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Landmark
Research
Inc.

October 31, 1975

Daniel H. Neviaser
131 W. Wilson, Suite 902
Madison, Wisconsin 53703

Thomas L. Turk
James A. Graaskamp

Dear Mr. Neviaser:

With this letter we transmit the appraisal you requested for the Howard Johnson Motor Lodge at 525 W. Johnson Street, Madison, Wisconsin. Fair market value appraisal was to be as of May 1, 1974 for real estate property included on tax parcel #0709-231-1506-2.

My associates, K. Edward Atwood, accounting instructor and real estate analyst, James C. Canestero, a registered Wisconsin architect, and myself inspected the premises with the manager Ms. Beverly Bonafiglio on Friday, September 5, 1975. We were provided a monthly accounting history of the project. We have been careful to distinguish among and between land owned or leased, structure, chattels, and operating current assets of the motor inn enterprise so that our appraisal is solely based on land owned and structural improvements as components of a larger enterprise. Our value assumes a cash sale of the property free and clear of existing encumbrances rather than sale with non-market financial terms extended by the present owner. These assumptions are necessary to be consistent with Wisconsin Real Estate Tax Law as the purpose of this appraisal is to serve as a basis for real estate tax assessment valuation for the tax roll of May 1, 1974.

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

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

ONE MILLION NINE HUNDRED TWENTY THOUSAND DOLLARS
(\$1,920,000)

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

Sincerely yours,

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

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Letter of Transmittal

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LIST OF EXHIBITS

<u>Exhibit #</u>	<u>Exhibit Title</u>
1	Neighborhood Site Plan
2	First Floor Plan - Howard Johnson Motor Lodge
3	Second & Third Floor Plan - Howard Johnson Motor Lodge
4	Madison Class A Hotel Room Capacity & Percent of Room-Night Market for 1973 & 1974
5	Madison Class B Hotel Room Capacity & Percent of Room-Night Market for 1973 & 1974
6	Projections of Effective Demand for Class A Room Nights in Downtown Madison Compared to Targeted Howard Johnson Occupancy Levels for Five Real Estate Tax Years Beginning May 1, 1974
7	Presentation of Cash Returns to Equity Before Real Estate Taxes Achieved by Madison Real Estate Investment Trust on Fifteen Commercial Properties Purchased in the Madison Area During 1972-74 According to Ross Menard, Executive Investors, Inc. Trust Managers for the Period
8	Howard Johnson - Downtown Madison, Schedule of Projected Income and Expenses For the Years Commencing May 1, 1974-78
9	Preliminary IMV Valuation of Howard Johnson Using a Capitalized Real Estate Tax Rate of 11.4% Loaded on 25% Equity
10	Final IMV Valuation Assuming Real Estate Taxes of Assuming Real Estate Taxes of \$53,500 for 1974 and Thereafter
11	Assessed Values Per Available Rooms for Land and Building For Competitive Class "A" Motor Inns in Operation

I. STATEMENT OF PURPOSE AND DEFINITION OF VALUE

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

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

- B. "Full value" as that term is used in the above-quoted statute means "fair market value;" that is, the amount for which the property in question could be sold on the open market by an owner willing but not compelled to sell to a purchaser willing but not obligated to buy. *State ex rel Lincoln F. Warehouse v. Board of Review* (1973, 60 Wis., (2d) 84,89.
- C. The subject motel property was complete and in full operation as of May 1, 1974.
- D. The methodology utilized to determine appraised value should anticipate and provide a consistent method for reappraisal to reflect changing conditions in the Madison motel industry and reassessment procedures in future years.

II. DEFINITION OF PROPERTY TO BE APPRAISED

- A. The subject property of this appraisal is the Howard Johnson Motor Lodge in Central Madison, identified as 525 W. Johnson Street, more particularly identified as:

Tax Parcel #0709-231-1506-2

- B. The legal description of the subject property as provided by Daniel H. Nevaizer:

Lots 1 to 11, both inclusive, Block 2, Hoyt's Replat of Block 12, University Addition to the City of Madison, except that portion of Lots 1 and 11 deeded to the City of Madison under a quit claim deed recorded January 14, 1972 as Document #1314916.

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

III. DEFINITION OF FAIR MARKET VALUE APPRAISAL METHODOLOGY

A. Although appraisal would prefer to base valuation estimates on actual sales of comparable properties where buyer and seller were under no special duress, there have been no such transactions for high-rise hotels in southern Wisconsin in recent times. The purchase of the Lakelawn Resort by Ramada Inns in Delavan in 1972 is not regarded as comparable because of its extensive lands, its long history as a vacation resort, and stock exchange method of transfer. All transfers of motel projects of a size anywhere comparable to 160 rooms of the subject property have occurred as a result of a foreclosure or financial reorganization. Discussions with Mr. Floutt of Broadfoot, Floutt, & Mann, 3249 Whitebrook, Suite 110, Memphis, Tennessee 38118, a firm which specializes in hotel sales, indicate that the national market for motels has been totally distorted, perhaps temporarily destroyed by a flood of forced sales and fake sales brought about by the underwriting failures of the real estate trust industry. Therefore there are no qualified motor inn sales on which the market approach to value would depend.

