the property, significant limitations on future use, and immediate linkages of the location, the appraiser must identify possible uses. Each use must exploit marketable attributes of the property, neutralize its negative characteristics, and operate within limits of justified, prudent investment.

A. General Market Characteristics

The search for a use should begin with the possibility of extending the past use of the structure as a retail store. However, continuous decline of the retail market on the Square has caused many major downtown retailers to close down. The Manchester, Wolff Kubly, and J. C. Penney buildings, each offering large retail space, are presently vacant. The Manchester site's next use (redevelopment to mixed office, retail and residential) further supports the belief that large retail space on the Square is undesirable. J. C. Penney's declined a renewal option on their lease at below-market rates, strongly suggesting that the downtown area is unable to attract the clientele necessary to meet department store needs. Regional shopping centers such as South Towne and West Towne have strong drawing power and are sources of competition for large retail stores in downtown Madison. Furthermore, City Council President Ann Monks indicated that, if a retail store were brought to the Square it would be successful if located on the north side of the Square, where residential use is more prevalent. However, present plans for this side of Capitol Square include no retail department stores. In response to downtown retail market information, the possibility of extending the subject property's past use as a retail department store is unlikely.

Attitudes and perceptions of present and potential downtown shoppers is a further consideration in projecting retail success on the Square. A survey conducted by Real Estate Research Corporation (RERC) indicated that students, downtown employees, and shoppers at outlying centers desire specialty shops in downtown Madison. This expresed interest coincides with city goals. Consequently, future retail activity will be determined by the extent to which city goals to create a downtown specialty shopping center are realized. Rental information is provided in Exhibit 17.

Office space is another potential use for the J. C. Penney building. The subject property presently offers no on-site parking and unless a joint venture on a ramp is possible with Mutual Benefit, the option of Class A is eliminated. However, the current market for Class A space is strong. The American Exchange Bank (1 North Pinckney), 100 North Hamilton, and 44 On The Square have targeted their products for the Class A user. These buildings are in accordance with the Urban Land Institute Standards for Class A space; they are constructed with high quality materials, have good locations and access, and maintain high quality

EXHIBIT 17

RETAIL INFORMATION FOR DOWNTOWN MADISON

	Capitol Centre	44 On The Square	The Atrium 23 North Pinckney	First WI Plaza	30 On The Square	Tenney Building
Annual Rental Rate Per Square Foot	$7-$10 ($2-$3 for grocery & hardware triple net including all utilities, sewer & water)	$4.00+%	$4-$11.50 (some with %)	$11.90-$12.68	$4.79	$4.25-$10.87
Range of Term of Leases	NA	5 years	3-5 years	4 years	NA	Monthly-10 years
Utilities Included	No	No	Varies	Yes	Yes	Yes
Janitorial Included	No	No	Varies	Yes	Yes	Yes
Date	4/83	1/80	9/83	9/83	11/82	8/83

tenants and professional management.[1] Although Class B and C office space markets have been soft, present conversion of the Tenney Building from Class B to Class A space is expected to impact both markets.

According to the October 1984 Downtown Madison Office Space Inventory prepared by Downtown Madison Partners, Inc., total vacancy of private speculative and nonspeculative office space on the eight blocks surrounding the Capitol is 5 percent. An August 1984 feasibility study by Ross Luedke and Kris Sivertson indicates that the vacancy rate for Class B and C space in downtown Madison as of June 1984 is 11.8 percent-an improvement over the November 1982 Class B and C vacancy rate of 23.4 percent.[2]

In terms of demand, downtown Madison appears to have little potential for attracting large major office users other than the type which currently occupy offices in the area. A recent publication, Block 89 Building Reuse Study, prepared by Stockham and Vandewalle, suggests a continuing market for small professional offices, trade and professional

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[1] Downtown Development Handbook (Washington, D.C.: The Urban Land Institute, 1980), p. 44.

[2] Market survey conducted by Landmark Research, Inc., Madison, WI, November 1983.

associations, and some government uses. Net leasable area per floor of the subject property can accommodate such uses. Moreover, downtown office vacancy rates by floor area are low for uses requiring 10,000-14,999 square feet. The subject property falls into this range, with approximately 11,000 square feet per floor (Exhibit 18). Furthermore, the State may be considered a prospective office space user, due to upcoming expiration of its current leases (Appendix B).

Another potential use for the subject property is residential. The residential market in downtown Madison can be divided into apartment rental and condominium markets. A September 1982 survey by the Madison Apartment Association shows a vacancy rate of 5.4 percent for furnished apartments in the downtown area. Moreover, a phone survey conducted by Ross Luedke and Kris Sivertson in August 1984 indicates occupancy rates in downtown Madison range from 87 percent to 100 percent. Verification of current rental rates was gathered in a phone survey by the author of this report. Results show that monthly rents for an efficiency apartment range from $270-$285; one-bedroom apartments range from $325-$465; two-bedroom apartments range from $450-$525; and three- to four-bedroom apartments range as high as $645 (Exhibit 19). Although located in the Capitol Square vicinity, apartments included in these surveys may not indicate actual rent levels for a successful apartment project on the subject property block. East Main Street is likely to attract

EXHIBIT 18

DOWNTOWN OFFICE VACANCY RATES BY FLOOR AREA

Net Leasable Sq. Ft. Per Floor	Net Leasable Square Feet	Vacant Square Feet	Percent of Space Vacant
4,999	143,060	32,758	22.9%
5,000-9,999	598,100	60,890	10.2%
10,000-14,999	338,224	10,144	3.0%
15,000-19,999	105,000	0	0.0%
20,000-24,999	60,000	28,000	46.7%
25,000+	283,641	0	0.0%
Total	1,528,025	131,792	8.6%

Each building is categorized by the net leasable square feet of its largest floor.

Source: Telephone survey with building owners and leasing agents, conducted by Ross Luedke, Kris Sivertson, and Dale Mussatti.

EXHIBIT 19

1984 APARTMENT RENTAL ANALYSIS FOR CENTRAL MADISON

Name of Complex	Rental Rates	Locational Attributes
Capitol Centre 344 West Dayton	1 BR=$355-$390 1 BR w/Den=$430-$465 2 BR=$465-$525	3½ blocks from Square
126 South Franklin 126 South Franklin	Eff.=$285 1 BR=$325	4½ blocks from Square
Baskerville Apartments 121 South Hamilton	Studio=$290 1 BR=$330-$385 2 BR=$450 4 BR=$645	½ block from Square
Sumner Apartments 17 South Hancock	2 BR=$465	3½ blocks from Square
121 South Hancock 121 South Hancock	Eff.=$280 1 BR=$350	3½ blocks from Square
Kennedy Manor[a] 1 Langdon Street	Eff.=$270-$275 1 BR=$370-$405 2 BR=$475-$515	Across street from Edgewater Hotel & Lake Mendota, 3½ blocks from Square

[a]Includes maid service once a week.

professionals as well as students. Therefore, if substantial redevelopment occurs on the Square, the strong locational attributes of the subject site could command rent levels exceeding those of the apartments surveyed.

B. Alternative Uses for J. C. Penney Property

A combination of the physical characteristics of the property and the general demand characteristics on the Square suggests the following alternative scenarios for use of the subject property (Appendix C):

Scenario #1: The present structure is retained and modified to create office and retail space. Interior walls are constructed on all floors and HVAC is upgraded to service individual space-users. Basement, 2nd and 3rd floors are converted to office space, with 1st floor containing fully enclosed retail space. Capital outlays are substantial due to interior wall construction.

Scenario #2: The present structure is retained and modified to create a combined retail-office-apartment complex. Interior walls are constructed on all floors and HVAC is upgraded to service individual space-users. Basement and 2nd floor house office space; retail and apartments are located on 1st and 3rd floors, respectively. Capital outlays are substantial due to extensive interior renovation necessary to provide individual space units.

<u>Scenario #3</u>: The present structure is retained and modified to create office and retail space. Basement, 2nd, and 3rd floors are remodeled and equipped with drop ceilings, carpeting, partitions, and fixtures necessary to accommodate Class B office space. First floor requires little renovation for its purported use as retail space with unenclosed units (hereafter referred to as open-air retail space). Capital outlays are minimal as proposed renovations are cosmetic in nature.

<u>Scenario #4</u>: The building is demolished and a new four-story retail-office-apartment complex, including parking facilities for residential tenants, is constructed. First floor includes eight fully enclosed retail units, totaling 9,072 square feet. Second and 3rd floors contain 22,032 square feet of office space. Ten rental apartment units, ranging in size from 900 to 1,100 square feet, are located on the 4th floor. Capital outlays are highest for this scenario because of required demolition and construction costs.

The first three scenarios require removal of the existing escalator and replacement with an atrium. Existing precast floor panels make such replacement feasible. Salvage value of the escalator is assumed equal to removal costs, therefore, no capital outlays are included.

C. Economic Ranking of Alternatives

Alternative uses that might be plausible for the subject property can first be ranked in terms of the general budget parameters inherent in revenues and expenses for each scenario. The best financial alternatives must then be screened for effective demand, political acceptability, and risk. To reveal the general range of justified investment in the existing property, the appraiser developed a logic of converting rents generated in Scenario #1, #2, #3 and #4 into justified investment by determining a market rent for each use and assuming an acceptable cash breakeven point[1] for financial planning and budgeting. This process capitalizes funds available for debt service or cash dividends into amounts of justified investment. The back-door residual approach does not measure economic value of an alternative use because it ignores resale and tax shelter. This approach can be misleading if there are small errors in the cash-flow forecast, but if estimating bias is consistent when applied to the alternative uses, it does rank the alternative in terms of their ability to pay for the subject property as is. The logic of this process is provided in Exhibit 20; cost assumptions and calculations are provided in Appendix C. A summary of these calculations from the Appendix is provided in Exhibit 21. Preliminary ranking based on a cash justified investment (Line 3, Exhibit 21), without regard to future

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[1] The ratio of cash expenses, real estate taxes, and debt services to gross potential rents.

EXHIBIT 20

BASIC LOGIC FOR RANKING ALTERNATIVE PROGRAM SCENARIOS BY JUSTIFIED PURCHASE BUDGET

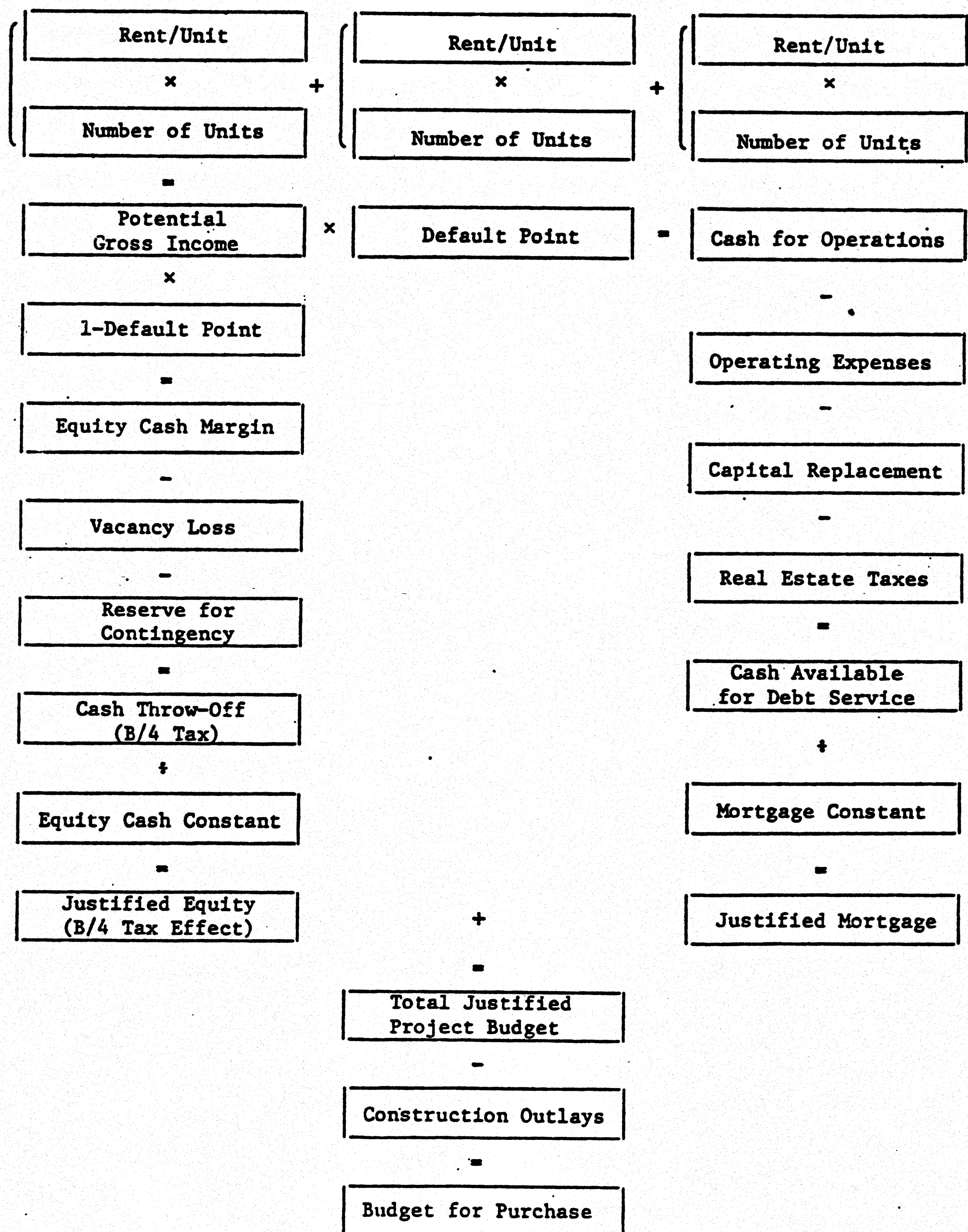


EXHIBIT 21

SUMMARY OF BUDGETS FOR ALTERNATIVE USE SCENARIOS

Budget Item	Scenario #1	Scenario #2	Scenario #3	Scenario #4
1. Renovation or Construction Costs	-$2,129,060	-$2,103,140	-$ 897,860	-$3,249,739
2. Justified Investment for Property as Is	1,587,771	1,473,885	1,301,956	2,380,150
3. Total Justified Investment in Subject Property As Is	-$ 541,289	-$ 629,255	$ 404,096	-$ 869,589

reversion value, demonstrates that Scenario #3 is the preferable use of the structure.

D. Risk Ranking of Alternatives

A further screening method is consideration of the alternatives in light of financial and renovation risks. Risk in this discussion is defined as variance from a forecasted event, whether that event be the amount of a cash payment or the outcome of a political process.

Risk inherent in renovation increases with the expected cash expenditures, the likelihood of cost overruns, and possibility of unanticipated delays due to strikes or technical problems. Scenarios #1 and #2 will require a substantial amount of renovation, while Scenario #3 will concentrate on the structural modifications and cosmetic repairs necessary to meet the needs of incoming space users. All four scenarios are dependent on return of the small retailer to the Square and on increased demand for Class B office space. Rents achievable in Scenarios #1, #2, and #4 are unlikely to be commensurate with the high capital outlays associated with each scenario. Externalities resulting from a lack of vitality on the J.C. Penney block and uncertainty regarding future city plans of the area could be a deterrent to any major capital investment. Therefore, Scenario #3, which requires below-market rents, faces the least amount of financial risk.

E. Political Compatibility of Alternatives

Scenarios #1, #2, and #3 would be politically acceptable as each provides first floor retail space fronting the Square, consistent with Planning Commission dictum that first floor space contiguous to the Square generate pedestrian traffic. Scenario #4 is consistent with the city's goal of providing additional housing in the downtown area, and is likely to produce more evening traffic on the Square. However, demolition of the subject property might meet with resistance from City Hall because of the current Olin Place proposal and future downtown redevelopment proposals.

Uncertainty associated with land use on the Square, along with the pending Jacobs, Visconsi, and Jacobs study indicates that a transitional use for the subject property is appropriate at present. Such a use places no significant constraints on potential development of downtown Madison. Therefore, Scenario #3 would be the most politically acceptable use.

F. Conclusions

Renovation risk is significant in Scenarios #1 and #2, yet due to the addition of residential units, Scenario #2 would be more politically acceptable. Favorable risk attributes for Scenario #3, as well as higher justified purchase price, indicate that Scenario #3 is more attractive and lucrative overall. A review of the summary feasibility data in Exhibit 22 supports the conclusion that the most probable use of the subject property, in the opinion of this appraiser, is Scenario #3.

The most probable use of the subject property is for conversion to office-retail space consisting of 8,252 square feet of open-air retail space and 31,451 square feet of office space.

EXHIBIT 22

SUMMARY MATRIX OF FEASIBILITY OF ALTERNATIVE USES

Feasibility Factor	Scenario #1	Scenario #2	Scenario #3	Scenario #4
Description	Total Renovation Office/Retail	Total Renovation to Retail/Office/ Apartment	Minimum Renovation to Office/Retail	Demolition and Construction of Retail/Office/ Apartment
Justified Investment in Subject	Negative	Negative	404,096	Negative
Remodeling Risks	Significant: -interior walls added -HVAC for individual space users -risk of unknown obstacles	Significant: -interior walls added -HVAC for individual space users -risk of unknown obstacles	Minimal: -primarily cosmetic	None
Effective Market Demands	Office-Soft Retail-Soft	Office-Soft Retail-Soft Residential - Strong. Depends on redevelopment progress	Office-Soft Retail-Soft	Office-Soft Retail-Soft Residential- Strong. Depends on redevelopment progress

EXHIBIT 22

SUMMARY MATRIX OF FEASIBILITY OF ALTERNATIVE USES
(Continued)

Feasibility Factor	Scenario #1	Scenario #2	Scenario #3	Scenario #4
Political Acceptability	Acceptable	More Acceptable	Most Acceptable	Mixed
Financial Risk	Depends on return of small retailer to square and on increased demand for Class B office space. Both are plausible.	Depends on return of small retailer to square and on increased demand for Class B office space. Both are plausible. Also depends on demand for limited number of apartments which is affected by people's expectations of the redevelopment of the square.	Same as #1	Same as #2 Also depends on quality and uniqueness of product

IV. PREDICTION OF PRICE FROM MARKET SALES

Recent market sales in a given area are the most reliable predictors of the most probable buyer and what he might be willing to pay for another property in that area. This section will discuss the market comparison approach to most probable price and will provide final tests of this price.

A. Most Probable Buyer

A review of the comparable sales in Madison central business district reveals that purchases of downtown properties have been by local businessmen seeking a new location for business, professional real estate investors willing and able to execute extensive renovation and re-lease or resale, or the City of Madison attempting to upgrade downtown and increase the tax revenue base.

Since government entities are considered captive buyers, comparable sales by the City of Madison are omitted from this appraisal. The City of Madison has been an active member in the downtown real estate market, purchasing distressed properties and reselling them at below market prices to local developers. City buydowns are typically financed with Tax Incremental Financing (TIF). This option is unlikely for the subject property. Jerry Tucker, Madison Planning Commission member, indicated that due to the length of the review process a $2 million property value increase is the minimum project size. The most probable use development project for the subject property is expected to increase the value by less than $2 million, and is therefore unlikely to receive TIF assistance.

Exhibit 23 contains a brief summary of the comparable sales that were used and Exhibit 24 shows their location in downtown Madison. Each building is located on the Square and contains a mixture of retail and office space. Purchasing terms of the comparable sales, detailed in Exhibits 25 through 29, included cash to seller, land contract, and seller financing. Comparables one through three were adjusted for terms of sale (Exhibit 30).

Since the seller in this appraisal wishes to sell for cash, seller financing is highly unlikely. A local real estate developer/investor partnership will probably purchase the building with cash to seller. Due to the City's favorable attitude to renovation of downtown, financial assistance in the form of Industrial Revenue Bonds is a strong possibility. These tax exempt bonds can be obtained at 9.75 percent interest, and might support a sales price toward the upper end of the transaction zone.

> Therefore, the most probable buyer is a local developer/investor partnership that will renovate the building to a mixed use of Class B offices and open-air retail space.

EXHIBIT 23

COMPARABLE SALES DESCRIPTION

Comparable Property #1

Location:	30 North Carroll Street
Price:	$625,000 (cash)
Gross Building Area:	41,000 square feet
Date of Sale:	December 1978

Comparable Property #2

Location:	50 East Mifflin Street
Price:	$697,000 (Terms: See full disclosure)
Gross Building Area:	42,500 square feet
Date of Sale:	April 30, 1978

Comparable Property #3

Location:	2 West Mifflin Street
Price:	$662,000 (Terms: See full disclosure)
Gross Building Area:	38,640 square feet
Date of Sale:	July 31, 1978

Comparable Property #4

Location:	110 East Main Street
Price:	$1,350,000 (cash)
Gross Building Area:	105,600 square feet
Date of Sale:	February 29, 1984

Comparable Property #5

Location:	5-7 North Pinckney Street
Price:	$240,000 (cash)
Gross Building Area:	26,000 square feet
Date of Sale:	December 31, 1977

EXHIBIT 24

LOCATION OF COMPARABLE SALES

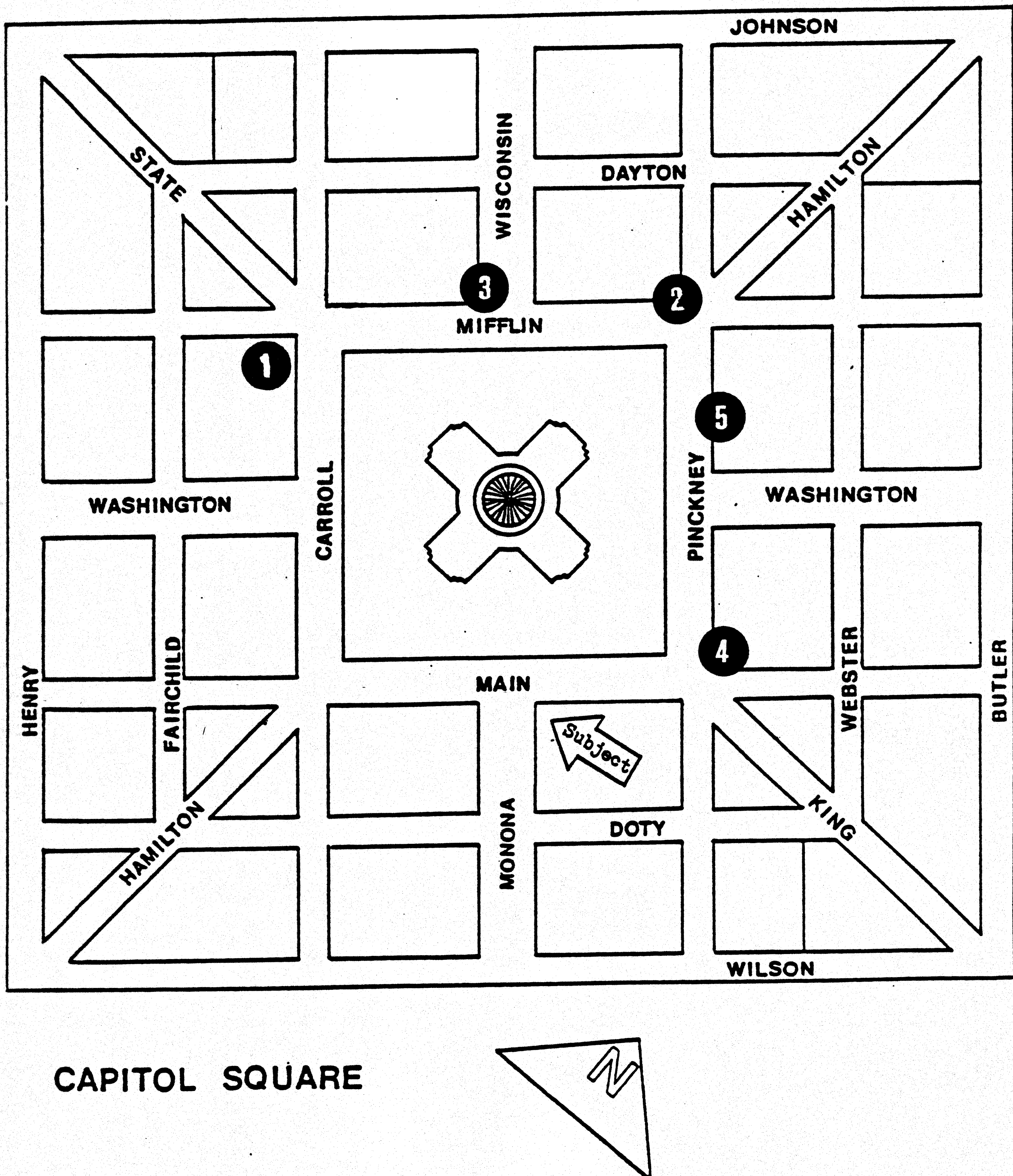
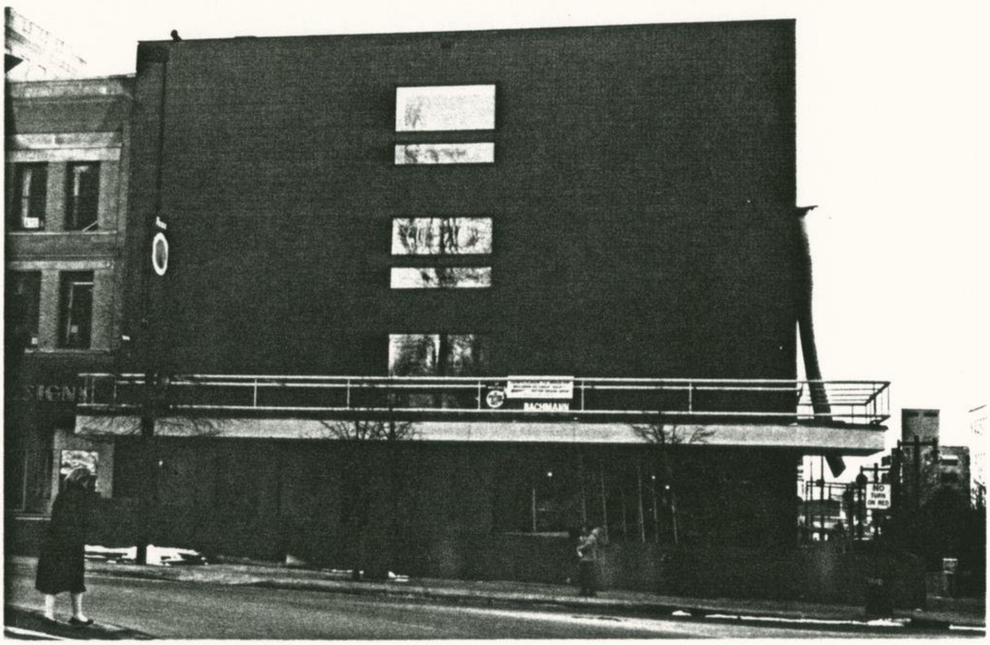


EXHIBIT 25

COMPARABLE SALE #1



30 North Carroll Street

Date of Sale: July 17, 1980
Sale Price: $625,000
Sale Document: Warranty Deed
Terms of Sale: Cash; sale to captive buyer
Grantor: Carley Capital Group
Grantee: State of Wisconsin
Use at Time of Sale: Vacant
Tax Parcel Number: 0709-231-0905-7
Assessed Value: Unavailable
Sale Price as Percent of Assessed Value: Unavailable
Building Location: One block from State Street Mall; four blocks from City-County Building; four blocks from GEF I; five blocks from GEF II and III.
Frontage: 65.5 feet on Carroll Street, 132 feet on Fairchild Street
Zoning: C-4
Gross Building Area: 41,000 square feet
First Floor Rentable Area: 32,000 square feet
Type of Construction: Four-story plus basement reinforced concrete, brick and block building; two passenger elevators and one freight elevator; light brick veneer exterior.

COMPARABLE SALE #1
(Continued)

Present Use: Under major renovation for use as State of Wisconsin Historical Society Museum.
Age: 31 years.

EXHIBIT 26

COMPARABLE SALE #2

50 East Mifflin Street

Date of Sale: April 30, 1978
Sale Price: $697,000
Sale Document: Sale leaseback
Recorded: Volume 942, p. 115.
Terms of Sale: $654,064, 5.25 percent long term mortgage assumed. Seller took back 10 year note for $65,936.23 at 8 percent interest.
Grantor: J. Jesse Hyman, Jr. and Alan R. Hyman, copartners d.b.a. Emporium Company
Grantee: Carley Capital Group
Tax Parcel Number: 0709-144-2411-7

Assessed Value:	Land	$258,700
	Improvements	591,300
	Total	$850,000
	(1978 Assessed Value)	

Sale Price as Percent of Assessed Value: 82 percent
Building Location: Two blocks from State Street Mall; four blocks from City-County Building; three blocks from GEF-I; four blocks from GEF-II and III; corner lot.
Frontage: 70 feet on East Mifflin Street.
Lot Size: 132 feet X 70 feet
Zoning: C-4

COMPARABLE SALE #2
(Continued)

Gross Building Area: 49,755 square feet
First Floor Gross Area: 8,500 square feet
Net Rentable Area: 38,500 square feet
Type of Construction: Four-story masonry and concrete building; two elevators; freight facilities in rear parking lot; structure can carry additional floors.
Present Use: Retail 1st floor; extensive remodeling of three upper floors for office space.

EXHIBIT 27

COMPARABLE SALE #3

2 West Mifflin Street

Date of Sale: July 31, 1978
Sale Price: $662,000
Sale Document: Warranty Deed
Recorded: Volume 980, p. 318.
Terms of Sale: Subject to July 15, 1977 mortgage, undivided; 90 percent interest in and to partnership.
Grantor: Thirty-on-The Square Associates
Grantee: Mifflin Associates
Use as Time of Sale: Retail and Office
Tax Parcel Number: 0709-144-2509-0

Assessed Value:	Land	$371,300
	Improvements	263,700
	Total	$635,000
	(1978 Assessed Value)	

Sale Price as Percent of Assessed Value: 104 percent
Building Location: Five blocks from City-County Building; three blocks from GEF-I; corner lot.
Frontage: 91 feet on West Mifflin Street; 136 feet on Wisconsin Avenue.
Lot Size: 12,376 square feet
Zoning: C-4

COMPARABLE SALE #3
(continued)

Gross Building Area: 38,640 square feet
First Floor and Mezzanine Gross Area: 13,880 square feet
Net Rentable Area: Approximately 24,000 square feet
Type of Construction: Two-story, masonry bearing walls; concrete slab flooring; elevator.
Present Uses: Retail, 1st, mezzanine, and basement; office, 2nd floor.

EXHIBIT 28

COMPARABLE SALE #4

110 East Main Street

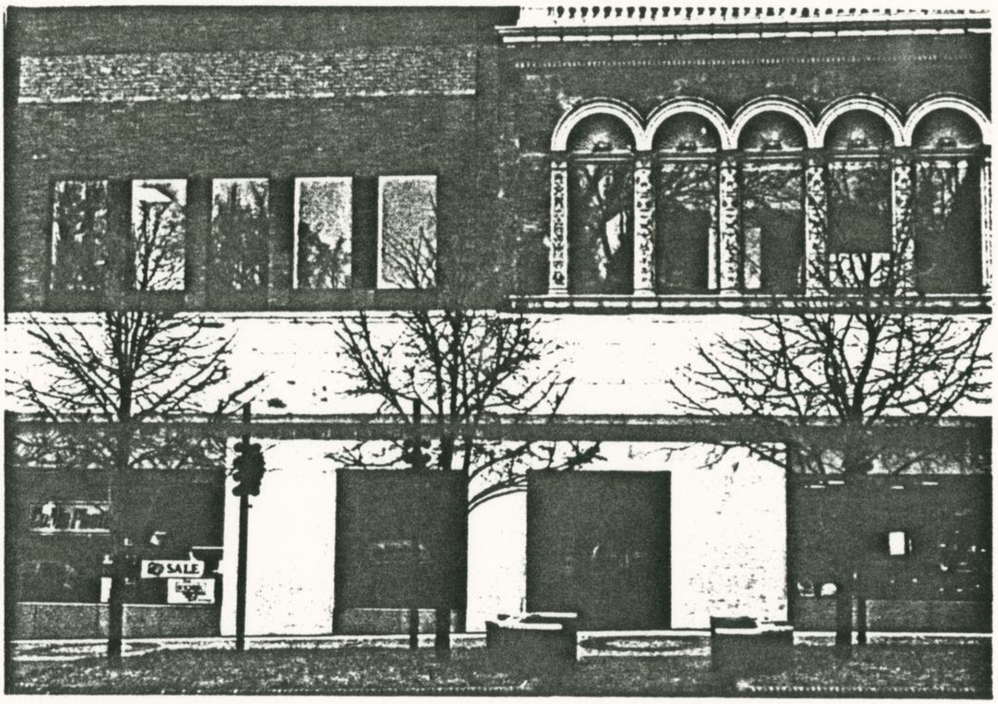
Date of Sale: February 1984
Sale Price: $1,350,000
Sale Document: Warranty Deed
Recorded: Vol. 5402, p. 96
Terms of Sale: Cash to Seller
Grantor: George Maloof
Grantee: Tenney Plaza Associates
Use at Time of Sale: Retail and Office
Tax Parcel Number: 0709-133-2901-1

Assessed Value:	Land	$ 610,000
	Improvements	620,000
	Total	$1,230,000
	(1984 Assessed Value)	

Sale Price as Percent of Assessed Value: 110 percent
Building Location: Two blocks from City-County Building; one block from GEF-I, two blocks from GEF II and III; corner lot.
Frontage: 154 feet on East Main Street
Lot Size: 174 feet X 132 feet
Zoning: C-4
Gross Building Area: 105,600 square feet
Net Rentable Area: 72,500 square feet
Type of Construction: Ten-story concrete
Present Uses: Retail and Office
Age: Part 51 years; part 54 years

EXHIBIT 29

COMPARABLE SALE #5



5-7 North Pinckney Street
a.k.a. "Center 7"

Date of Sale: December 31, 1977
Sale Price: $240,000
Sale Document: Testimentary Trust by Company Trustees
Recorded: Volume 1001, p. 272.
Terms of Sale: Cash to seller
Grantor: Baskin Robbins
Grantee: Rifken and Campbell associates, a Wisconsin Partnership.
Use at Time of Sale: Commercial
Tax Parcel Number: 0709-133-3002-6

Assessed Value:	Land	$140,000
	Improvements	97,600
	Total	$237,600

Sale Price as Percent of Assessed Value: 101 Percent
Building Location: Three blocks from City-County Building; two blocks from GEF-I, three blocks from GEF II and III; mid-block.
Lot Size: 8,712 square feet including 12 foot easement.
Zoning: C-4
Gross Building Area: 26,000 square feet

COMPARABLE SALE #5
(Continued)

Net Leasable Area: 20,500 square feet
Type of Construction: Two-story wood frame
Present Use: Retail first floor; office on upper two floors.

EXHIBIT 30

SCHEDULE OF ADJUSTMENTS

	Comparable #1 Wolff Kubly 30 N. Carroll	Comparable #2 Emporium 50 E. Mifflin	Comparable #3 Woolworth's 2 W. Mifflin	Comparable #4 Tenney Bldg. 110 E. Main	Comparable #5 Center 7 5-7 N. Pinckney
Nominal Sale Price	$735,000	$850,000	$596,200	$1,350,000	$240,000
Date of Sale	12/78	4/30/78	7/31/78	2/29/84	12/31/77
Terms of Sale	Cash to seller	Cash to seller	Subject to 7/77 mortgage 90% in and to partnership	Cash to seller	Cash to seller
Amount to Adjustment[a]	(110,000)	(153,000)	65,800	-0-	-0-
Adjusted Sales Price	$625,000	$697,000	$662,000	$1,350,000	$240,000

[a]See Appendix D.