B. The Wisconsin Supreme Court generally prefers the price determined from fair sale of comparable property as the best approach to fair market value, but where the fair market value is not established by a sale or sales of the property under consideration or similar property, the assessor is required to consider all the facts and circumstances which have a bearing on the property's fair market value including occupancy, rental conditions and income. The Supreme Court of Wisconsin has stated:

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

C. A hotel investment is not unlike any other cash cycle investment with a series of cash outlays followed by a series of cash receipts net of all other claims. The relationship of outlays and receipts in time and quantity determine investor rate of return. Conversely if return desired is given and net receipts can be estimated, the relationship can be reversed to determine the maximum outlay, i.e., purchase price which could be justified by the investor.

1. Typically a hotel is a combination of business enterprises including restaurants, bars, shops, and other services, each one dependent to a different degree on residents of the hotel and local traffic. Cash flows for each enterprise must be projected individually.

2. For the subject property the Howard Johnson Motor Lodge, cash flow or income projections are greatly simplified by the fact that bar and food operations are leased out to an independent

operator so that these elements may be treated as rental real estate. Retailing is limited to incidental vending machine operations. Parking is free for all guests.

- D. The occupancy and sales volume for a high-rise motor inn is in large part related to its own singular combination of location attributes, room capacity, pricing policy, services, and public spaces which operate in synergistic fashion to generate income.
- E. The most probable investor-buyer is an absentee investor purchasing the hotel for income in the foreseeable future for long term equity accumulation, and as a second owner, for only modest income tax shelters in the immediate future following purchase.

IV. PHYSICAL ANALYSIS OF SUBJECT PROPERTY

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

A. Physical Attributes of the Site

The subject property is located on the east side of Marion Street between W. Johnson and W. Dayton and is identified with cross-hatched boundaries on Exhibit 1 and more specifically dimensioned on Exhibit 2. The main parcel is a slightly askew rectangle with 348' of frontage on Marion Street, 117' on W. Johnson, and about 124' frontage on W. Dayton Street. There is an additional trapezium shaped open parking area of various dimensions on the east central portion of the main parcel which is leased for additional parking and not properly part of the hotel tax parcel.

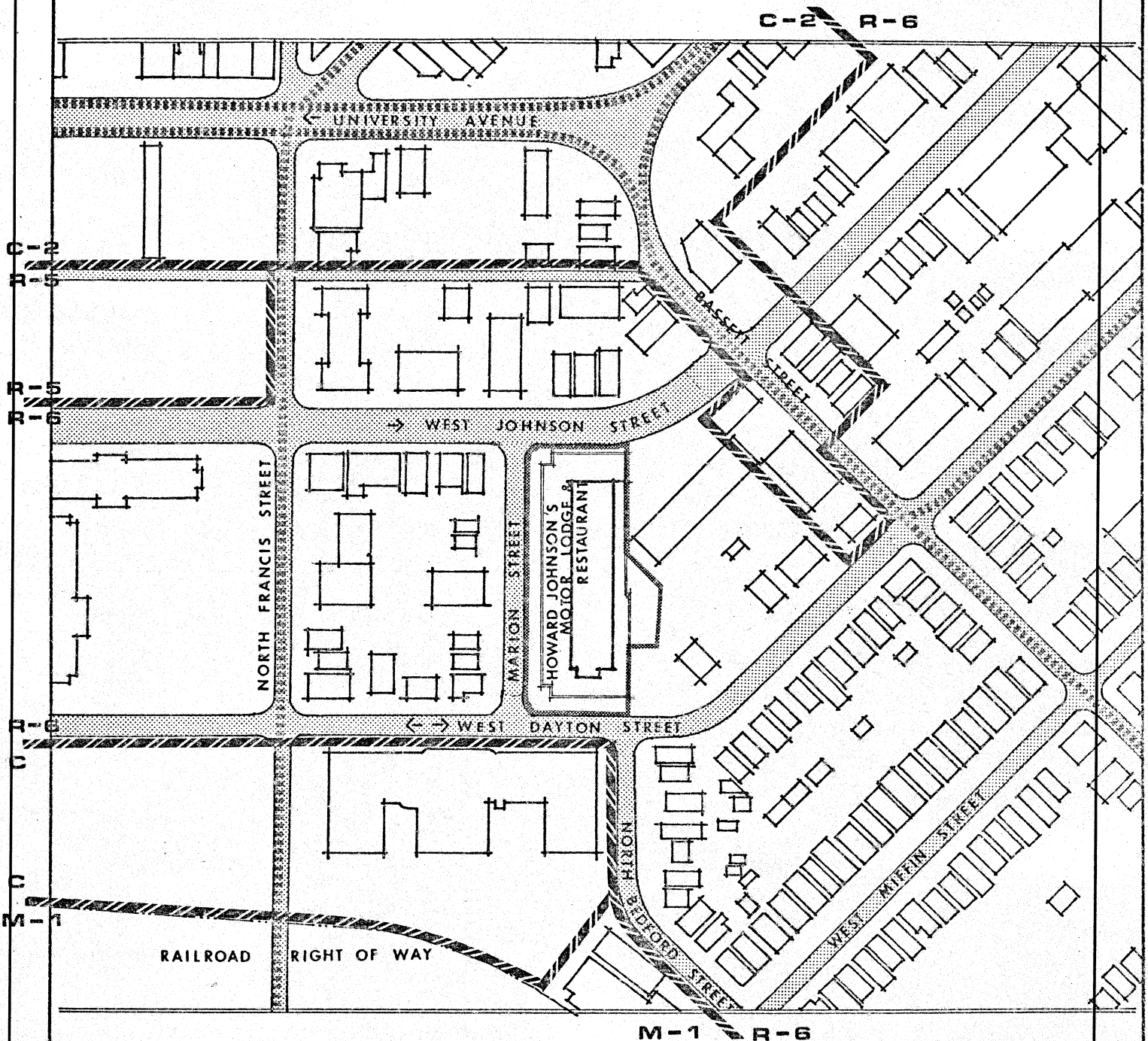
1. Topography of the site is nearly flat with less than 2' variation between any two points on the site.
2. Soil conditions are essentially sandy and suitable for high rise construction. There is almost no sub-grade basement type space so that structural foundations have been placed just below the frost line. Description of structural improvements follows in section IV, D.
3. The site is served by sewer, water, gas, electric utilities and City of Madison services. Quality of sidewalks, street lighting, curbs, gutters, and pavement on surrounding streets is satisfactory, with much of it recently rebuilt in the campus area. Dayton Street is slated for partial resurfacing during the fall of 1975.