B. Most Probable Price

Although the comparable sale properties are predominantly mixed use retail/office buildings on Capitol Square, significant differences exist among them. In choosing adjustment attributes, the appraiser must select the salient characteristics that are price-sensitive, such as degree of renovation required, planned occupancy at time of sale, accessibility to the subject property, potential for expansion of existing improvements, and other salient factors. It is therefore necessary to reduce the differences to a common denominator or unit within which price comparison and patterns can be identified. Each property will be scored on a point system weighted for priorities of the investor developers in the current market. The total point score for each comparable sale and the subject property can then be related to one another by means of a simple linear regression line, which is a form of averaging differences by a means of a least squares fit. This simple linear regression is a statistical process for translating supply characteristics and price histories demand into a prediction of price-per-unit behavior in the central Madison market large commercial properties. In addition to providing a predicted price per unit as a central tendency for the subject property, this process provides a means for estimating the reliability for sale/price predictions through statistical calculation of the standard error of the estimate.

C. Market Comparison Approach to Probable Price

The first step of market inference was the collection of recent comparable sales. Comparable sales considerations were:

- Location on Capitol Square in the C-4 Zone
- Used for retail purposes at the first floor level
- Location offering maximum visibility and traffic flow
- Little or no on-site parking provided
- Purchased for rehabilitation.

Originally 13 comparables were considered, but the list was narrowed to five after a closer inspection. Exhibit 31 provides brief explanations of the elimination of other transactions as comparables.

The next step was to adjust the sales prices of the comparables for time and financing. This adjusted price is then divided by the unit of comparison to determine the adjusted sales price per unit of comparison (Exhibit 32). This unit of comparison was derived by testing various units of measurement to calculate their correlation (R^2) with price. As shown in Exhibit 33, building gross square footage has the highest correlation coefficient (R^2) at 93.9 percent. Exhibit 34 shows a plotting of the least squares line for the comparable sales.

Next, a decision was made as to the price-sensitive attributes deemed important by a potential buyer and the relative significance applied to each (Exhibit 35). Using

EXHIBIT 31

ELIMINATION OF TRANSACTIONS OF COMPARABLE PROPERTIES

Property	Eliminating Characteristics
435 West Washington Avenue	Commercial location in primarily residential neighborhood.
905 University Avenue	Substantial disimilarity in locational attributes and market area potential.
16 North Carroll Street	No retail on first floor/not purchased for rehabilitation.
126 Langdon Street	Residential location along lake in a primarily residential area.
137 East Wilson Street	Located in marginal commercial/industrial area.
149 East Wilson Street	Located in marginal commercial/industrial area.
212 East Washington Avenue	No retail on first floor.
30 West Mifflin Street	Not purchased for rehabilitation.

EXHIBIT 32

ADJUSTED SALES PRICE PER UNIT OF COMPARISON

COMPARABLE SALE PRICE ADJUSTMENTS

	Comparable Number 1	Comparable Number 2	Comparable Number 3	Comparable Number 4	Comparable Number 5
Nominal sale price	$735,000	$850,000	$662,000	$1,350,000	$240,000
Sales price adjusted for terms	$625,000	$697,000	$662,000	$1,350,000	$240,000
Sales price adjusted for time	$0	$0	$0	$0	$0
Adjusted sale price	$625,000	$697,000	$662,000	$1,350,000	$240,000
Structure - sq. ft.	41,000	49,755	38,640	105,600	26,000
Price per sq. ft.	$15.24	$14.01	$17.13	$12.78	$9.23

EXHIBIT 33

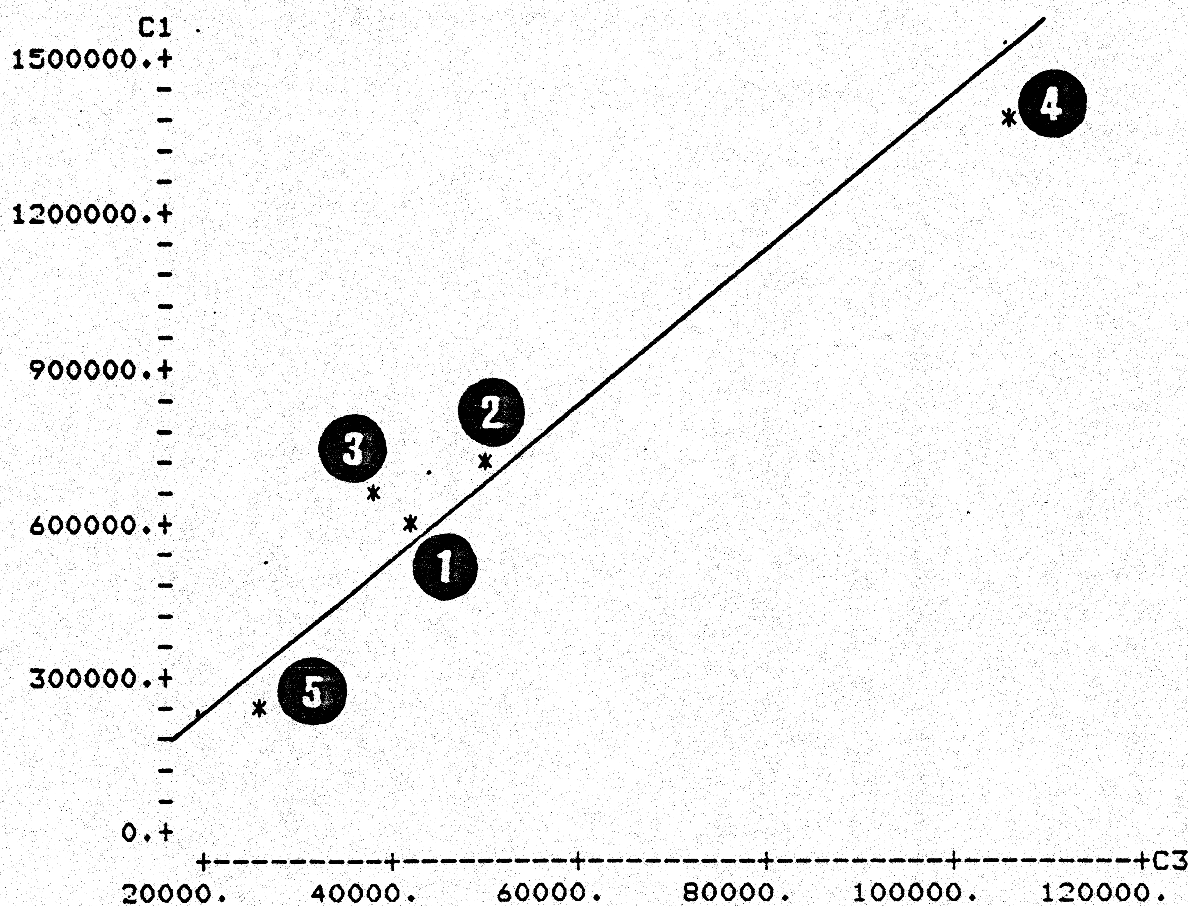
CORRELATION COEFFICIENTS AND R^2 OF SALES PRICE

Space Unit	Correlation (R)	R^2
Lot Square Footage	.906	82.1%
Building Gross Square Footage	.969	93.9%
Building Net Square Footage	.947	89.7%
Number of Floors Excluding Basement	.925	85.6%
Net Square Footage ÷ Gross Square Footage	-.398	15.8%
(Net Square Footage ÷ Gross Square Footage)* Number of Floors Excluding Basement	.900	81.0%
Gross Square Footage ÷ Lot Area	.482	23.2%
(Net Square Footage ÷ Gross Square Footage) ÷ Lot Area	-.817	66.7%

EXHIBIT 34

GRAPH OF LEAST SQUARES LINE FOR COMPARABLE SALES

MTB >PLOTC1 C3



MTB >

EXHIBIT 35

SCALE FOR SCORING COMPARABLES ON IMPORTANT INVESTOR CONSIDERATIONS FOR OFFICE-RETAIL SPACE IN MADISON C-4 ZONE

Degree of Renovation (40%)	26 = none or minimal
	20 = superficial, no major structural adjustments
	15 = moderate modification to interior layout
	13 = considerable modification to interior layout
	10 = major modification to interior layout
Planned Occupancy (15%)	26 = fully leased upon purchase by owner/user
	20 = major tenant ground floor
	15 = less than one-third vacancy
	13 = greater than one-third vacancy
	10 = completely vacant
Accessibility (5%)	26 = accessible by one or more two-way streets
	20 = accessible by four or more one-way streets
	15 = accessible by three one-way streets
	13 = accessible by two one-way streets
	10 = accessible by one one-way street
Potential for Expansion (40%)	26 = capacity for major vertical, horizontal and interior modification
	20 = capacity for internal modification and major vertical or major horizontal modifications, but not both
	15 = restricted to internal modifications and limited exterior modifications
	13 = modest potential for internal modifications, little or no external modification capacity
	10 = minimal potential for both internal and external modifications

the designated point system, each comparable property was assigned a total point score (Exhibit 36). Because of the soft real estate market, and little appreciation during the recent recession, and the unsound logic of allocating value to land as if vacant, no adjustment was made for time or land. It was determined that Comparable #1 through Comparable #3 warranted adjustment for financing terms. These sales had favorable financing terms so an adjustment was made to incorporate this increment in value attributable to the financing (Appendix D).

The adjusted selling price per unit of comparison is then divided by the weighted point score resulting in the central tendency for most probable price and the range of possible transactions (Exhibit 37).

To further elaborate on the point score system, four attributes were selected as the most price sensitive characteristics of the comparables and subject property. Attributes deemed relevant were: degree of renovation required, planned occupancy at time of sale, accessibility to the subject property, and potential for expansion of the existing improvements. As indicated in Exhibit 35, each attribute was further subdivided into five categories that were assigned a point score. This method was derived by Gene Dilmore and is as follows:

Excellent	26
Good	20
Average	15
Fair	13
Poor	10.

EXHIBIT 36
WEIGHTED MATRIX FOR COMPARABLE PROPERTIES

FEATURE OR ATTRIBUTE	WEIGHT	Subject Property	Comp. No. 1	Comp. No. 2	Comp. No. 3	Comp. No. 4	Comp. No. 5
Degree of Renovation	0.40	20 / 8.00	13 / 5.20	15 / 6.00	26 /10.40	17 / 6.80	10 / 4.00
Planned Occupancy	0.15	10 / 1.50	26 / 3.90	20 / 3.00	26 / 3.90	17 / 2.55	10 / 1.50
Accessibility	0.05	13 / 0.65	13 / 0.65	20 / 1.00	13 / 0.65	20 / 1.00	10 / 0.50
Potential for Expansion	0.40	15 / 6.00	20 / 8.00	20 / 8.00	15 / 6.00	12 / 4.80	12 / 4.80
	1.00						
TOTAL WEIGTED SCORE		16.15	17.75	18.00	20.95	15.15	10.80
SELLING PRICE		$625,000	$697,000	$662,000	$1,350,000	$240,000	
UNIT OF COMPARISON		41,000	49,755	38,640	105,600	26,000	
PRICE/UNIT OF COMP.		$15.24	$13.15	$17.14	$12.78	$9.23	

EXHIBIT 37
CALCULATION OF MOST PROBABLE PRICE USING MEAN PRICE PER POINT EQUATION METHOD

Comparable Property	Adjusted Selling Price per SF of GBA	Weighted Point Score	Price per SF / Weighted Point Score
1	$15.24	17.75	$0.86
2	$14.01	18.00	$0.78
3	$17.10	20.95	$0.82
4	$12.75	15.15	$0.84
5	$9.20	10.80	$0.85
		TOTAL	$4.15

Central Tendency or Mean = $\bar{X}$ = x/n = $\frac{\$4.15}{5}$ = $0.83

Dispersion or Standard Deviation = 0.033 *

Value range: $\bar{x}$ ± dispersion = 0.83 ± 0.03

Gross Building Area Of Subject × Weighted Point Score × (Central Tendency ± Dispersion) =

$$51840 \times 16.15 \times 0.83 \pm 0.03 =$$

High Estimate of $720,299
Central Tendency of $695,456
Low Estimate of $667,513

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* The standard deviation equals the square root of the sum of $(x - \bar{x})^2$ for each comparable sale divided by n-1.

These numbers were chosen to provide a curvilinear relationship between excellent and poor, and have been tested by Dilmore and found to be extremely consistent.

Comparable properties and the subject were scored using Dilmore's point system (Exhibit 36). The subject property requires no major structural adjustments for its purported use as office retail space. Because required renovation is cosmetic in nature, the subject property received a 20 for degree of renovation required. At present, the Penney building is completely vacant. Because there are no plans to lease the space, the subject property was given a low score of 10 for planned occupancy. The subject property is accessible by two one-way streets and received a 13 for the consideration of accessibility. Finally, because modifications to the Penney's improvements are restricted to internal modifications and limited exterior modifications, the subject property was given a 15 for potential for expansion. After multiplying the respective scores of the different characteristics by the weight of importance for each attribute, the subject property obtained an average weighted score of 16.15.

The market comparable approach is sensitive to the appraiser's ability to predict buyer perceptions in a constantly changing market. The limited number of comparable properties and available information scored in the weighted matrix attempts to capture these perceptions. Consequently, this calculated value is only the initial step in determining the final price estimate. This initial transaction zone must be adjusted in light of certain external factors, and then tested to determine if the most probable selling price estimate would provide an acceptable yield from income when related to the most probable use, total cost to most probable buyer and typical financing.

D. External Influences on Most Probable Price

Renovation of a vacant retail store into a viable economic enterprise carries certain risks. The price an investor is willing to pay for the property is dependent on his perception of these risks. Recently, the City has made public its Olin Place proposal, and news has spread about the Jacobs, Visconsi, and Jacobs feasibility study of Block 89. Such publicity may stimulate the speculative nature of a potential buyer.

Lender opinion on risk associated with most probable use could also impact sales price (e.g.: willingness of the City to finance the sale would support the higher end of the transaction zone). Analysis of the proposed use is dependent on an accepted default ratio of .85 and current market financing terms.

Additional external influences include placement of open-air retail on the first floor of the subject building that will increase pedestrian traffic on Capitol Concourse, and the ability of management to capture an adequate segment of the Class B office market. Possible assemblage, or a

The cash flow program was run using different price, financing, and rate of appreciation assumptions to determine if the aforementioned Most Probable Price is supported by basic yields and risk ratios determined in the investor calculus (Appendix E).

Under the Most Probable Price scenario, it is assumed that an investor would purchase the subject property and invest $900,000 in capital improvements, for a total investment of $1,600,000. Income and expense projections are grown at a 2 percent inflation rate because of the persistent stagnant real estate market in Madison. Assuming an 80 percent loan-to-value ratio, a mortgage principal of $1,280,000 could be obtained. Current financing conditions are a 30-year loan at 13.5 percent interest. A seven-year holding period is assumed. The detail provided in Exhibit 38 reproduces the computer input and output components.

The significant conclusion is that the after-tax yield under these assumptions is 16 percent-an acceptable yield when compared with other real estate investments of a similar nature. The average debt-cover ratio of 1.15 is acceptable to potential lenders. Therefore, the most probable price of $700,000 passes the minimum test of a risk investment for capital gains in a seven-year holding period.

joint venture with Mutual Benefit are externalities that could also affect sales price. Furthermore, revenues and expenses provided in this apprisal are estimates. Any disagreement by the buyer will be reflected in his purchase offer.

Having considered the probability of external influences, the appraiser estimates the central tendency of $700,000 as the most probable price.

E. Test of Preliminary Most Probable Price Determination

Since actual market sales were used for the valuation approach, it is useful to test the probable price based on the marketplace for compatibility with investment valuation in terms of basic yields and risk ratios.

A real estate investment of this proposed magnitude is always affected by federal income tax. Assuming that the probable investor or members of the investment syndicate have a marginal income tax rate of 50 percent, it is useful to test the possible investment scenarios with an after-tax cash flow model designed for appraisers. The selected model is known as CASHFLOW and was designed by Brian Furlong, a graduate student in Real Estate at the University of Wisconsin-Madison. CASHFLOW provides appraisers with a ten-year cash flow projection including before-tax and after-tax Internal Rate of Return (IRR) for assumed sale in years three, five, seven, and ten.

EXHIBIT 38

CASH FLOW PROJECTION FOR MOST PROBABLE PRICE

CASH FLOW ANALYSIS RUN 1	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
GROSS POTENTIAL RENT	$289,521	$295,311	$301,218	$307,242	$313,387	$319,655	$326,048	$332,569	$339,220	$346,004
VACANCY RATE	10%	8%	5%	5%	5%	5%	5%	5%	5%	5%
VACANCY LOSS	$28,952	$23,625	$15,061	$15,362	$15,669	$15,983	$16,302	$16,628	$16,961	$17,300
= EFFECTIVE RENT	$260,569	$271,687	$286,157	$291,880	$297,717	$303,672	$309,745	$315,940	$322,259	$328,704
- OPERATING EXPENSES	$34,743	$35,438	$36,147	$36,870	$37,607	$38,359	$39,126	$39,909	$40,707	$41,521
- REAL ESTATE TAXES	$53,136	$54,199	$55,283	$56,388	$57,516	$58,666	$59,840	$61,037	$62,257	$63,502
= NET INCOME	$172,690	$182,050	$194,727	$198,622	$202,594	$206,646	$210,779	$214,995	$219,295	$223,681
- DEPRECIATION	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000
- INTEREST	$172,800	$172,266	$171,659	$170,971	$170,189	$169,303	$168,296	$167,154	$165,857	$164,385
= TAXABLE INCOME	($65,110)	($55,216)	($41,932)	($37,349)	($32,595)	($27,656)	($22,517)	($17,159)	($11,562)	($5,705)
+ DEPRECIATION	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000
- PRINCIPAL PAYMENTS	$3,958	$4,493	$5,099	$5,788	$6,569	$7,456	$8,462	$9,605	$10,901	$12,373
= CASH THROW-OFF	($4,068)	$5,292	$17,969	$21,864	$25,836	$29,888	$34,021	$38,237	$42,536	$46,922
- RESERVES	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000
- INCOME TAXES	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
= CASH FROM OPERATIONS	($5,068)	$4,292	$16,969	$20,864	$24,836	$28,888	$33,021	$37,237	$41,536	$45,922
+ TAX SAVINGS ON OTHER INCOME	$32,555	$27,608	$20,966	$18,674	$16,297	$13,828	$11,258	$8,579	$5,781	$2,852
= SPENDABLE CASH AFTER TAX	$27,487	$31,900	$37,935	$39,538	$41,134	$42,716	$44,279	$45,816	$47,318	$48,775
MARKET VALUE USING CAPITALIZED NOI	$1,726,899	$1,820,499	$1,947,275	$1,986,220	$2,025,944	$2,066,463	$2,107,793	$2,149,948	$2,192,947	$2,236,806
- RESALE COST @ 6% OF MARKET VALUE	$103,614	$109,230	$116,836	$119,173	$121,557	$123,988	$126,468	$128,997	$131,577	$134,208
- LOAN BALANCE	$1,276,042	$1,271,549	$1,266,450	$1,260,662	$1,254,094	$1,246,638	$1,238,176	$1,228,571	$1,217,670	$1,205,298
= B/4 TAX NET WORTH	$347,243	$439,720	$563,988	$606,384	$650,294	$695,837	$743,149	$792,380	$843,700	$897,300
- CAPITAL GAIN TAX	$103,657	$134,254	$171,088	$191,409	$211,878	$232,495	$253,265	$274,190	$295,274	$316,520
= AFTER TAX NET WORTH	$243,586	$305,466	$392,900	$414,975	$438,417	$463,342	$489,884	$518,190	$548,426	$580,781
DEBT COVER RATIO	0.98	1.03	1.10	1.12	1.15	1.17	1.19	1.22	1.24	1.27

INPUTS RUN 1

PURCHASE AMOUNT	$700,000
RECONSTRUCTION	$900,000
= TOTAL COST	$1,600,000
INFLATION	2.00%
TAX RATE OF INVESTOR	50%
LOAN TO COST RATIO	80%
MORTGAGE PRINCIPAL	$1,280,000
TERM IN YEARS	30
YEARLY INTEREST RATE	13.50%
CAP RATE FOR NOI	10.00%
AFTER TAX EQUITY DISCOUNT RATE	20.00%
$ AMOUNT OF NON-DEPRECIABLE ASSETS	$430,000

ATIRR, SALE END OF YEAR 3	16%
BTIRR, SALE AFTER YEAR 3	22%
ATIRR, SALE END OF YEAR 5	16%
BTIRR, SALE AFTER YEAR 5	18%
ATIRR, SALE END OF YEAR 7	16%
BTIRR, SALE AFTER YEAR 7	16%
ATIRR, SALE END OF YEAR 10	15%
BTIRR, SALE AFTER YEAR 10	15%

V. APPRAISAL CONCLUSIONS AND LIMITING CONDITIONS

A. Value Conclusion

An appropriate benchmark for the listing and negotiation of the subject property can be derived from Ratcliff's "most probable selling price" definition of value:

> The most probable selling price is that selling price which is most likely to emerge from a transaction involving the subject property if it were exposed for sale in the current market for a reasonable time at terms of sale which are currently predominant for properties of the subject type.

To comply with this definition, I have determined that sales of commercial buildings with first-floor retail space bought by local developer-investors have been either for cash or seller financing in the form of land contract or a second mortgage. However, given Northwestern's favorable bargaining position, seller financing is an unlikely alternative and a cash transaction is anticipated. Most probable selling price is likely to converge at the central tendency of $700,000. The upper limit, $720,000, represents the maximum transaction price the subject property can achieve, and likely would result from externalities such as municipal financing.

I therefore conclude that the most probable selling price on September 8, 1984 of the subject property at 1 East Main Street, known as the J. C. Penney Building, is $700,000 with an upper limit of $720,000.

B. Certification of Independent Appraisal Judgment

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 on the information contained in this report and on my general experience as an appraiser, my opinion is that the most probable price, as defined herein, of the subject property on September 8, 1984 is

SEVEN HUNDRED THOUSAND DOLLARS($700,000)

cash to seller.

Lisa B. Richman

Lisa B. Richman

12/14/84

Date

C. Statement of Limiting Conditions

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

1. Contributions of Other Professionals

   . Because the budget did not provide for a consulting engineer or architect, the appraiser applied limited structural analysis to the problem, and cost estimates must be considered nonprofessional.

   . Because no professional surveying services were made available, the appraiser assumes no responsibility for matters concerning the exact size and location of the site.

   . No accounting records were available of monthly operating costs or repair investments. Therefore, expenses are estimated to be appropriate for skillful management of the property, but are not represented to be historically based.

   . Because no legal advice was available, the appraiser assumes no responsibility for legal matters. The appraiser has assumed that any existing code nonconformities will prevent occupancy of building by a new owner.

2. Facts and Forecasting Under Conditions of Uncertainty

   . Information furnished by other students in this report, while believed to be reliable, is in no sense guaranteed by this appraiser.

. This appraisal was done as a class exercise with minimal opportunity to confirm sales or inspect other properties.

. 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, financing, or withdrawal without notice.

. Forecasts of effective demand of retail, office, and apartment space are based on the best available data concerning the Isthmus and Madison markets.

3. Controls of Use of Appraisal

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

. Possession of this report or any copy thereof carries with it no 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.

. Neither all nor any part of the contents of the 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 regarding the valuation conclusions and the identity of the appraiser, of the firm with which he is connected, or any of his associates.

Appendices

APPENDIX A

FAIR MARKET VALUE DEFINITION

As defined by the Society of Real Estate Appraisers, fair market value is:

> 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 a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress.[1]

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 generally 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.

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[1] American Institute of Real Estate Appraisers, The Appraisal of Real Estate, 8th edition (Chicago: American Institute of Real Estate Appraisers, 1983), p. 33.

APPENDIX B

DEPARTMENT OF ADMINISTRATION LEASE TABULATION

Madison	169	WI	43?-400	Health & Social Serv	1400 E Washington Ave	Washington Square Assoc	9,117	05-04-30	5,242.27
Madison	169	WI	435-487	Health & Social Serv	131 West Wilson St	James Wilson Assn	8,932	04-06-30	7,448.93
Madison	169	WI	435-549	Health & Social Serv	10 S Thornton Ave	Yahara Square Assoc	28,911	06-01-31	13,764.67
Madison	169	WI	445-254	Ind Labor&Human Rel	2934 Fish Hatchery Rd	Bowman Farms, Inc	598	03-06-30	324.00
Madison	169	WI	445-278	Ind Labor&Human Rel	2934 Fish Hatchery Rd	Bowman Farms Inc	460	04-08-31	254.91
Madison	169	WI	445-284	Ind Labor&Human Rel	1400 E Washington Ave	Washington Square Assoc	1,750	M-to-M	1,160.00
Madison	169	WI	445-360	Ind Labor&Human Rel	3600 University Ave	Coca Cola Bttg Co	10,700	04-06-30	2,897.92
Madison	169	WI	445-496	Ind Labor&Human Rel	1400 E Washington Ave	Washington Square Assoc	5,270	04-06-30	2,568.33
Madison	169	WI	445-501	Ind Labor&Human Rel	1400 E Washington	Washington Square Assoc	4,210	02-06-30	1,975.00
Madison	169	WI	485-108	Veterans Affairs	1400 E Washington Ave	Washington Square Assoc	19,981	05-06-30	11,250.34
Madison	169	WI	505-055	Administration	30 West Mifflin Street	30 On the Square Assoc	550	05-07-31	416.00
Madison	169	WI	505-065	Administration	627 E Mifflin St	Viking Associates	10,090	04-07-31	800.00
Madison	169	WI	505-206	Administration	110 E Main St, Rm 206	The Tenney Building Com	160	M-to-M	60.00
Madison	169	WI	505-219	Administration	643 E Mifflin St	M Rowley & F Schlimgen	14,190	05-06-30	962.00
Madison	169	WI	505-496	Administration	310 N Midvale Blvd	Hilldale Prof Bldg	1,770	05-05-31	1,171.22
Madison	169	WI	505-592	Administration	640 E Washington Ave	M Rowley F Schlimgen	2,195	05-06-30	3,698.25
Madison	169	WI	512-545	Employment Rel	149 E Wilson St	Wilton Properties III	31,363	03-11-30	13,520.00
Madison	169	WI	525-158	Governor, Office of	30 W Mifflin St	Madison Real Est Invest	4,808	03-12-31	3,922.75
Madison	169	WI	547-471	Personnel Commission	131 W Wilson St	James Wilson Assoc	2,805	04-03-31	2,606.37
Madison	169	WI	550-475	Public Defender Bd	340 W Washington Ave	Methodist Hospital	5,765	05-02-28	3,357.00

DEPARTMENT OF ADMINISTRATION
LOCATION TABULATION
SEPTEMBER 1, 1983

Bldg City	City Code	State	Lease No.	Department	Address	Lsr/Asgne	Sq. Ft.	Expires	Am. Per Mo
Madison	169	WI	550-546	Public Defender Bd	16 N Carroll St 6th Fl	Commercial Mgmt Service	4,000	03-09-30	2,333.33
Madison	169	WI	645-103	Judicial Council	25 W Main St-7th Fl	Anchor Savings & Loan	464	03-12-31	453.75
Madison	169	WI	665-590	Judicial Comm	110 E Main Ste 308	Tenney Bldg Co	725	M-to-M	528.64
Madison	169	WI	600-139	Supreme Court	110 E Main St	Tenney Bldg Co	810	03-10-31	635.04
Madison	169	WI	680-305	Supreme Court	110 E Main St	Tenney Bldg Co	8,401	03-10-31	5,215.61
Madison	169	WI	600-467	Supreme Court	110 E Main St	Tenney Bldg Co	2,983	03-10-31	2,242.22
Madison	169	WI	600-497	Supreme Court	1119 Monona Avenue	National Mutual Benefit	6,765	00-06-30	7,036.50
Madison	169	WI	765-212	Legislature	131 Wilson St	James Wilson Assoc	7,028	05-12-31	5,477.25
Madison	169	WI	765-345	Legislature	110 E Main St., Rm. 208	Tenney Building Co	546	04-06-30	373.10
							770,970.00		403,013.79

DEPARTMENT OF ADMINISTRATION
LOCATION TABULATION
SEPTEMBER 1, 1983

Bldg City	City Code	State	Lease No.	Department	Address	Lsr/Asgne	Sq. Ft.	Expires	Am. Per Mo
Madison	169	WI	285-176	University of Wis	112 N Lake St	F. Gordon Davis	31,400	87-06-30	5,000.00
Madison	169	WI	285-187	University of Wis	1920-1930 Monroe St	Kenneth L. Luedtke	15,363	84-06-30	10,875.04
Madison	169	WI	285-195	University of Wis	1015 University Ave	American United Life	10,065	85-06-30	8,492.42
Madison	169	WI	285-201	University of Wis	1220 Capitol Court	R.H. & E. H. Carpenter	11,500	84-06-30	3,125.00
Madison	169	WI	285-205	University of Wis	329-331 N Randall Ave	UW Foundation	800	84-09-30	272.50
Madison	169	WI	285-229	University of Wis	706 Williamson St	Henry E. Reynolds Estate	12,000	86-06-30	2,400.00
Madison	169	WI	285-276	University of Wis	602 N Whitney Way	L & G Properties	1,624	83-12-31	832.30
Madison	169	WI	285-323	University of Wis	1902 E Johnson St	H E Reynolds Estate	2,000	86-02-28	416.67
Madison	169	WI	285-332	University of Wis	9 N Brooks St	Wm Larson & L.F. Reinke	8,550	84-06-30	1,810.46
Madison	169	WI	285-356	University of Wis	1100 Delaplaine Court	St Marys Hospital Med Ct	22,150	83-06-30	.00
Madison	169	WI	285-378	University of Wis	33-35 N Orchard St	R.H. & E.H. Carpenter	5,153	86-06-30	750 00
Madison	169	WI	285-506	University of Wis	602 State St	The Towers	11,516	85-06-30	6,075.00
Madison	169	WI	285-513	University of Wis	1902 E Johnson St	H E Reynolds Estate	5,000	84-06-30	875.83
Madison	169	WI	285-556	University of Wis	905 University Ave	UW Foundation	7,000	83-12-31	4,003.33
Madison	169	WI	285-593	University of Wis	1314 W Johnson St	Elkin M. Glenjem, Jr	23,193	84-07-31	6,500.00
Madison	169	WI	285-627	University of Wis	333 N Randall St	UW Foundation	7,001	86-06-30	3,941.95
Madison	169	WI	370-411	Natural Resources	1507 Greenway Cross	Wildwood Development Co	2,162	84-03-31	932.42
Madison	169	WI	395-049	Transportation	3430 Miller St	Frickelton Sc of Aero	2,013	M-to-M	240.00
Madison	169	WI	395-197	Transportation	Lot 3, Truax Air Park	American Family Life Ins	105,000	86-06-30	19,425.00
Madison	169	WI	395-239	Transportation	Truax Air Park	Air Park Assn	43,000	97-08-31	13,404.67
Madison	169	WI	395-310	Transportation	1317 Applegate Rd	Daniel Huvlaser	24,000	84-08-31	11,500.00
Madison	169	WI	425-133	Employment Relations	14 W Mifflin St	Mendota Block Venture	9,417	86-09-30	6,671.00
Madison	169	WI	435-012	Health & Social Serv	3536 University Ave	Coca-Cola Btling Co/Mdsn	5,556	84-09-30	3,000.00
Madison	169	WI	435-017	Health & Social Serv	110 E Main St	Tenney Bldg Co	5,000	84-06-30	3,916.00
Madison	169	WI	435-072	Health & Social Serv	818 W Badger Rd	Badger Prof Associates	3,404	85-11-30	2,142.99
Madison	169	WI	435-136	Health & Social Serv	110 E Main St Ste 824	Tenney Bldg Co	339	84-06-30	261.31
Madison	169	WI	435-159	Health & Social Serv	3500 University Ave	Coca Cola Bottling Co	700	84-09-30	200.00
Madison	169	WI	435-169	Health & Social Serv	516 E Washington Ave	Nichols Apartments	1,337	83-12-31	525.00
Madison	169	WI	435-203	Health & Social Serv	5712 Odana Rd	IKF Corporation	2,869	85-03-31	2,014.27
Madison	169	WI	435-230	Health & Social Serv	310 Price Place	Hilldale Bank Bldg Corp	26,665	83-12-31	17,357.63
Madison	169	WI	435-319	Health & Social Serv	1437 E Washington Ave	Yahara Sq Associates	2,666	84-10-31	1,750.00
Madison	169	WI	435-308	Health & Social Serv	160 Westgate Mall	Westgate Shopping Ctr	6,195	87-09-30	2,037.37
Madison	169	WI	435-413	Health & Social Serv	106 E Doty St	Davis Real Estate	2,335	85-02-28	1,405.31
Madison	169	WI	435-474	Health & Social Serv	818 West Badger Rd	Badger Prof Associates	674	84-02-28	373.83
Madison	169	WI	435-477	Health & Social Serv	106 E Doty St	Uptown Offices, Inc	[illegible]	[illegible]	2,090.70

DEPARTMENT OF ADMINISTRATION
LOCATION TABULATION
SEPTEMBER 1, 1983

Bldg City	City Code	State	Lease No.	Department	Address	Lsr/Asgne	Sq. Ft.	Expires	Am. Per Mo
Madison	169	WI	141-463	Credit Unions	310 N Midvale Blvd	R Young N Kramer T Haley	2,005	86-05-31	1,129.37
Madison	169	WI	165-161	Regulation & Lic	1400 E Washington Ave	Washington Square Assoc	27,771	85-07-31	16,140.00
Madison	169	WI	175-063	Savings & Loan	131 West Wilson St	James Wilson Associates	2,758	85-12-31	2,240.00
Madison	169	WI	185-171	Securities	111 W Wilson St	R.H. & E.H. Carpenter	6,700	84-06-30	3,340.62
Madison	169	WI	225-107	Educ Comm Board	3321 W Beltline Hwy	Bopark Corp	9,760	88-05-31	7,993.59
Madison	169	WI	235-202	Higher Educ Aids Bd	307 E Wilson St	State Cap Emp C U	3,400	84-11-30	1,166.67
Madison	169	WI	235-410	Higher Ed Aids Board	137 E Wilson St	Wilson-Cook Partnership	25,552	90-10-31	19,666.67
Madison	169	WI	255-128	Public Instruction	2601 S Stoughton Rd	Ronald W. Carlson	25,200	84-09-30	7,610.00
Madison	169	WI	285-010	University of Wis	545 W Dayton St	Madison Metro School Dist	5,130	85-12-31	3,746.45
Madison	169	WI	285-059	University of Wis	6000 McKee Rd	Hilton Properties	12,000	84-03-31	2,250.00
Madison	169	WI	285-062	University of Wis	905 University Ave	U of W Foundation Acct	5,199	83-12-31	2,910.16
Madison	169	WI	285-066	University of Wis	905 University Ave	U.W. Foundation Acct	2,953	84-06-30	1,403.90
Madison	169	WI	285-076	University of Wis	722 Hill Street	Opitz Realty Inc Trustee	2,400	85-08-31	1,200.00
Madison	169	WI	285-079	University of Wis	545 W Dayton St	Madison Metro School Dst	744	85-12-31	542.50
Madison	169	WI	285-085	University of Wis	905 University Ave	U of W Foundation	1,265	83-11-30	769.54
Madison	169	WI	285-087	University of Wis	610 Rolfsmeyer Dr	Security Self Storage	844	M-to-M	100.00
Madison	169	WI	285-089	University of Wis	1214 Capitol Court	R H & E H Carpenter	4,212	86-02-28	375.00
Madison	169	WI	285-163	University of Wis	979 Jonathan Dr	Daniels Building Rentals	9,990	83-09-30	7,000.00
Madison	169	WI	285-173	University of Wis	802-808 S Park St	A. C. Andersen	5,650	84-06-30	1,750.00

APPENDIX C

SCENARIOS 1-4

SCENARIO 1

TOTAL RENOVATION TO OFFICE-RETAIL

1. PROGRAM:

Renovation of entire structure including basement for office and retail use.