B. Site Linkages

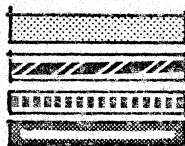
Site linkages are not suitable for a hotel operation. Indeed, it was constructed on this site only after efforts to relocate

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NEIGHBORHOOD SITE PLAN



CITY STREETS
 ZONING DISTRICTS
 BUS ROUTES
 SUBJECT PROPERTY



the proposed structure to the 600 block of University Avenue and N. Frances Street failed. Construction blocked a proposed extension of N. Bedford Street intended to unsnarl a variety of traffic problems in the area which is almost entirely college student residential. The property rests at the western edge of the original plat of Madison so that streets in the area are all turning to correct the original northeast-northwest axis of the original plat to the east-west axis of streets on Madison's west side.

1. The primary linkage of the site important to a motor inn is to the University of Wisconsin campus which begins one block to the west of the subject property. However, it should be noted that University administrative offices and other generators of possible motel traffic are five and six blocks to the west at the least and that the true center of University activity, including the University Hospital Center and administrative center as well as labs and class rooms are concentrated many blocks to the west. Nevertheless, the motor inn has a University orientation.
2. Linkages and blocks immediately contiguous to the subject property are relatively unimportant as most adjoining land is high density apartment and rooming house structures for the University student population, with a gradual replacement of turn-of-the-century wooden structures by assemblage and replacement with masonry buildings with small efficiencies and one bedroom apartments. Only the School Board offices on Dayton Street might generate some minimum hotel demand.
3. Visual and pedestrian linkages of the subject site to shops and restaurants on the revitalized State Street area are weak as it would require crossing five lanes of traffic at both W. Johnson and University Avenue traffic arteries and three long blocks to reach the area.
4. Similarly linkages of the site to the downtown Square area of Madison eight blocks away are indirect as W. Dayton Street is not a through street and W. Johnson is one way and two blocks north of the main retail area. It remains to be seen what the reversal of traffic flows on one way streets adjacent to the Square will do to traffic circulation toward the subject site. The subject site will be within four blocks of a new Madison theater and art center, and federal courthouse building.
5. The site is six blocks from Methodist Hospital, ten blocks from Madison General Hospital, twelve blocks from St. Mary's, and the current University Hospital, and two miles from the VA Hospital complex and the new University Hospital under construction.

6. Access to the site by auto is not ideal for a motor inn. Most auto transient guests will be arriving from the east side of Madison where Interstates 90 and 94 pass by the city, where Highways 51 and 151 connect to the north and central parts of Wisconsin and where the Dane County Regional Airport (Truax Field) is located. This traffic would reach the campus area via Gorham Street and University Avenue. To reach the subject property this traffic would need to make a left turn at University and N. Frances, a stop light controlled intersection, another left turn onto W. Johnson where there is no stop light, followed by a right turn one half block later onto Marion Street. The subject property is not easily visible from any of the fast moving arteries and it is necessary for management to maintain a large billboard near the N. Frances Street turn at University Avenue. Auto traffic could also arrive from the west part of Madison on W. Johnson Street which is a main connector to the western campus and the medical centers, the Hilldale Shopping Center and other high income residential areas several miles to the west. Traffic arriving from the southwestern part of the state on Highways 151 and 18 would reach the neighborhood on Park Street, W. Washington Avenue, and then by left turn on Bedford Street paralleling some abandoned railroad facilities. Again a large billboard is used to overcome the relatively concealed approach route. The annual cost of these billboards is in excess of \$16,500 a year and is a good measure of the inadequacies of the location in terms of visibility and access to main traffic arteries.