2. REVENUE UNITS:

Basement:
Office space (11,408 sq. ft.)
1st Floor:
Retail space (7,281 sq. ft.)
2nd and 3rd Floors:
Office space (20,043 sq. ft.)

3. CAPITAL OUTLAYS:

a. Items required in Scenario 1, excluding costs to rehabilitate and bring up to code:	$ 12,000
b. Costs to rehabilitate and bring up to code:	
Basement (12,960 sq. ft. at $42/sq. ft.)	544,320
1st Floor (12,960 sq. ft. at $35/sq. ft.)	453,600
2nd and 3rd Floors (25,920 sq. ft. at $42/sq. ft.)	1,088,640
Addition of 1st Floor bathrooms ($2,500 per fixture X 11 fixtures)	27,500
Widening of store entrance for handicapped access	3,000
Total Capital Outlays:	$ 2,129,060

4. POTENTIAL ANNUAL INCOME:

Retail Units (7,281 sq. ft. NRA at $8/sq. ft.)	$ 58,248
Office Units (31,451 sq. ft. NRA at $9.50/sq. ft.)	357,785
Potential Annual Income:	$ 357,033
Vacancy Loss	
1 month per year retail	$ 4,854
1 month per year office	24,899
Total Vacancy Loss	$ 29,753

TOTAL RENOVATION TO OFFICE-RETAIL
(Continued)

5. PROJECTED ANNUAL EXPENSES:

a.	Operating Expenses (12% of gross rent; tenant pays insurance and utilities; includes Capitol Square assessment)	$ 42,844
b.	Real Estate Taxes ($.80/sq. ft. retail plus $1.10/sq. ft. office)	53,136
	Total Annual Expenses:	$ 95,980

6. TERMS OF PERMANENT FINANCING:

13.5%, 30 year, MC = .1374494

SCENARIO 1

TOTAL RENOVATION TO OFFICE-RETAIL

[R/U $8/sq. ft. retail × N/U 7281 sq. ft.] + [R/U $9.50/sq. ft. office × N/U 31,451 sq. ft.] + [R/U × N/U]

=

GI 357,033 × DP .85 = Cash 303,478

GI 357,033

×

1-DP .15

=

ECM 53,555

−

VAC 29,753

−

RES 3,000

=

CT 20,802

÷

EC .10

=

JE 208,020

Cash 303,478

−

OE 42,844

−

CR 17,852

−

RET 53,136

=

CDS 189,646

÷

MC .1374494

=

JM 1,379,751

JE + JM

=

JPB 1,587,771

−

CO 2,129,060

=

BP -541,289

SCENARIO 2

TOTAL RENOVATION TO RETAIL-OFFICE-APARTMENTS

1. PROGRAM:

Renovation of entire structure, including basement, for retail, office, and apartment use.

2. REVENUE UNITS:

Basement:
Office space (11,408 sq. ft.)
1st Floor:
Retail space (7,281 sq. ft.)
2nd Floor:
Office space (11,314 sq. ft.)
3rd Floor:
8 Rental apartment units (7,856 sq. ft.)

3. CAPITAL OUTLAYS:

a. Items required in Scenario 2, excluding costs to rehabilitate and bring up to code. — $ 12,000

b. Costs to rehabilitate and bring up to code:

Basement (12,960 sq. ft. at $42/sq. ft.)	544,320
1st Floor (12,960 sq. ft. at $35/sq. ft.)	453,600
2nd Floor (12,960 sq. ft. at $42/sq. ft.)	544,320
3rd Floor (12,960 sq. ft. at $40/sq. ft.)	518,400
Addition of 1st Floor bathrooms $2,500 per fixture X 11 fixtures)	27,500
Widening of store entrance for handicapped access	3,000
Total Capital Outlays:	$2,103,140

4. POTENTIAL ANNUAL INCOME:

Retail units (7,281 sq. ft. NRA at $8/sq.ft.)	$ 58,248
Office units (22,722 sq. ft. NRA at $9.50/ sq. ft.)	215,859
Apartment rental units (7,856 sq. ft. NRA at $.90/sq. ft.)	84,845
Potential Annual Income:	$ 358,952

TOTAL RENOVATION TO RETAIL-OFFICE-APARTMENTS
(Continued)

Vacancy Loss

1 month per year retail	$ 4,854
1 month per year office	17,988
1 month per year residential	7,070
Total Vacancy Loss:	$ 29,912

5. PROJECTED ANNUAL EXPENSES:

Operating Expenses -Retail and Office (12% gross rent; tenant pays insurance and utilities; includes Capitol Square assessment)	$ 32,892
Operating Expenses - Residential (35% gross rent)	29,696
Real Estate Taxes ($.80/sq. ft. retail + $1.10/sq. ft. office + $1.10/sq. ft. office + 14% gross rent residential)	50,758
Total Annual Expenses:	$113,346

6. TERMS OF PERMANENT FINANCING:

13.5%, 30 year, MC = .1374494

SCENARIO 2

TOTAL RENOVATION TO RETAIL-OFFICE-APARTMENTS

[R/U $8/sq. ft. retail × N/U 7,281 sq. ft.] + [R/U $9.50/sq.ft. office × N/U 22,722 sq. ft.] + [R/U $.90/sq.ft./ month apartment × N/U 7,856 sq. ft.]

=

GI 358,952 × DP .85 = Cash 305,109

GI 358,952

×

1-DP .15

=

ECM 53,843

−

VAC 29,912

−

RES 3,000

=

CT 20,931

÷

EC .10

=

JE 209,310

Cash 305,109

−

OE 62,588

−

CR 17,948

−

RET 50,758

=

CDS 173,815

÷

MC .1374494

=

JM 1,264,574

JE + JM

=

JPB 1,473,885

−

CO 2,103,140

=

BP -629,255

SCENARIO 3

MINIMUM RENOVATION TO OFFICE-RETAIL

1. PROGRAM:

   Minimum renovation of entire structure, including basement, for office and retail use.

2. REVENUE UNITS:

   Basement:
      Office space (11,408 sq. ft.)
   1st Floor:
      Open-air retail space (8,252 sq. ft.)
   2nd and 3rd floors:
      Office space (20,043 sq. ft.)

3. CAPITAL OUTLAYS:

a. Items required in Scenario 3, excluding costs to rehabilitate and bring up to code:	$ 12,000
b. Costs to rehabilitate and bring up to code:	
Basement (12,960 sq. ft. at $17/sq. ft.)	220,320
1st Floor (12,960 sq. ft. at $15/sq. ft.)	194,400
2nd and 3rd Floors (25,920 sq. ft. at $17/sq. ft.)	440,640
Additions of 1st Floor bathrooms ($2,500 per fixture X 11 fixtures)	27,500
Widening of store entrance for handicapped access	3,000
Total Capital Outlays:	$ 897,860

4. POTENTIAL ANNUAL INCOME:

Retail units (8,252 sq. ft. NRA at $6.50/sq. ft.)	$ 53,638
Office units (31,451 sq. ft. NRA at $7.50/sq. ft.)	235,883
Potential Annual Income:	$ 289,521
Vacancy Loss	
1 month per year retail	$ 4,470
1 month per year office	19,657
Total Vacancy Loss:	$ 24,127

MINIMUM RENOVATION TO OFFICE-RETAIL
(Continued)

5. PROJECTED ANNUAL EXPENSES:

Operating Expenses (12% gross rent; tenant pays insurance and utilities; includes Capitol Square assessment)	\$ 34,743
Real Estate Taxes (\$.80/sq. ft. retail + \$1.10/sq. ft. office)	53,136
Total Annual Expenses:	\$ 87,879

6. TERMS OF PERMANENT FINANCING:

13.5%, 30 year, MC = .1374494

SCENARIO 3

MINIMUM RENOVATION TO OFFICE-RETAIL

R/U $6.50/sq.ft. retail		R/U $7.50/sq.ft. office		R/U
×	+	×	+	×
N/U 8,252 sq. ft.		N/U 31,451 sq. ft.		N/U

=

GI 289,521	×	DP .85	=	Cash 246,093
×				−
1-DP .15				OE 34,743
=				−
ECM 43,428				CR 5,790
−				−
VAC 24,127				RET 53,136
−				=
RES 1,000				CDS 152,424
=				÷
CT 19,301				MC .1374494
÷				=
EC .10				JM 1,108,946
=				
JE 193,010		+		JM 1,108,946

=

JPB 1,301,956

−

CO 897,860

=

BP 404,096

SCENARIO 4

DEMOLITION AND CONSTRUCTION OF RETAIL-OFFICE-APARTMENTS

1. PROGRAM:

   Demolition of existing structure. Construction of four-story retail, office, apartment building, including underground parking for residential units.

2. REVENUE UNITS:

   1st Floor:
      Retail space (9,072 sq. ft.)
   2nd and 3rd Floors:
      Office space (22,032 sq. ft.)
   4th Floor:
      10 rental apartment units (10,368 sq. ft. total)

3. CAPITAL OUTLAYS:

Demolition at $.11/cubic foot	$ 81,259
12 parking stalls at $7,000/stall	84,000
1st Floor (12.960 sq. ft. at $60/sq. ft.)	777,600
2nd and 3rd Floors (25,920 sq. ft. at $60/sq. ft.)	1,555,200
4th floor (12,960 sq. ft. at $58/sq. ft.)	751,680
Total Capital Outlays:	$3,249,739

4. POTENTIAL ANNUAL INCOME:

Retail units (9,072 sq. ft. NRA at $10/sq. ft.)	$ 90,720
Office units (22,032 sq. ft. NRA at $15/sq. ft.)	330,480
Apartment rental units (10,368 sq. ft. NRA at $1/sq. ft./month)	124,416
Potential Annual Income:	$ 545,616
Vacancy Loss	
1 month per year retail	$ 9,072
1 month per year office	27,540
1 month per year residential	10,368
Total Vacancy Loss:	$ 46,980

DEMOLITION AND CONSTRUCTION OF
RETAIL-OFFICE-APARTMENTS
(Continued)

5. PROJECTED ANNUAL EXPENSES:

Operating Expenses - Retail and Office (12% gross rent; tenant pays insurance and utilities; includes Capitol Square assessment)	$ 50,544
Operating Expenses - Residential (35% gross rent)	43,546
Real Estate Taxes ($.80/sq. ft. retail + $1.10 sq. ft. office + 14% gross rent residential)	56,298
Total Annual Expenses:	$150,388

6. TERMS OF PERMANENT FINANCING:

13.5%, 30 year, MC = .1374494

SCENARIO 4

DEMOLITION AND CONSTRUCTION OF RETAIL-OFFICE-APARTMENTS

(R/U $10/sq.ft. retail × N/U 9,072 sq. ft.) + (R/U $15/sq. ft. office × N/U 22,032 sq. ft.) + (R/U $1/sq. ft./ month apartment × N/U 10,368 sq. ft.)

=

GI 545,616	×	DP .85	=	Cash 463,774
×				−
1-DP .15				OE 94,090
=				−
ECM 81,842				CR 27,281
−				−
VAC 46,980				RET 56,298
−				=
RES 5,000				CDS 286,105
=				÷
CT 29,862				MC .1374494
÷				=
EC .10				JM 2,081,530
=				
JE 298,620		+		

=

JPB 2,380,150

−

CO 3,249,739

=

BP -869,589

APPENDIX D

COMPARABLE SALES ADJUSTMENTS

CASH EQUIVALENCY COMPUTATIONS

Comparable #1: Wolff Kubly 30 North Carroll Street

	Sale Price: (cash at closing)	$735,000
-	Gifts contributed to State Historical Society	110,000
=	Appraised Value (paid by State of Wisconsin)	$625,000

As recommended by Dr. James Graaskamp, $625,000 was used as cash equivalency price.

Comparable #2: Emporium 50 East Mifflin

Estimated annual payments on original $940,000 note = $65,200

Present value of $65,200 per year at 9%

(65,200) (PV1FA 20 yr. 14%)
= (65,200) (7.7861504) $507,657

Premium Paid = balance 654,000
- 507,657 = 146,343

Seller note

8%, 10 year, semi-annual, $66,000
interest payments = $2,640
PVIFA 20 yr., 9% = 13.007936
(2,640) (13.007936) $ 34,341

Reversion
(66,000) (PVIF)
= (66,000) (0.4224108) $ 27,880

$ 569,878

Lease Premium at 6% 2,100

$ 571,978

Premiums Paid

loan	$146,343
10 year note interest	1,537
Rev.	2,691
Lease premium	2,100
	$152,671
Say	$152,700

$850,000 - $152,700 = $697,300

Rounded to $697,000 for cash equivalency.

Comparable #3: Woolworth's 2 West Mifflin Street

$$\frac{\text{Sales Price}}{.9} = \text{cash equivalency}$$

(due to partnership structure)

$$\frac{\$596,200}{.9} = \$662,444$$

Rounded to $662,000 for cash equivalency.

APPENDIX E

SENSITIVITY ANALYSIS

$670,000 Purchase Price; 0% Inflation; 9.75% Interest

CASH FLOW ANALYSIS RUN 1	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
GROSS POTENTIAL RENT	$289,521	$289,521	$289,521	$289,521	$289,521	$289,521	$289,521	$289,521	$289,521	$289,521
VACANCY RATE	10%	8%	5%	5%	5%	5%	5%	5%	5%	5%
- VACANCY LOSS	$28,952	$23,162	$14,476	$14,476	$14,476	$14,476	$14,476	$14,476	$14,476	$14,476
= EFFECTIVE RENT	$260,569	$266,359	$275,045	$275,045	$275,045	$275,045	$275,045	$275,045	$275,045	$275,045
- OPERATING EXPENSES	$34,743	$34,743	$34,743	$34,743	$34,743	$34,743	$34,743	$34,743	$34,743	$34,743
- REAL ESTATE TAXES	$53,136	$53,136	$53,136	$53,136	$53,136	$53,136	$53,136	$53,136	$53,136	$53,136
= NET INCOME	$172,690	$178,480	$187,166	$187,166	$187,166	$187,166	$187,166	$187,166	$187,166	$187,166
- DEPRECIATION	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333
- INTEREST	$122,460	$121,680	$120,823	$119,883	$118,851	$117,719	$116,476	$115,112	$113,615	$111,972
= TAXABLE INCOME	($13,103)	($6,533)	$3,010	$3,950	$4,982	$6,114	$7,357	$8,721	$10,217	$11,860
+ DEPRECIATION	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333
- PRINCIPAL PAYMENTS	$8,005	$8,785	$9,642	$10,582	$11,614	$12,746	$13,989	$15,353	$16,850	$18,493
= CASH THROW-OFF	$42,225	$48,015	$56,701	$56,701	$56,701	$56,701	$56,701	$56,701	$56,701	$56,701
- RESERVES	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000
- INCOME TAXES	$0	$0	$1,505	$1,975	$2,491	$3,057	$3,678	$4,360	$5,109	$5,930
= CASH FROM OPERATIONS	$41,225	$47,015	$54,196	$53,726	$53,210	$52,644	$52,023	$51,341	$50,592	$49,771
+ TAX SAVINGS ON OTHER INCOME	$6,552	$3,266	$0	$0	$0	$0	$0	$0	$0	$0
= SPENDABLE CASH AFTER TAX	$47,777	$50,282	$54,196	$53,726	$53,210	$52,644	$52,023	$51,341	$50,592	$49,771
MARKET VALUE USING CAPITALIZED NOI	$1,726,899	$1,784,803	$1,871,660	$1,871,660	$1,871,660	$1,871,660	$1,871,660	$1,871,660	$1,871,660	$1,871,660
- RESALE COST @ 6% OF MARKET VALUE	$103,614	$107,088	$112,300	$112,300	$112,300	$112,300	$112,300	$112,300	$112,300	$112,300
- LOAN BALANCE	$1,247,995	$1,239,210	$1,229,568	$1,218,986	$1,207,372	$1,194,626	$1,180,637	$1,165,284	$1,148,434	$1,129,941
= B/4 TAX NET WORTH	$375,290	$438,505	$529,792	$540,374	$551,988	$564,734	$578,723	$594,076	$610,926	$629,419
- CAPITAL GAIN TAX	$109,324	$132,876	$161,872	$174,539	$187,205	$199,872	$212,539	$225,205	$237,872	$250,539
= AFTER TAX NET WORTH	$265,966	$305,629	$367,920	$365,836	$364,783	$364,862	$366,185	$368,871	$373,054	$378,880

ATIRR, SALE END OF YEAR 3	21%
BTIRR, SALE AFTER YEAR 3	32%
ATIRR, SALE END OF YEAR 5	19%
BTIRR, SALE AFTER YEAR 5	25%
ATIRR, SALE END OF YEAR 7	18%
BTIRR, SALE AFTER YEAR 7	22%
ATIRR, SALE END OF YEAR 10	17%
BTIRR, SALE AFTER YEAR 10	20%