Thus the site does not have immediate linkage to highway routes which would characterize the transient traveler type of hotel nor does it have visual identification with basic generators of hotel traffic such as a business center, medical complex, retail or recreation area. Instead it depends on being almost near a variety of demand generators and being free of competitors who might intercept its business from the central and western parts of the University campus or other generators in the southwest quadrant of Madison.

C. Site Dynamics

Dynamic attributes of the site have to do with how people perceive the location and behave relative to it.

1. It has already been pointed out that approach by auto is difficult and confusing to the newcomer to Madison as the site lacks a direct tie to highway routes, visual identification with well known landmarks such as the Capitol, a major hospital, or major University facility, and is submerged in a student housing area in transition from converted old homes to high density apartments.

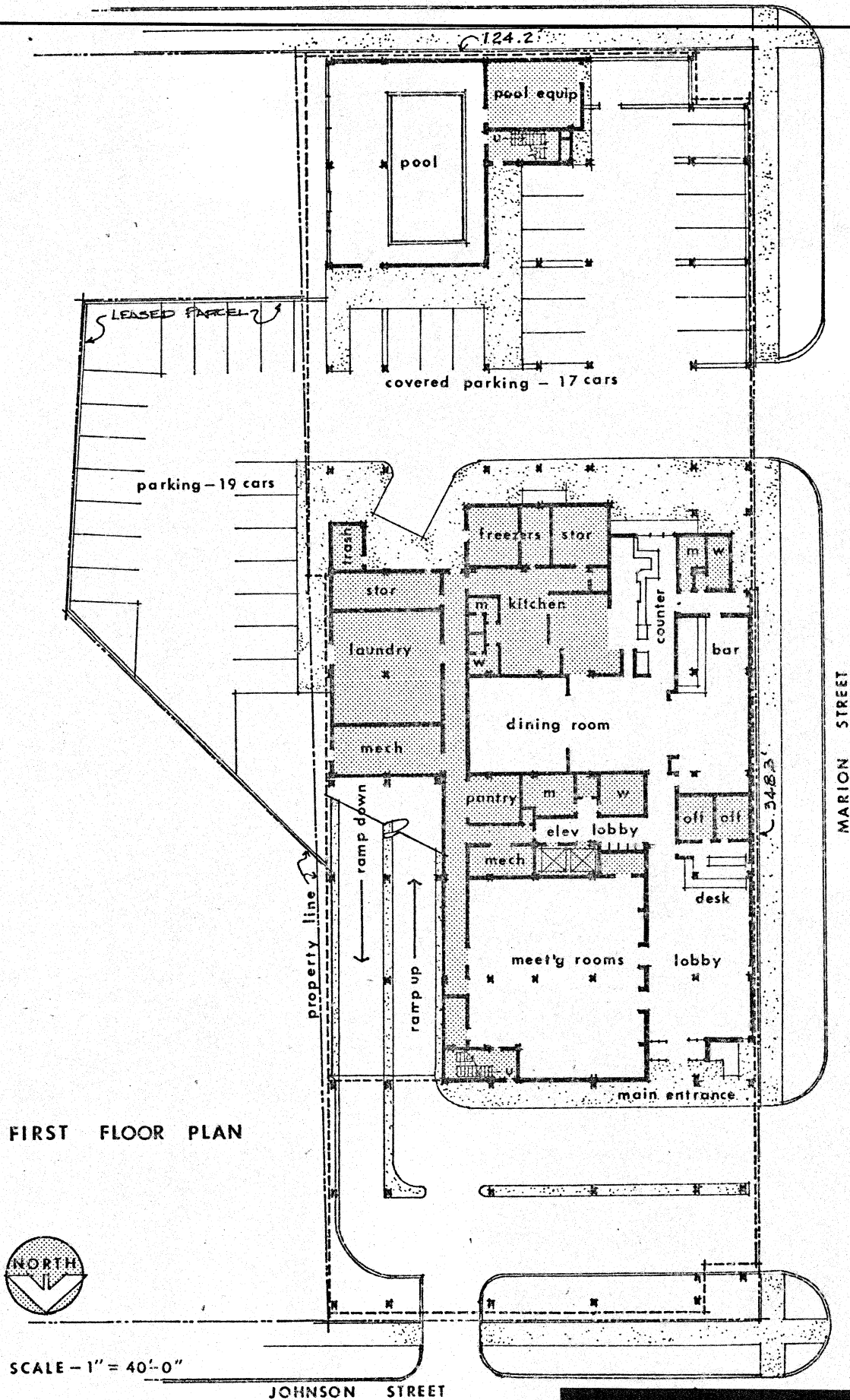
2. Massing of neighboring buildings and the angles of various approach streets dilute the visual impact of the subject site drastically. The one-way arterial traffic along Johnson Street from the west permits only several seconds of recognition time and attention of the driver is diverted by the impending left curve in Johnson Street. There is no direct access from W. Dayton Street. Thus Marion Street serves both the south and north ends of the site.
3. Since the site is relatively small, it is necessary to park cars on a second level ramp in order to conserve much of grade level for access, egress, and unloading and the upper level ramp is only available from the northeast corner of the site (See Exhibit 2). Parking on the south end must also yield to loading dock and freight service facilities.
4. Pedestrian traffic in the student area is always high late into the evening so that sidewalk linkages to the campus or State Street are safe but night-time linkages to downtown via W. Johnson or W. Mifflin Streets are somewhat forbidding.
5. The composite effect prevents any measureable volume of walk-in traffic for the restaurant facilities and has prompted management to provide limousine service at all hours for guests traveling to the University, to city medical centers, state offices, and the Square.

D. Physical Attributes of Building and Site Improvements

The site was cleared and construction begun on the 163 room motor lodge structure on April, 1972, with substantial completion and initiation of hotel operations by April 18, 1973. The basic structure of the seven story building is reinforced concrete, sheathed with exterior face brick, pre-cast concrete panels with plexiglass inserts on the first floor, a lanon-stone pylon on the elevator core as background for the neon Howard Johnson logo, and painted concrete block. The tower containing the lodging facilities gives rooms a view of the campus to the west or the W. Washington and Lake Monona areas to the east. The tower containing the lodging rooms sits on a broader platform of a first floor public area and second floor of parking deck. Floor and roof surfaces are framed in pre-cast concrete planks; roofs and exterior floors have a waterproofing barrier and two-inch asphalt finish while all interior floor surfaces are topped with a two-inch concrete finish as a sub-floor.

1. The first floor of the Motor Lodge contains approximately 18,750 square feet. (See Exhibit 2) The main entrance and reception area are located on the northwest corner of the building and are accessible from a covered portico. Two meeting rooms access directly of the lobby, but the reception desk on the south wall lacks a view of the elevators, tucked around a corner on the corridor that leads to the dining room

DAYTON STREET



and bar. The Howard Johnson Restaurant facilities have a room guests entrance from the lobby and a pedestrian entrance from Marion Street. The kitchen, pantry, laundry, and storage areas are located in the southeast corner of the first floor with deliveries and trash pickup made from a covered outside service drive. This driveway divides the first floor commercial and service area from the pool annex and south stair tower. The only means of access to the pool for guests is by walking down from the third floor by the south stairwell. To reach the pool from the first floor involves a 190 foot path from the elevators along a service corridor, across the outside service drive, and through two locked doors. Seventeen covered and nineteen outside parking spaces are accommodated from the south entrance off Marion Street, but are difficult for a guest to use because of the lengthy and confusing route to the elevators.

2. The second floor of the Motor Lodge contains approximately 32,000 square feet exclusive of the two lane auto ramp to ground level. Enclosed space (interior) totals 2600 square feet with the majority of this area being consumed by stair towers, the elevator core, mechanical and telephone equipment, as well as one meeting room which is half the size of a similar facility on the first floor. (See Exhibit 3) The elevator lobby at this level is accessible from the parking deck during the daytime, but is locked at night to prevent unauthorized entry. This creates a definite hardship on guests parking their cars who are forced to walk down the auto ramp to ground level so they can gain entry to the Motor Lodge. The parking deck accommodates 86 cars of which only 21 cars are sheltered by the lodging tower above. A view of this parking area from the street is masked by pre-cast concrete parapet walls, however, the line of sight from all guest rooms in the tower is not so successfully masked.
3. The third through seventh floors are located in the lodging tower. Each floor contains a gross area of approximately 14,900 square feet. Thirty-one guest rooms and one suite are located on the third floor while the remaining four floors each have thirty-two guest rooms and one suite--a total of one hundred sixty-four rental units. (See Exhibit 3) The typical tower floor has a double loaded corridor 250 feet in length, and divided at the mid-point by self-closing fire doors. Fire exits are through the north and south stairwells. The elevator core, with two standard 16 passenger cabs, is offset on the west side of the corridor and also contains the linen room, laundry chute, and space for vending and ice machines. Two standard guest room layouts are designed into the tower floor plan with 270 square feet in each room (bath included) on the west side of the building and 351 square feet for each room (bath included) on the east side of the tower. The only space on the eighth floor is the elevator penthouse and an access to the roof from the south stairwell.