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
DEBT COVER RATIO	1.32	1.37	1.43	1.43	1.43	1.43	1.43	1.43	1.43	1.43

INPUTS RUN 1

PURCHASE AMOUNT	$670,000
RECONSTRUCTION	$900,000
= TOTAL COST	$1,570,000
INFLATION	0.00%
TAX RATE OF INVESTOR	50%
LOAN TO COST RATIO	80%
MORTGAGE PRINCIPAL	$1,256,000
TERM IN YEARS	30
YEARLY INTEREST RATE	9.75%
CAP RATE FOR NOI	10.00%
AFTER TAX EQUITY DISCOUNT RATE	20.00%
$ AMOUNT OF NON-DEPRECIABLE ASSETS	$430,000

CASH FLOW ANALYSIS RUN 1	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
GROSS POTENTIAL RENT	$289,521	$289,521	$289,521	$289,521	$289,521	$289,521	$289,521	$289,521	$289,521	$289,521
VACANCY RATE	10%	8%	5%	5%	5%	5%	5%	5%	5%	5%
- VACANCY LOSS	$28,952	$23,162	$14,476	$14,476	$14,476	$14,476	$14,476	$14,476	$14,476	$14,476
= EFFECTIVE RENT	$260,569	$266,359	$275,045	$275,045	$275,045	$275,045	$275,045	$275,045	$275,045	$275,045
- OPERATING EXPENSES	$34,743	$34,743	$34,743	$34,743	$34,743	$34,743	$34,743	$34,743	$34,743	$34,743
- REAL ESTATE TAXES	$53,136	$53,136	$53,136	$53,136	$53,136	$53,136	$53,136	$53,136	$53,136	$53,136
= NET INCOME	$172,690	$178,480	$187,166	$187,166	$187,166	$187,166	$187,166	$187,166	$187,166	$187,166
- DEPRECIATION	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111
- INTEREST	$126,360	$125,555	$124,671	$123,701	$122,636	$121,468	$120,185	$118,778	$117,233	$115,538
= TAXABLE INCOME	($19,781)	($13,185)	($3,616)	($2,646)	($1,581)	($413)	$869	$2,277	$3,821	$5,517
+ DEPRECIATION	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111
- PRINCIPAL PAYMENTS	$8,260	$9,065	-$9,949	$10,919	$11,984	$13,152	$14,434	$15,842	$17,386	$19,082
= CASH THROW-OFF	$38,070	$43,860	$52,546	$52,546	$52,546	$52,546	$52,546	$52,546	$52,546	$52,546
- RESERVES	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000
- INCOME TAXES	$0	$0	$0	$0	$0	$0	$435	$1,138	$1,911	$2,758
= CASH FROM OPERATIONS	$37,070	$42,860	$51,546	$51,546	$51,546	$51,546	$51,111	$50,408	$49,635	$48,788
+ TAX SAVINGS ON OTHER INCOME	$9,891	$6,593	$1,808	$1,323	$791	$206	$0	$0	$0	$0
= SPENDABLE CASH AFTER TAX	$46,961	$49,453	$53,354	$52,869	$52,337	$51,753	$51,111	$50,408	$49,635	$48,788
MARKET VALUE USING CAPITALIZED NOI	$1,726,899	$1,784,803	$1,871,660	$1,871,660	$1,871,660	$1,871,660	$1,871,660	$1,871,660	$1,871,660	$1,871,660
- RESALE COST @ 6% OF MARKET VALUE	$103,614	$107,088	$112,300	$112,300	$112,300	$112,300	$112,300	$112,300	$112,300	$112,300
- LOAN BALANCE	$1,287,740	$1,278,675	$1,268,726	$1,257,807	$1,245,823	$1,232,671	$1,218,236	$1,202,395	$1,185,008	$1,165,927
= B/4 TAX NET WORTH	$335,545	$399,040	$490,634	$501,553	$513,537	$526,689	$541,123	$556,965	$574,352	$593,433
- CAPITAL GAIN TAX	$99,879	$123,987	$153,539	$166,761	$179,983	$193,205	$206,428	$219,650	$232,872	$246,094
= AFTER TAX NET WORTH	$235,666	$275,053	$337,095	$334,792	$333,554	$333,484	$334,696	$337,316	$341,480	$347,339

ATIRR, SALE END OF YEAR 3	16%
BTIRR, SALE AFTER YEAR 3	26%
ATIRR, SALE END OF YEAR 5	16%
BTIRR, SALE AFTER YEAR 5	22%
ATIRR, SALE END OF YEAR 7	16%
BTIRR, SALE AFTER YEAR 7	20%
ATIRR, SALE END OF YEAR 10	16%
BTIRR, SALE AFTER YEAR 10	18%

DEBT COVER RATIO	1.28	1.33	1.39	1.39	1.39	1.39	1.39	1.39	1.39	1.39

INPUTS RUN 1	
PURCHASE AMOUNT	$720,000
RECONSTRUCTION	$990,000
= TOTAL COST	$1,620,000
INFLATION	0.00%
TAX RATE OF INVESTOR	50%
LOAN TO COST RATIO	80%
MORTGAGE PRINCIPAL	$1,296,000
TERM IN YEARS	30
YEARLY INTEREST RATE	9.75%
CAP RATE FOR NOI	10.00%
AFTER TAX EQUITY DISCOUNT RATE	20.00%
$ AMOUNT OF NON-DEPRECIABLE ASSETS	$430,000

$720,000 Purchase Price; 0% Inflation; 9.75% Interest

$700,000 Purchase Price; 0% Inflation; 14% Interest

CASH FLOW ANALYSIS RUN 1	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
GROSS POTENTIAL RENT	$289,521	$289,521	$289,521	$289,521	$289,521	$289,521	$289,521	$289,521	$289,521	$289,521
VACANCY RATE	10%	8%	5%	5%	5%	5%	5%	5%	5%	5%
- VACANCY LOSS	$28,952	$23,162	$14,476	$14,476	$14,476	$14,476	$14,476	$14,476	$14,476	$14,476
= EFFECTIVE RENT	$260,569	$266,359	$275,045	$275,045	$275,045	$275,045	$275,045	$275,045	$275,045	$275,045
- OPERATING EXPENSES	$34,743	$34,743	$34,743	$34,743	$34,743	$34,743	$34,743	$34,743	$34,743	$34,743
- REAL ESTATE TAXES	$53,136	$53,136	$53,136	$53,136	$53,136	$53,136	$53,136	$53,135	$53,136	$53,136
= NET INCOME	$172,690	$178,480	$187,166	$187,166	$187,166	$187,166	$187,166	$187,165	$187,166	$187,166
- DEPRECIATION	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000
- INTEREST	$179,200	$178,698	$178,125	$177,472	$176,728	$175,880	$174,913	$173,810	$172,554	$171,121
= TAXABLE INCOME	($71,510)	($65,217)	($55,959)	($55,306)	($54,562)	($53,714)	($52,747)	($51,645)	($50,388)	($48,955)
+ DEPRECIATION	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000
- PRINCIPAL PAYMENTS	$3,588	$4,090	$4,662	$5,315	$6,059	$6,908	$7,875	$8,977	$10,234	$11,667
= CASH THROW-OFF	($10,098)	($4,307)	$4,378	$4,378	$4,378	$4,378	$4,378	$4,378	$4,378	$4,378
- RESERVES	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000
- INCOME TAXES	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
= CASH FROM OPERATIONS	($11,098)	($5,307)	$3,378	$3,378	$3,378	$3,378	$3,378	$3,378	$3,378	$3,378
+ TAX SAVINGS ON OTHER INCOME	$35,755	$32,609	$27,980	$27,653	$27,281	$26,857	$26,373	$25,822	$25,194	$24,478
= SPENDABLE CASH AFTER TAX	$24,657	$27,301	$31,358	$31,032	$30,660	$30,235	$29,752	$29,201	$28,572	$27,856
MARKET VALUE USING CAPITALIZED NOI	$1,726,899	$1,784,803	$1,871,660	$1,871,660	$1,871,660	$1,871,660	$1,871,660	$1,871,660	$1,871,660	$1,871,660
- RESALE COST @ 6% OF MARKET VALUE	$103,614	$107,088	$112,300	$112,300	$112,300	$112,300	$112,300	$112,300	$112,300	$112,300
- LOAN BALANCE	$1,276,412	$1,272,323	$1,267,660	$1,262,345	$1,256,286	$1,249,378	$1,241,504	$1,232,525	$1,222,293	$1,210,626
= B/4 TAX NET WORTH	$346,873	$405,392	$491,700	$497,015	$503,074	$509,982	$517,856	$526,833	$537,067	$548,734
CAPITAL GAIN TAX	$103,657	$127,543	$156,872	$169,872	$182,872	$195,872	$208,872	$221,872	$234,872	$247,872
= AFTER TAX NET WORTH	$243,216	$277,849	$334,828	$327,143	$320,202	$314,110	$308,984	$304,961	$302,195	$300,862

ATIRR, SALE END OF YEAR 3	10%
BTIRR, SALE AFTER YEAR 3	14%
ATIRR, SALE END OF YEAR 5	9%
BTIRR, SALE AFTER YEAR 5	9%
ATIRR, SALE END OF YEAR 7	9%
BTIRR, SALE AFTER YEAR 7	7%
ATIRR, SALE END OF YEAR 10	9%
BTIRR, SALE AFTER YEAR 10	6%

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
DEBT COVER RATIO	0.94	0.98	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02

INPUTS RUN 1

PURCHASE AMOUNT	$700,000
RECONSTRUCTION	$900,000
= TOTAL COST	$1,600,000
INFLATION	0.00%
TAX RATE OF INVESTOR	50%
LOAN TO COST RATIO	80%
MORTGAGE PRINCIPAL	$1,280,000
TERM IN YEARS	30
YEARLY INTEREST RATE	14.00%
CAP RATE FOR NOI	10.00%
AFTER TAX EQUITY DISCOUNT RATE	20.00%
$ AMOUNT OF NON-DEPRECIABLE ASSETS	$430,000

$700,000 Purchase Price; 3% Inflation; 9.75% Interest

ASH FLOW ANALYSIS RUN 1	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
ROSS POTENTIAL RENT	$289,521	$298,207	$307,153	$316,367	$325,858	$335,634	$345,703	$356,074	$366,757	$377,759
VACANCY RATE	10%	8%	5%	5%	5%	5%	5%	5%	5%	5%
VACANCY LOSS	$28,952	$23,857	$15,358	$15,818	$16,293	$16,782	$17,285	$17,804	$18,339	$18,888
= EFFECTIVE RENT	$260,569	$274,350	$291,795	$300,549	$309,566	$318,852	$328,418	$338,271	$348,419	$358,871
OPERATING EXPENSES	$34,743	$35,785	$36,859	$37,965	$39,104	$40,277	$41,485	$42,730	$44,011	$45,332
REAL ESTATE TAXES	$53,136	$54,730	$56,372	$58,063	$59,805	$61,599	$63,447	$65,351	$67,311	$69,330
= NET INCOME	$172,690	$183,835	$198,564	$204,521	$210,657	$216,977	$223,486	$230,191	$237,096	$244,209
DEPRECIATION	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000
INTEREST	$124,800	$124,005	$123,132	$122,174	$121,122	$119,968	$118,702	$117,312	$115,786	$114,112
= TAXABLE INCOME	($17,110)	($5,170)	$10,433	$17,348	$24,535	$32,008	$39,784	$47,879	$56,310	$65,097
+ DEPRECIATION	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000
PRINCIPAL PAYMENTS	$8,158	$8,953	$9,826	$10,784	$11,836	$12,990	$14,256	$15,646	$17,172	$18,846
= CASH THROW-OFF	$39,732	$50,877	$65,606	$71,563	$77,699	$84,019	$90,528	$97,233	$104,138	$111,251
RESERVES	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000
- INCOME TAXES	$0	$0	$5,216	$8,674	$12,267	$16,004	$19,892	$23,939	$28,155	$32,549
= CASH FROM OPERATIONS	$38,732	$49,877	$59,390	$61,890	$64,432	$67,014	$69,636	$72,293	$74,983	$77,703
+ TAX SAVINGS ON OTHER INCOME	$8,555	$2,585	$0	$0	$0	$0	$0	$0	$0	$0
= SPENDABLE CASH AFTER TAX	$47,287	$52,462	$59,390	$61,890	$64,432	$67,014	$69,636	$72,293	$74,983	$77,703
ARKET VALUE USING APITALIZED NOI	$1,726,899	$1,838,347	$1,985,644	$2,045,213	$2,106,569	$2,169,766	$2,234,859	$2,301,905	$2,370,962	$2,442,091
RESALE COST @ 6% OF MARKET VALUE	$103,614	$110,301	$119,139	$122,713	$126,394	$130,186	$134,092	$138,114	$142,258	$146,525
LOAN BALANCE	$1,271,842	$1,262,889	$1,253,063	$1,242,278	$1,230,443	$1,217,453	$1,203,196	$1,187,550	$1,170,379	$1,151,533
= B/4 TAX NET WORTH	$351,443	$465,158	$613,442	$680,222	$749,733	$822,128	$897,571	$976,241	$1,058,326	$1,144,033
CAPITAL GAIN TAX	$103,657	$137,609	$178,301	$202,500	$227,035	$251,916	$277,154	$302,758	$328,741	$355,113
- AFTER TAX NET WORTH	$247,786	$327,548	$435,141	$477,722	$522,698	$570,212	$620,418	$673,482	$729,585	$789,920

ATIRR, SALE END OF YEAR 3	26%
BTIRR, SALE AFTER YEAR 3	37%
ATIRR, SALE END OF YEAR 5	25%
BTIRR, SALE AFTER YEAR 5	32%
ATIRR, SALE END OF YEAR 7	24%
BTIRR, SALE AFTER YEAR 7	29%
ATIRR, SALE END OF YEAR 10	23%
BTIRR, SALE AFTER YEAR 10	27%

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
EBT COVER RATIO	1.30	1.38	1.49	1.54	1.58	1.63	1.68	1.73	1.78	1.84

INPUTS RUN 1	
PURCHASE AMOUNT	$700,000
RECONSTRUCTION	$900,000
= TOTAL COST	$1,600,000
INFLATION	3.00%
TAX RATE OF INVESTOR	50%
LOAN TO COST RATIO	80%
MORTGAGE PRINCIPAL	$1,280,000
TERM IN YEARS	30
YEARLY INTEREST RATE	9.75%
CAP RATE FOR NOI	10.00%
AFTER TAX EQUITY DISCOUNT RATE	20.00%
$ AMOUNT OF NON-DEPRECIABLE ASSETS	$430,000

$670,000 Purchase Price; 3% Inflation; 14.25% Interest

CASH FLOW ANALYSIS RUN 1

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
GROSS POTENTIAL RENT	$289,521	$298,207	$307,153	$316,367	$325,858	$335,634	$345,703	$356,074	$366,757	$377,759
VACANCY RATE	10%	8%	5%	5%	5%	5%	5%	5%	5%	5%
- VACANCY LOSS	$28,952	$23,857	$15,358	$15,818	$16,293	$16,782	$17,285	$17,804	$18,338	$18,888
= EFFECTIVE RENT	$260,569	$274,350	$291,795	$300,549	$309,566	$318,852	$328,418	$338,271	$348,419	$358,871
- OPERATING EXPENSES	$34,743	$35,785	$36,859	$37,965	$39,104	$40,277	$41,485	$42,730	$44,011	$45,332
- REAL ESTATE TAXES	$53,136	$54,730	$56,372	$58,063	$59,805	$61,599	$63,447	$65,351	$67,311	$69,330
= NET INCOME	$172,690	$183,835	$198,564	$204,521	$210,657	$216,977	$223,486	$230,191	$237,096	$244,209
- DEPRECIATION	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333
- INTEREST	$178,980	$178,502	$177,957	$177,334	$176,621	$175,808	$174,878	$173,816	$172,603	$171,217
= TAXABLE INCOME	($69,623)	($58,001)	($42,726)	($36,146)	($29,298)	($22,165)	($14,726)	($6,959)	$1,160	$9,659
+ DEPRECIATION	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333
- PRINCIPAL PAYMENTS	$3,351	$3,829	$4,374	$4,997	$5,710	$6,523	$7,453	$8,515	$9,728	$11,114
= CASH THROW-OFF	($9,641)	$1,504	$16,233	$22,190	$28,326	$34,646	$41,155	$47,060	$54,765	$61,878
- RESERVES	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000
- INCOME TAXES	$0	$0	$0	$0	$0	$0	$0	$0	$580	$4,830
= CASH FROM OPERATIONS	($10,641)	$504	$15,233	$21,190	$27,326	$33,646	$40,155	$46,060	$53,185	$56,049
+ TAX SAVINGS ON OTHER INCOME	$34,812	$29,001	$21,363	$18,073	$14,649	$11,082	$7,363	$3,480	$0	$0
= SPENDABLE CASH AFTER TAX	$24,171	$29,504	$36,596	$39,263	$41,975	$44,728	$47,518	$50,339	$53,185	$56,049
MARKET VALUE USING CAPITALIZED NOI	$1,726,899	$1,838,347	$1,985,644	$2,045,213	$2,106,569	$2,169,764	$2,234,859	$2,301,905	$2,370,962	$2,442,091
- RESALE COST @ 6% OF MARKET VALUE	$103,614	$110,301	$119,139	$122,713	$126,394	$130,186	$134,092	$138,114	$142,258	$146,525
- LOAN BALANCE	$1,252,649	$1,248,820	$1,244,446	$1,239,449	$1,233,740	$1,227,216	$1,219,764	$1,211,249	$1,201,521	$1,190,407
= B/4 TAX NET WORTH	$370,636	$479,226	$622,059	$683,051	$746,436	$812,364	$881,004	$952,542	$1,027,183	$1,105,159
- CAPITAL GAIN TAX	$109,324	$142,943	$183,301	$207,167	$231,368	$255,916	$280,820	$306,091	$331,741	$357,780
= AFTER TAX NET WORTH	$261,312	$336,283	$438,758	$475,884	$515,067	$556,448	$600,184	$646,450	$695,443	$747,379