4. The quality of construction for this 96,000 square foot building is standard for a concrete and masonry structure of this type. The effects of wear and tear and physical deterioration as a result of weather and aging have not begun to appear to any extent in this three year old building. The concrete structure and concrete block partitions provide excellent fireproofing properties while allowing for only moderate sound transmission. The guest room sizes and layouts are adequate and are typical for Howard Johnson Lodges located elsewhere in the country. The room guests pedestrian traffic patterns to the pool and from the parking deck at night are complicated and extended. The first floor meeting rooms are also placed where they can only add to the noise, crowding, and conflicting functional patterns of the reception lobby. The usual problems of bowling alley type room corridors and cramped elevator lobbies have not been resolved in this particular motor lodge design.

V. MARKET DYNAMICS FOR MOTEL ROOMS IN MADISON

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

- A. Class A motels are full scale facilities with complete parking, restaurant, meeting room and related facilities. Class B motels represent the best of the new breed of economy units which provide a basic sleeping room and parking at \$8-\$12 per night. Smaller "Ma and Pa" motels were not considered.
- B. Exhibit 4 covering 15 Class A hotels and Exhibit 5 covering eight major Class B motels are a summary statement of a unique research analysis of confidential data which indicates total capacities and room occupancies for downtown and periphery motor inns and ranks them as to their approximate share of the market. It reveals the drastic change in supply of competitive units since 1970. At the same time the data suggests Madison is succeeding in its efforts to become a significant convention and visitor recreational center. (During this time the City of Madison has subsidized THE GREATER MADISON CONVENTION AND VISITORS BUREAU, INC. and raised total Class A & B occupied room nights by 15% [line 36].) This estimate of 397,000 Class A room nights in 1973 [line 24] correlates closely with an estimate of 371,000 on page 47 of a 1971 report by Harris Kerr, Forester & Company.
- C. Total Class A rooms serving Madison have increased by 495 units since early in 1973, an increase of almost 30%, and all of that increase has been in the downtown-campus area where capacity increased 61% [line 10]. The increase would be even more dramatic if that included the opening of the Sheraton in December, 1972.

- D. The newly constructed or expanded downtown units, despite somewhat higher average room prices, have made a significant contribution to the increase of motel occupancy in Madison as well as significant competitive inroads on peripheral units tied to the Interstate and Beltline systems. While there was a modest 7.6% increase in total Class A room nights occupied [line 24], the downtown Class A enjoyed a 20% increase [line 12], while the peripheral units collectively lost 3% [line 21].
- E. Market penetration of downtown hotels relative to peripheral also led to a redistribution of business among the downtown hotels. Notice the rankings in Columns 4 & 5 based on total occupied room nights in 1973 had drastically shifted by the last quarter in 1974. Peripheral Class A hotels which in 1973 had four of the five largest room night sales, had only two in the first five in December of 1974. Part of this decline reflects seasonal traffic on the Interstate, and part of this reflects a general decline in auto travel. However, discussions with the desk personnel at the car rental agencies in the Madison Air Terminal Building indicate their clients show a growing preference for the alternatives downtown. Their clients are primarily business and campus visitors.
- F. "Room nights occupied" increases or declines do not mean per se any increasing or decreasing profits, however. It should be noted that in 1974 total downtown Class A room nights occupied represented only 52% of available rooms, assuming the Concourse was available for only six months [line 12]. Were the downtown hotels to do as well in recession year 1975, 220,000 room nights would represent only 46% of capacity, well below the collective breakeven point of 55-60%. It should be noted that before additions to the Edgewater, and the opening of the Howard Johnson or the Concourse, the downtown hotels were at approximately 61% of capacity [line 12, column 2]. In such a competitive climate, the smaller Class A units are in a better position because they need far fewer occupied room nights to achieve 60% occupancy. The Concourse, Howard Johnson, and Sheraton must each fill twice as many room nights to achieve the same occupancy rate. Moreover, they must compete for the large meetings by providing groups with wholesale room rates so that occupancy will need to exceed 60% of units if the large hotels are to achieve 60% of revenue potential.
- G. One should also note that the Class A motels are limited in maximum market penetration by number of rooms but that the smaller inns closer to the University campus are holding their market share while those further away such as the Park Motor Inn, the Midway, Holiday Inn #1, and the Quality Motor Inn are losing ground. Surely the attractions of the campus area with its regional sports events, both university and state high school tournaments, seminars, legislative activities, and the most cosmopolitan collection of shops, restaurants and theaters in Wisconsin will continue to outdraw the periphery.