ATIRR, SALE END OF YEAR 3 20%
BTIRR, SALE AFTER YEAR 3 26%

ATIRR, SALE END OF YEAR 5 19%
BTIRR, SALE AFTER YEAR 5 21%

ATIRR, SALE END OF YEAR 7 19%
BTIRR, SALE AFTER YEAR 7 19%

ATIRR, SALE END OF YEAR 10 18%
BTIRR, SALE AFTER YEAR 10 17%

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
DEBT COVER RATIO	0.95	1.01	1.09	1.12	1.16	1.19	1.23	1.26	1.30	1.34

INPUTS RUN 1

PURCHASE AMOUNT	$670,000
RECONSTRUCTION	$900,000
= TOTAL COST	$1,570,000
INFLATION	3.00%
TAX RATE OF INVESTOR	50%
LOAN TO COST RATIO	80%
MORTGAGE PRINCIPAL	$1,256,000
TERM IN YEARS	30
YEARLY INTEREST RATE	14.25%
CAP RATE FOR NOI	10.00%
AFTER TAX EQUITY DISCOUNT RATE	20.00%
$ AMOUNT OF NON-DEPRECIABLE ASSETS	$430,000

$720,000 Purchase Price; 3% Inflation; 14.25% Interest

CASH FLOW ANALYSIS RUN 1	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
GROSS POTENTIAL RENT	$289,521	$298,207	$307,153	$316,367	$325,858	$335,634	$345,703	$356,074	$366,757	$377,759
VACANCY RATE	10%	8%	5%	5%	5%	5%	5%	5%	5%	5%
- VACANCY LOSS	$28,952	$23,857	$15,358	$15,818	$16,293	$16,782	$17,285	$17,804	$18,338	$18,888
= EFFECTIVE RENT	$260,569	$274,350	$291,795	$300,549	$309,566	$318,852	$328,418	$338,271	$348,419	$358,871
- OPERATING EXPENSES	$34,743	$35,785	$36,859	$37,965	$39,104	$40,277	$41,485	$42,730	$44,011	$45,332
- REAL ESTATE TAXES	$53,136	$54,730	$56,372	$58,063	$59,805	$61,599	$63,447	$65,351	$67,311	$69,330
= NET INCOME	$172,690	$183,835	$198,564	$204,521	$210,657	$216,977	$223,486	$230,191	$237,096	$244,209
- DEPRECIATION	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111
- INTEREST	$184,680	$184,187	$183,624	$182,981	$182,246	$181,407	$180,448	$179,352	$178,100	$176,670
= TAXABLE INCOME	($78,101)	($66,464)	($51,171)	($44,571)	($37,701)	($30,541)	($23,073)	($15,272)	($7,115)	$1,428
+ DEPRECIATION	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111
- PRINCIPAL PAYMENTS	$3,458	$3,950	$4,513	$5,157	$5,891	$6,731	$7,690	$8,786	$10,038	$11,468
= CASH THROW-OFF	($15,448)	($4,303)	$10,427	$16,384	$22,519	$28,839	$35,348	$42,053	$48,959	$56,071
- RESERVES	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000
- INCOME TAXES	$0	$0	$0	$0	$0	$0	$0	$0	$0	$714
= CASH FROM OPERATIONS	($16,448)	($5,303)	$9,427	$15,384	$21,519	$27,839	$34,348	$41,053	$47,959	$54,357
+ TAX SAVINGS ON OTHER INCOME	$39,051	$33,232	$25,586	$22,286	$18,850	$15,271	$11,536	$7,636	$3,557	$0
= SPENDABLE CASH AFTER TAX	$22,603	$27,929	$35,012	$37,669	$40,369	$43,110	$45,885	$48,689	$51,516	$54,357
MARKET VALUE USING CAPITALIZED NOI	$1,726,899	$1,838,347	$1,985,644	$2,045,213	$2,106,569	$2,169,766	$2,234,859	$2,301,905	$2,370,962	$2,442,091
- RESALE COST @ 6% OF MARKET VALUE	$103,614	$110,301	$119,139	$122,713	$126,394	$130,186	$134,092	$138,114	$142,258	$146,525
- LOAN BALANCE	$1,292,542	$1,288,592	$1,284,078	$1,278,922	$1,273,031	$1,266,300	$1,258,610	$1,249,824	$1,239,786	$1,228,318
= B/4 TAX NET WORTH	$330,743	$439,455	$582,426	$643,578	$707,145	$773,281	$842,158	$913,967	$988,918	$1,067,248
- CAPITAL GAIN TAX	$99,879	$134,054	$174,968	$199,389	$224,146	$249,249	$274,709	$300,536	$326,741	$353,335
= AFTER TAX NET WORTH	$230,864	$305,401	$407,459	$444,189	$482,998	$524,031	$567,449	$613,431	$662,178	$713,912

ATIRR, SALE END OF YEAR 3	16%
BTIRR, SALE AFTER YEAR 3	20%
ATIRR, SALE END OF YEAR 5	17%
BTIRR, SALE AFTER YEAR 5	17%
ATIRR, SALE END OF YEAR 7	17%
BTIRR, SALE AFTER YEAR 7	16%
ATIRR, SALE END OF YEAR 10	17%
BTIRR, SALE AFTER YEAR 10	15%

DEBT COVER RATIO	0.92	0.98	1.06	1.09	1.12	1.15	1.19	1.22	1.26	1.30

INPUTS RUN 1	
PURCHASE AMOUNT	$720,000
RECONSTRUCTION	$900,000
= TOTAL COST	$1,620,000
INFLATION	3.00%
TAX RATE OF INVESTOR	50%
LOAN TO COST RATIO	80%
MORTGAGE PRINCIPAL	$1,296,000
TERM IN YEARS	30
YEARLY INTEREST RATE	14.25%
CAP RATE FOR NOI	10.00%
AFTER TAX EQUITY DISCOUNT RATE	20.00%
$ AMOUNT OF NON-DEPRECIABLE ASSETS	$430,000

10% Increase in Revenues and Expenses; $670,000 Purchase Price; 2% Inflation; 13.5% Interest

CASH FLOW ANALYSIS RUN 1	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
GROSS POTENTIAL RENT	$318,473	$324,842	$331,339	$337,966	$344,725	$351,620	$358,652	$365,825	$373,142	$380,605
VACANCY RATE	10%	8%	5%	5%	5%	5%	5%	5%	5%	5%
- VACANCY LOSS	$31,847	$25,987	$16,567	$16,898	$17,236	$17,581	$17,933	$18,291	$18,657	$19,030
= EFFECTIVE RENT	$286,626	$298,855	$314,772	$321,068	$327,489	$334,039	$340,720	$347,534	$354,485	$361,574
- OPERATING EXPENSES	$38,217	$38,981	$39,761	$40,556	$41,367	$42,195	$43,039	$43,899	$44,777	$45,673
- REAL ESTATE TAXES	$53,136	$54,199	$55,283	$56,388	$57,516	$58,666	$59,840	$61,037	$62,257	$63,502
= NET INCOME	$195,273	$205,675	$219,729	$224,123	$228,606	$233,178	$237,841	$242,598	$247,450	$252,399
- DEPRECIATION	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333
- INTEREST	$169,560	$169,036	$168,441	$167,765	$166,998	$166,128	$165,141	$164,020	$162,747	$161,303
= TAXABLE INCOME	($37,621)	($26,694)	($12,045)	($6,975)	($1,726)	$3,716	$9,367	$15,245	$21,370	$27,763
+ DEPRECIATION	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333
- PRINCIPAL PAYMENTS	$3,884	$4,408	$5,004	$5,679	$6,446	$7,316	$8,303	$9,424	$10,697	$12,141
= CASH THROW-OFF	$21,829	$32,231	$46,285	$50,679	$55,162	$59,734	$64,397	$69,154	$74,006	$78,955
- RESERVES	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000
- INCOME TAXES	$0	$0	$0	$0	$0	$1,858	$4,684	$7,623	$10,685	$13,881
= CASH FROM OPERATIONS	$20,829	$31,231	$45,285	$49,679	$54,162	$56,876	$58,714	$60,532	$62,321	$64,074
+ TAX SAVINGS ON OTHER INCOME	$18,810	$13,347	$6,023	$3,488	$863	$0	$0	$0	$0	$0
= SPENDABLE CASH AFTER TAX	$39,639	$44,578	$51,307	$53,167	$55,025	$56,876	$58,714	$60,532	$62,321	$64,074
MARKET VALUE USING CAPITALIZED NOI	$1,952,727	$2,056,750	$2,197,287	$2,241,233	$2,286,057	$2,331,778	$2,378,414	$2,425,982	$2,474,502	$2,523,992
- RESALE COST @ 6% OF MARKET VALUE	$117,164	$123,405	$131,837	$134,474	$137,163	$139,907	$142,705	$145,559	$148,470	$151,440
- LOAN BALANCE	$1,252,116	$1,247,708	$1,242,704	$1,237,025	$1,230,579	$1,223,264	$1,214,960	$1,205,536	$1,194,839	$1,182,698
= B/4 TAX NET WORTH	$583,447	$685,637	$822,746	$869,734	$918,314	$968,608	$1,020,749	$1,074,888	$1,131,193	$1,189,854
- CAPITAL GAIN TAX	$151,779	$184,002	$223,090	$244,018	$265,112	$286,374	$307,808	$329,418	$351,206	$373,177
= AFTER TAX NET WORTH	$431,668	$501,635	$599,656	$625,715	$653,202	$682,234	$712,940	$745,470	$779,986	$816,677

ATIRR, SALE END OF YEAR 3	36%
BTIRR, SALE AFTER YEAR 3	45%
ATIRR, SALE END OF YEAR 5	27%
BTIRR, SALE AFTER YEAR 5	32%
ATIRR, SALE END OF YEAR 7	24%
BTIRR, SALE AFTER YEAR 7	27%
ATIRR, SALE END OF YEAR 10	22%
BTIRR, SALE AFTER YEAR 10	23%

DEBT COVER RATIO	1.13	1.19	1.27	1.29	1.32	1.34	1.37	1.40	1.43	1.46

INPUTS RUN 1	
PURCHASE AMOUNT	$670,000
RECONSTRUCTION	$900,000
= TOTAL COST	$1,570,000
INFLATION	2.00%
TAX RATE OF INVESTOR	50%
LOAN TO COST RATIO	80%
MORTGAGE PRINCIPAL	$1,256,000
TERM IN YEARS	30
YEARLY INTEREST RATE	13.50%
CAP RATE FOR NOI	10.00%
AFTER TAX EQUITY DISCOUNT RATE	20.00%
$ AMOUNT OF NON-DEPRECIABLE ASSETS	$430,000

10% Increase in Revenues and Expenses; $700,000 Purchase Price; 2% Inflation; 13.5% Interest

CASH FLOW ANALYSIS RUN 1	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
GROSS POTENTIAL RENT	$318,473	$324,842	$331,339	$337,966	$344,725	$351,620	$358,652	$365,825	$373,142	$380,605
VACANCY RATE	10%	8%	5%	5%	5%	5%	5%	5%	5%	5%
- VACANCY LOSS	$31,847	$25,987	$16,567	$16,898	$17,236	$17,581	$17,933	$18,291	$18,657	$19,030
= EFFECTIVE RENT	$286,626	$298,855	$314,772	$321,068	$327,489	$334,039	$340,720	$347,534	$354,485	$361,574
- OPERATING EXPENSES	$38,217	$38,981	$39,761	$40,556	$41,367	$42,195	$43,039	$43,899	$44,777	$45,673
- REAL ESTATE TAXES	$53,136	$54,199	$55,283	$56,388	$57,516	$58,666	$59,840	$61,037	$62,257	$63,502
= NET INCOME	$195,273	$205,675	$219,729	$224,123	$228,606	$233,178	$237,841	$242,598	$247,450	$252,399
- DEPRECIATION	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000
- INTEREST	$172,800	$172,266	$171,659	$170,971	$170,189	$169,303	$168,296	$167,154	$165,857	$164,385
= TAXABLE INCOME	($42,527)	($31,591)	($16,930)	($11,847)	($6,584)	($1,125)	$4,545	$10,444	$16,593	$23,014
+ DEPRECIATION	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000
- PRINCIPAL PAYMENTS	$3,958	$4,493	$5,099	$5,788	$6,569	$7,456	$8,462	$9,605	$10,901	$12,373
= CASH THROW-OFF	$18,514	$28,917	$42,970	$47,365	$51,847	$56,420	$61,083	$65,840	$70,692	$75,641
- RESERVES	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000
- INCOME TAXES	$0	$0	$0	$0	$0	$0	$2,273	$5,222	$8,297	$11,507
= CASH FROM OPERATIONS	$17,514	$27,917	$41,970	$46,365	$50,847	$55,420	$57,811	$59,618	$61,395	$63,134
+ TAX SAVINGS ON OTHER INCOME	$21,264	$15,795	$8,465	$5,924	$3,292	$562	$0	$0	$0	$0
= SPENDABLE CASH AFTER TAX	$38,778	$43,712	$50,436	$52,289	$54,139	$55,982	$57,811	$59,618	$61,395	$63,134
MARKET VALUE USING CAPITALIZED NOI	$1,952,727	$2,056,750	$2,197,287	$2,241,233	$2,286,057	$2,331,778	$2,378,414	$2,425,982	$2,474,502	$2,523,992
- RESALE COST @ 6% OF MARKET VALUE	$117,164	$123,405	$131,837	$134,474	$137,163	$139,907	$142,705	$145,559	$148,470	$151,440
- LOAN BALANCE	$1,276,042	$1,271,549	$1,266,450	$1,260,662	$1,254,094	$1,246,638	$1,238,176	$1,228,571	$1,217,670	$1,205,298
= B/4 TAX NET WORTH	$559,522	$661,796	$799,000	$846,096	$894,800	$945,234	$997,533	$1,051,852	$1,108,361	$1,167,255
- CAPITAL GAIN TAX	$146,113	$178,669	$218,090	$239,352	$260,779	$282,374	$304,142	$326,085	$348,206	$370,510
= AFTER TAX NET WORTH	$413,409	$483,127	$580,910	$606,744	$634,021	$662,859	$693,391	$725,767	$760,155	$796,744

ATIRR, SALE END OF YEAR 3	33%
BTIRR, SALE AFTER YEAR 3	42%
ATIRR, SALE END OF YEAR 5	26%
BTIRR, SALE AFTER YEAR 5	30%
ATIRR, SALE END OF YEAR 7	23%
BTIRR, SALE AFTER YEAR 7	25%
ATIRR, SALE END OF YEAR 10	21%
BTIRR, SALE AFTER YEAR 10	22%

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
DEBT COVER RATIO	1.10	1.16	1.24	1.27	1.29	1.32	1.35	1.37	1.40	1.43

INPUTS RUN 1

PURCHASE AMOUNT	$700,000
RECONSTRUCTION	$900,000
= TOTAL COST	$1,600,000
INFLATION	2.00%
TAX RATE OF INVESTOR	50%
LOAN TO COST RATIO	80%
MORTGAGE PRINCIPAL	$1,280,000
TERM IN YEARS	30
YEARLY INTEREST RATE	13.50%
CAP RATE FOR NOI	10.00%
AFTER TAX EQUITY DISCOUNT RATE	20.00%
$ AMOUNT OF NON-DEPRECIABLE ASSETS	$430,000

CASH FLOW ANALYSIS RUN 1

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
GROSS POTENTIAL RENT	$318,473	$324,842	$331,339	$337,966	$344,725	$351,620	$358,652	$365,825	$373,142	$380,605
VACANCY RATE	10%	8%	5%	5%	5%	5%	5%	5%	5%	5%
- VACANCY LOSS	$31,847	$25,987	$16,567	$16,898	$17,236	$17,581	$17,933	$18,291	$18,657	$19,030
= EFFECTIVE RENT	$286,626	$298,855	$314,772	$321,068	$327,489	$334,039	$340,720	$347,534	$354,485	$361,574
- OPERATING EXPENSES	$38,217	$38,981	$39,761	$40,556	$41,367	$42,195	$43,039	$43,899	$44,777	$45,673
- REAL ESTATE TAXES	$53,136	$54,199	$55,283	$56,388	$57,516	$58,666	$59,840	$61,037	$62,257	$63,502
= NET INCOME	$195,273	$205,675	$219,729	$224,123	$228,606	$233,178	$237,841	$242,598	$247,450	$252,399
- DEPRECIATION	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111
- INTEREST	$174,960	$174,419	$173,805	$173,108	$172,317	$171,419	$170,400	$169,243	$167,930	$166,440
= TAXABLE INCOME	($45,798)	($34,855)	($20,187)	($15,096)	($9,822)	($4,352)	$1,330	$7,244	$13,409	$19,848
+ DEPRECIATION	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111
- PRINCIPAL PAYMENTS	$4,008	$4,549	$5,163	$5,860	$6,651	$7,549	$8,560	$9,725	$11,037	$12,527
= CASH THROW-OFF	$16,305	$26,707	$40,761	$45,156	$49,638	$54,210	$58,874	$63,630	$68,482	$73,431
- RESERVES	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000
- INCOME TAXES	$0	$0	$0	$0	$0	$0	$665	$3,622	$6,704	$9,924
= CASH FROM OPERATIONS	$15,305	$25,707	$39,761	$44,156	$48,638	$53,210	$57,208	$59,009	$60,778	$62,508
+ TAX SAVINGS ON OTHER INCOME	$22,899	$17,428	$10,094	$7,548	$4,911	$2,176	$0	$0	$0	$0
= SPENDABLE CASH AFTER TAX	$38,204	$43,135	$49,855	$51,703	$53,549	$55,386	$57,208	$59,009	$60,778	$62,508
MARKET VALUE USING CAPITALIZED NOI	$1,952,727	$2,056,750	$2,197,287	$2,241,233	$2,286,057	$2,331,778	$2,378,414	$2,425,982	$2,474,502	$2,523,992
- RESALE COST @ 6% OF MARKET VALUE	$117,164	$123,405	$131,837	$134,474	$137,163	$139,907	$142,705	$145,559	$148,470	$151,440
- LOAN BALANCE	$1,291,992	$1,287,443	$1,282,281	$1,276,421	$1,269,770	$1,262,221	$1,253,653	$1,243,929	$1,232,891	$1,220,364
= B/4 TAX NET WORTH	$543,571	$645,902	$783,169	$830,338	$879,124	$929,651	$982,056	$1,036,495	$1,093,141	$1,152,189
- CAPITAL GAIN TAX	$142,335	$175,113	$214,757	$236,241	$257,890	$279,708	$301,697	$323,862	$346,206	$368,733
= AFTER TAX NET WORTH	$401,236	$470,788	$568,412	$594,097	$621,234	$649,943	$680,359	$712,632	$746,934	$783,456