EXHIBIT 4

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

	(1) Rm Count Jan. 1, '73	(2) Rms Added Since 1973	(3) Total Rms Available Dec. '74	(4) Ranking by % of Rm Nights Occupied	(5) Ranking by % of 4th Quarter Nights Occ. 1974
<u>Downtown Class A</u>					
1. Edgewater	97	46	143	8	7
2. Howard Johnson (downtown)	0	164	164	9	4
3. Park Motor Inn	148	0	148	6	10
4. Madison Inn	75	0	75	10	12
5. National Motor Inn	100	0	100	11	13
6. Town Campus Motel	70	0	70	13	11
7. Ivy Inn	57	0	57	14	15
8. Sheraton	270	0	270	2	3
9. Concourse Inn	0	279	279	15	1
Downtown Class A Rms Total	817	489(61%)	1306		
Downtown Total Room Nights Capacity	298,205		427,580*		
Downtown Total Rm Nights Occupied	182,300(61%)		220,000(52%)		+20.0%
<u>Periphery Class A</u>					
10. Midway Motor Lodge	95	0	95	7	9
11. Ramada Inn	198	0	198	1	2
12. Holiday Inn #1	165	0	165	3	6
13. Howard Johnson (east)	80	0	80	12	14
14. Quality Inn	171	0	171	5	8
15. Holiday Inn #2	192	0	192	4	5
Periphery Class A Capacity	901		901		
Periphery Total Rm-Nights Capacity	328,865(65%)		328,865		
Periphery Total Rm-Nights Occupied	214,750(65%)		208,300(63%)		-3.0%
Total Class A Rooms In Madison Market	1718	489(29%)	2207		
Total Class A Room-Nights Capacity	627,070		807,745		
Total Class A Room-Nights Occupied	397,050(63%)		428,300(53%)		+7.6%

EXHIBIT 5

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

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

* Assuming Concourse open 6 months

1975 Total 478,880

** Opened only 1 month, reducing potential


- H. The Class B motels have been so rated because of their relatively small room count, or a marketing policy as one of the new style "Economy" motels, or because of gradual withdrawal from the motel business as in the case of the Capitol Motel and the downtown Loraine Hotel. New construction of economy rate rooms has added more than 100,000 room nights capacity [line 34] and already produced a 58% increase in the total number of Class B occupied room nights, capturing almost 50% of the total increase in the combined A and B occupied room nights [line 36] with two new units coming on stream in late 1974. All of these new units are in the peripheral area and compete directly with the Class A units serving the Interstate and the very small "Ma and Pa" units which still survive on some of the frontage roads. It remains to be seen how the Class B economy motels will affect downtown Class A hotels. On a recent weekend the downtown hotels were catering to a business association convention while the economy hotels were filled with teams and fans of a state high school athletic tournament. Thus downtown seeks a more affluent and less rowdy clientele.
- I. The Howard Johnson Hotel, the subject property, has enjoyed a significant share of the Class A downtown room nights market. It was one of the first new hotels to be completed and because it has maintained a continuing relationship with the University of Wisconsin Extension which holds seminars at the hotel or boards people attending seminars at the Wisconsin Extension Center, five blocks away at Langdon and Lake Streets. However, with a modest increase in its occupancy, the Howard Johnson can nevertheless expect to lose a portion of its current market share as newer competitors such as the Concourse establish a better competitive parity. Nevertheless the overbuilding of Class A rooms in downtown Madison has meant the total business available in 1974 was only 52% of capacity and that would have dropped to only 46% if the Concourse had been open for the first seven months of the year. In short, the market demand and supply system for Class A hotel room space in Madison suggests devastating competition for each of the hotels, including the Howard Johnson for the balance of the decade.
- J. Exhibit 6 is a forecast of a possible 5% growth in total Class A room demand in Madison, a continuing shift of the market share toward downtown Madison, and a 1% increase in room nights occupied by Howard Johnson. Nevertheless the Howard Johnson share of the market will drop and the increase of 1% may be optimistic due to several significant competitive factors:
1. The University of Wisconsin is presently converting a lakeside dormitory to a 75 room motel-classroom facility for Extension education. It will have a capacity of 147 students and provide full inn-keeping facilities including dining, bar, colored television in each room, etc. and generally with private baths for only \$11-\$15 per night. This facility will compete directly with the Howard Johnson property, the Madison Inn, and the
- 

EXHIBIT 6

PROJECTIONS OF EFFECTIVE DEMAND FOR CLASS A ROOM NIGHTS IN DOWNTOWN MADISON COMPARED TO TARGETED HOWARD JOHNSON OCCUPANCY LEVELS FOR FIVE REAL ESTATE TAX YEARS BEGINNING MAY 1, 1974

	<u>1974-5</u>	<u>1975-6</u>	<u>1976-7</u>	<u>1977-8</u>	<u>1978-9</u>
1. Total Class A room nights market in Madison	428,000	449,400	471,870	495,464	520,237
2. Market share percentage for downtown Class A hotels	51%	53%	55%	57%	58%
3. Total estimated downtown Class A room nights	220,000	238,182	259,529	282,415	301,738
4. % of downtown market to be captured by Howard Johnson downtown	18.4%	17.5%	16.25%	15.2%	14.4%
5. # of room nights to be captured by Howard Johnson	40,463	41,580	42,174	42,768	43,362

Campus Motor Inn. This new facility will house the School for Workers which is presently housed at the subject property during June and July and represents 15% of the Howard Johnson occupancy rate. Therefore just to maintain current occupancy will require a significant increase in new business to replace this lost account from University competition. It will be exempt from the City of Madison 6% hotel room sales tax, real estate tax and personal property tax and will be subsidized by the University Extension. It is probably an unfortunate decision by the University and damaging to hotel room demand in the campus area.