ATIRR, SALE END OF YEAR 3	32%
BTIRR, SALE AFTER YEAR 3	40%
ATIRR, SALE END OF YEAR 5	25%
BTIRR, SALE AFTER YEAR 5	29%
ATIRR, SALE END OF YEAR 7	22%
BTIRR, SALE AFTER YEAR 7	24%
ATIRR, SALE END OF YEAR 10	21%
BTIRR, SALE AFTER YEAR 10	21%

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
DEBT COVER RATIO	1.09	1.15	1.23	1.25	1.28	1.30	1.33	1.36	1.38	1.41

INPUTS RUN 1

PURCHASE AMOUNT	$720,000
RECONSTRUCTION	$900,000
= TOTAL COST	$1,620,000
INFLATION	2.00%
TAX RATE OF INVESTOR	50%
LOAN TO COST RATIO	80%
MORTGAGE PRINCIPAL	$1,296,000
TERM IN YEARS	30
YEARLY INTEREST RATE	13.50%
CAP RATE FOR NOI	10.00%
AFTER TAX EQUITY DISCOUNT RATE	20.00%
$ AMOUNT OF NON-DEPRECIABLE ASSETS	$430,000

10% Increase in Revenues and Expenses; $720,000 Purchase Price; 2% Inflation; 13.5% Interest

10% Decrease in Revenues and Expenses; $670,000 Purchase Price; 2% Inflation; 13.5% Interest

CASH FLOW ANALYSIS RUN 1

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
GROSS POTENTIAL RENT	$260,569	$265,780	$271,096	$276,518	$282,048	$287,689	$293,443	$299,312	$305,298	$311,404
VACANCY RATE	10%	8%	5%	5%	5%	5%	5%	5%	5%	5%
- VACANCY LOSS	$26,057	$21,262	$13,555	$13,826	$14,102	$14,384	$14,672	$14,966	$15,265	$15,570
= EFFECTIVE RENT	$234,512	$244,518	$257,541	$262,692	$267,946	$273,305	$278,771	$284,346	$290,033	$295,834
- OPERATING EXPENSES	$31,269	$31,894	$32,532	$33,183	$33,847	$34,524	$35,214	$35,918	$36,637	$37,369
- REAL ESTATE TAXES	$53,136	$54,199	$55,283	$56,388	$57,516	$58,666	$59,840	$61,037	$62,257	$63,502
= NET INCOME	$150,107	$158,425	$169,726	$173,121	$176,583	$180,115	$183,717	$187,391	$191,139	$194,962
- DEPRECIATION	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333
- INTEREST	$169,560	$169,036	$168,441	$167,765	$166,998	$166,128	$165,141	$164,020	$162,747	$161,303
= TAXABLE INCOME	($82,786)	($73,944)	($62,048)	($57,978)	($53,749)	($49,347)	($44,757)	($39,961)	($34,941)	($29,675)
+ DEPRECIATION	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333	$63,333
- PRINCIPAL PAYMENTS	$3,884	$4,408	$5,004	$5,679	$6,446	$7,316	$8,303	$9,424	$10,697	$12,141
= CASH THROW-OFF	($23,337)	($15,019)	($3,718)	($323)	$3,139	$6,671	$10,273	$13,947	$17,695	$21,518
- RESERVES	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000
- INCOME TAXES	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
= CASH FROM OPERATIONS	($24,337)	($16,019)	($4,718)	($1,323)	$2,139	$5,671	$9,273	$12,947	$16,695	$20,518
+ TAX SAVINGS ON OTHER INCOME	$41,393	$36,972	$31,024	$28,989	$26,874	$24,673	$22,378	$19,981	$17,471	$14,837
= SPENDABLE CASH AFTER TAX	$17,056	$20,953	$26,306	$27,666	$29,013	$30,344	$31,651	$32,928	$34,166	$35,355

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	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
MARKET VALUE USING CAPITALIZED NOI	$1,501,071	$1,584,248	$1,697,262	$1,731,208	$1,765,832	$1,801,148	$1,837,171	$1,873,915	$1,911,393	$1,949,621
- RESALE COST @ 6% OF MARKET VALUE	$90,064	$95,055	$101,836	$103,872	$105,950	$108,069	$110,230	$112,435	$114,684	$116,977
- LOAN BALANCE	$1,252,116	$1,247,708	$1,242,704	$1,237,025	$1,230,579	$1,223,264	$1,214,960	$1,205,536	$1,194,839	$1,182,698
= B/4 TAX NET WORTH	$158,891	$241,486	$352,722	$390,310	$429,302	$469,816	$511,981	$555,944	$601,870	$649,945
- CAPITAL GAIN TAX	$66,868	$95,172	$129,085	$148,134	$167,310	$186,616	$206,055	$225,629	$245,342	$265,195
= AFTER TAX NET WORTH	$92,023	$146,314	$223,637	$242,176	$261,993	$283,200	$305,926	$330,315	$356,529	$384,750

##

ATIRR, SALE END OF YEAR 3	-3%
BTIRR, SALE AFTER YEAR 3	-1%
ATIRR, SALE END OF YEAR 5	5%
BTIRR, SALE AFTER YEAR 5	4%
ATIRR, SALE END OF YEAR 7	8%
BTIRR, SALE AFTER YEAR 7	6%
ATIRR, SALE END OF YEAR 10	10%
BTIRR, SALE AFTER YEAR 10	7%

##

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
DEBT COVER RATIO	0.87	0.91	0.98	1.00	1.02	1.04	1.06	1.08	1.10	1.12

##

INPUTS RUN 1

PURCHASE AMOUNT	$670,000
RECONSTRUCTION	$900,000
= TOTAL COST	$1,570,000
INFLATION	2.00%
TAX RATE OF INVESTOR	50%
LOAN TO COST RATIO	80%
MORTGAGE PRINCIPAL	$1,256,000
TERM IN YEARS	30
YEARLY INTEREST RATE	13.50%
CAP RATE FOR NOI	10.00%
AFTER TAX EQUITY DISCOUNT RATE	20.00%
$ AMOUNT OF NON-DEPRECIABLE ASSETS	$430,000

10% Decrease in Revenues and Expenses; $700,000 Purchase Price; 2% Inflation; 13.5% Interest

CASH FLOW ANALYSIS RUN 1

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
GROSS POTENTIAL RENT	$260,569	$265,780	$271,096	$276,518	$282,048	$287,689	$293,443	$299,312	$305,298	$311,404
VACANCY RATE	10%	8%	5%	5%	5%	5%	5%	5%	5%	5%
- VACANCY LOSS	$26,057	$21,262	$13,555	$13,826	$14,102	$14,384	$14,672	$14,966	$15,265	$15,570
= EFFECTIVE RENT	$234,512	$244,518	$257,541	$262,692	$267,946	$273,305	$278,771	$284,346	$290,033	$295,834
- OPERATING EXPENSES	$31,269	$31,894	$32,532	$33,183	$33,847	$34,524	$35,214	$35,918	$36,637	$37,369
- REAL ESTATE TAXES	$53,136	$54,199	$55,283	$56,388	$57,516	$58,666	$59,840	$61,037	$62,257	$63,502
= NET INCOME	$150,107	$158,425	$169,726	$173,121	$176,583	$180,115	$183,717	$187,391	$191,139	$194,962
- DEPRECIATION	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000
- INTEREST	$172,800	$172,266	$171,659	$170,971	$170,189	$169,303	$168,296	$167,154	$165,857	$164,385
= TAXABLE INCOME	($87,693)	($78,841)	($66,933)	($62,850)	($58,606)	($54,188)	($49,579)	($44,762)	($39,718)	($34,423)
+ DEPRECIATION	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000	$65,000
- PRINCIPAL PAYMENTS	$3,958	$4,493	$5,099	$5,788	$6,569	$7,456	$8,462	$9,605	$10,901	$12,373
= CASH THROW-OFF	($26,651)	($18,333)	($7,032)	($3,638)	($175)	$3,357	$6,959	$10,633	$14,381	$18,204
- RESERVES	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000
- INCOME TAXES	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
= CASH FROM OPERATIONS	($27,651)	($19,333)	($8,032)	($4,638)	($1,175)	$2,357	$5,959	$9,633	$13,381	$17,204
+ TAX SAVINGS ON OTHER INCOME	$43,846	$39,420	$33,466	$31,425	$29,303	$27,094	$24,790	$22,381	$19,859	$17,212
= SPENDABLE CASH AFTER TAX	$16,195	$20,087	$25,434	$26,787	$28,128	$29,450	$30,748	$32,014	$33,240	$34,416
MARKET VALUE USING CAPITALIZED NOI	$1,501,071	$1,584,248	$1,697,262	$1,731,208	$1,765,832	$1,801,148	$1,837,171	$1,873,915	$1,911,393	$1,949,621
- RESALE COST @ 6% OF MARKET VALUE	$90,064	$95,055	$101,836	$103,872	$105,950	$108,069	$110,230	$112,435	$114,684	$116,977
- LOAN BALANCE	$1,276,042	$1,271,549	$1,266,450	$1,260,662	$1,254,094	$1,246,638	$1,238,176	$1,228,571	$1,217,670	$1,205,298
= B/4 TAX NET WORTH	$134,965	$217,644	$328,977	$366,673	$405,788	$446,441	$488,765	$532,908	$579,039	$627,346
- CAPITAL GAIN TAX	$61,201	$89,839	$124,085	$143,467	$162,976	$182,616	$202,388	$222,296	$242,342	$262,529
= AFTER TAX NET WORTH	$73,764	$127,806	$204,891	$223,206	$242,812	$263,825	$286,377	$310,612	$336,697	$364,817

ATIRR, SALE END OF YEAR 3	-6%
BTIRR, SALE AFTER YEAR 3	-5%
ATIRR, SALE END OF YEAR 5	3%
BTIRR, SALE AFTER YEAR 5	1%
ATIRR, SALE END OF YEAR 7	6%
BTIRR, SALE AFTER YEAR 7	4%
ATIRR, SALE END OF YEAR 10	9%
BTIRR, SALE AFTER YEAR 10	6%

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
DEBT COVER RATIO	0.85	0.90	0.94	0.98	1.00	1.02	1.04	1.06	1.08	1.10

INPUTS RUN 1

PURCHASE AMOUNT	$700,000
RECONSTRUCTION	$900,000
= TOTAL COST	$1,600,000
INFLATION	2.00%
TAX RATE OF INVESTOR	50%
LOAN TO COST RATIO	80%
MORTGAGE PRINCIPAL	$1,200,000
TERM IN YEARS	30
YEARLY INTEREST RATE	13.50%
CAP RATE FOR NOI	10.00%
AFTER TAX EQUITY DISCOUNT RATE	20.00%
$ AMOUNT OF NON-DEPRECIABLE ASSETS	$430,000

10% Decrease in Revenues and Expenses; $720,000 Purchase Price; 2% Inflation; 13.5% Interest

CASH FLOW ANALYSIS RUN 1	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
GROSS POTENTIAL RENT	$260,569	$265,780	$271,096	$276,518	$282,048	$287,689	$293,443	$299,312	$305,298	$311,404
VACANCY RATE	10%	8%	5%	5%	5%	5%	5%	5%	5%	5%
- VACANCY LOSS	$26,057	$21,262	$13,555	$13,826	$14,102	$14,384	$14,672	$14,966	$15,265	$15,570
= EFFECTIVE RENT	$234,512	$244,518	$257,541	$262,692	$267,946	$273,305	$278,771	$284,346	$290,033	$295,834
- OPERATING EXPENSES	$31,269	$31,894	$32,532	$33,183	$33,847	$34,524	$35,214	$35,918	$36,637	$37,369
- REAL ESTATE TAXES	$53,136	$54,199	$55,283	$56,388	$57,516	$58,666	$59,840	$61,037	$62,257	$63,502
= NET INCOME	$150,107	$158,425	$169,726	$173,121	$176,583	$180,115	$183,717	$187,391	$191,139	$194,962
- DEPRECIATION	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111
- INTEREST	$174,960	$174,419	$173,805	$173,108	$172,317	$171,419	$170,400	$169,243	$167,930	$166,448
= TAXABLE INCOME	($90,964)	($82,105)	($70,190)	($66,098)	($61,845)	($57,415)	($52,794)	($47,963)	($42,902)	($37,589)
+ DEPRECIATION	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111	$66,111
- PRINCIPAL PAYMENTS	$4,008	$4,549	$5,163	$5,860	$6,651	$7,549	$8,568	$9,725	$11,037	$12,527
= CASH THROW-OFF	($28,861)	($20,543)	($9,242)	($5,847)	($2,385)	$1,147	$4,749	$8,424	$12,172	$15,994
- RESERVES	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000
- INCOME TAXES	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
= CASH FROM OPERATIONS	($29,861)	($21,543)	($10,242)	($6,847)	($3,385)	$147	$3,749	$7,424	$11,172	$14,994
+ TAX SAVINGS ON OTHER INCOME	$45,482	$41,053	$35,095	$33,049	$30,922	$28,708	$26,397	$23,981	$21,451	$18,795
= SPENDABLE CASH AFTER TAX	$15,621	$19,510	$24,853	$26,202	$27,538	$28,855	$30,146	$31,405	$32,623	$33,789
MARKET VALUE USING CAPITALIZED NOI	$1,501,071	$1,584,248	$1,697,262	$1,731,208	$1,765,832	$1,801,148	$1,837,171	$1,873,915	$1,911,393	$1,949,621
- RESALE COST @ 6% OF MARKET VALUE	$90,064	$95,055	$101,836	$103,872	$105,950	$108,069	$110,230	$112,435	$114,684	$116,977
- LOAN BALANCE	$1,291,992	$1,287,443	$1,282,281	$1,276,421	$1,269,770	$1,262,221	$1,253,653	$1,243,929	$1,232,891	$1,220,364
= B/4 TAX NET WORTH	$119,014	$201,750	$313,146	$350,914	$390,112	$430,858	$473,288	$517,551	$563,818	$612,280
- CAPITAL GAIN TAX	$57,424	$86,283	$120,752	$140,356	$160,087	$179,949	$199,944	$220,074	$240,342	$260,751
= AFTER TAX NET WORTH	$61,591	$115,467	$192,394	$210,558	$230,024	$250,909	$273,344	$297,477	$323,476	$351,529

ATIRR, SALE END OF YEAR 3	-9%
BTIRR, SALE AFTER YEAR 3	-7%
ATIRR, SALE END OF YEAR 5	1%
BTIRR, SALE AFTER YEAR 5	0%
ATIRR, SALE END OF YEAR 7	6%
BTIRR, SALE AFTER YEAR 7	3%
ATIRR, SALE END OF YEAR 10	9%
BTIRR, SALE AFTER YEAR 10	5%

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
DEBT COVER RATIO	0.84	0.89	0.95	0.97	0.99	1.01	1.03	1.05	1.07	1.09

INPUTS RUN 1	
PURCHASE AMOUNT	$720,000
RECONSTRUCTION	$900,000
= TOTAL COST	$1,620,000
INFLATION	2.00%
TAX RATE OF INVESTOR	50%
LOAN TO COST RATIO	80%
MORTGAGE PRINCIPAL	$1,296,000
TERM IN YEARS	30
YEARLY INTEREST RATE	13.50%
CAP RATE FOR NOI	10.00%
AFTER TAX EQUITY DISCOUNT RATE	20.00%
$ AMOUNT OF NON-DEPRECIABLE ASSETS	$430,000

APPENDIX F

REGRESSION ANALYSIS

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MTB >READ C1-C5

DATA>662000,12376,38640,24000,2

DATA>1350000,22968,105600,74000,10

DATA>240000,8712,26000,20500,2

DATA>625000,8646,41000,32500,4

DATA>697000,9240,49755,38500,4

DATA>PRINT C1-C5

     5 ROWS READ
 ROW         C1         C2         C3         C4      C5

   1     662000      12376      38640      24000       2
   2    1350000      22968     105600      74000      10
   3     240000       8712      26000      20500       2
   4     625000       8646      41000      32500       4
   5     697000       9240      49755      38500       4

MTB >DIV C4 C3 C6

MTB >MULT C6 C5 C7

MTB >DIV C3 C2 C8

MTB >DIV C6 C2 C9

MTB >CORR C1 C2 \ \-C9


              C1       C2       C3       C4       C5       C6       C7       C8
C2         0.906
C3         0.969    0.937
C4         0.947    0.889    0.991
C5         0.925    0.882    0.980    0.993
C6        -0.398   -0.496   -0.264   -0.138   -0.088
C7         0.900    0.835    0.960    0.985    0.996    0.000
C8         0.482    0.113    0.447    0.533    0.506    0.388    0.563
C9        -0.817   -0.918   -0.777   -0.687   -0.655    0.798   -0.583    0.074

MTB >
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