2. The first financial casualty in the Class A downtown hotel group struggle for a market share may be the Sheraton Hotel. Should ownership and management of the hotel change to stronger hands it is probable that the hotel will be remodeled to provide more small meeting rooms and the coffee shop facilities (which it presently lacks) to compete for seminar and business meetings business. The competitive character of Sheraton operations is unpredictable but will probably improve if it is to remain open in the long run.
3. The value of a national hotel brand name and reservation service in Madison remains unproven as the Edgewater, the Madison Inn, the Concourse, and the Park are local names, the Sheraton is not yet established after three years of operations, the Concourse cancelled its affiliations with the Hilton, and the economy units are regional chains. Probably only the Holiday Inn and Howard Johnson reservation services are effective and such affiliations may be more important in securing permanent mortgage lending than in capturing the traveler making Madison or the University campus the terminal point of his trip.
4. Despite the overbuilding of Class A hotels in downtown Madison, investor groups are currently considering new motor inn projects in the vicinity of Highland and University Avenues to serve the new University medical complex and in the West Towne area to serve a market known only to the developer. These would intercept some of the medical center related business now served by the Howard Johnson property.

VI. MOST PROBABLE USE OF SUBJECT PROPERTY

Given the character of existing improvements on the site and the possibility that effective demand for Class A hotel rooms in the area may permit at least breakeven operation, it is possible to conclude the most probable use of subject property for the foreseeable future will be as a motor inn enterprise.

- A. Determination of most probable use is similar to but not identical with the concept of highest and best use. The latter assumes the site vacant, which it is not, or a use which would justify clearance, of which there is none.

- B. Determination of most probable use permits the appraiser to make some inference about the most probable buyer for this type of property or investment. A profile of the probable buyer guides the appraiser in a search of the market for comparable transactions, or failing that, suggests the investment factors and assumptions determining the highest price such an investor would be justified in paying.
1. Downtown hotel buildings are seldom purchased by hotel companies anymore as downtown hotel properties as a class have represented poor investments for the original builders. Where they have succeeded, it has been the second or third owner who bought at sharp discounts from cost-to-replace. Profits are to be made in the management of the hotel, particularly in the marketing of conventions, restaurants and bars and the management companies are typically compensated on both a percentage of gross and an incentive share of net cash flow in excess of debt service requirements of the owner. In addition the hotel companies receive franchise fees for leasing the use of their name, (\$20,000 for the Hilton franchise, not including management), advisory fees during the design and staff training phases of development, and often tie in contracts with furniture and hotel supply subsidiaries.
 2. However, hotel ownership without operating responsibility does appeal to a variety of institutional and individual investors. A hotel is largely a fixed cost, variable revenue operation so that once it reaches breakeven point additional revenues as a result of sophisticated management can produce a very rapid increase in profits to the owner. Food and beverage prices, and to some degree, room prices, are tied directly to the general level of retail prices during a period of inflation and the cost of duplicating facilities is rising so quickly that in the long run, the modern motor inn, high-rise unit in a downtown location will enjoy monopoly characteristics since the cost of entry of a competitor is prohibitively high. In addition, federal income tax laws recognize hotel investment as an operating business rather than as typical rental real estate so that furnishings are eligible for an investment tax credit. Depreciable lives of structural components are shorter thus increasing tax shelter in the early years for first time owners, and there are more front end costs which can be tax deductible in the first year than is true of many forms of real estate investment. In addition, a motel avoids several income tax penalties for preferential income or for ownership through a Sub-Chapter S corporation.
- C. These tax advantages are of little significance to intermediary institutions, such as life insurance companies and equity trusts who currently seek a minimum of 10-12% cash-on-cash return before taxes each year and the expectation of long term appreciation
-

EXHIBIT 7

PRESENTATION OF CASH RETURNS TO EQUITY BEFORE REAL ESTATE TAXES ACHIEVED BY MADISON REAL ESTATE INVESTMENT TRUST ON FIFTEEN COMMERCIAL PROPERTIES PURCHASED IN THE MADISON AREA DURING 1972-74 ACCORDING TO ROSS MENARD, EXECUTIVE INVESTORS, INC., TRUST MANAGERS FOR THE PERIOD

PROPERTY	ORIGINAL BASIS PRIOR TO DEPRECIATION	ORIGINAL MORTGAGE	ORIGINAL EQUITY	PROJECTED PROFIT PRIOR TO DEPRECIATION	% RETURN ON EQUITY	PROJECTED PROFIT AFTER DEPRECIATION	% RETURN ON EQUITY
GW	278,520	200,000	78,520	10,826	13.79	126	.16
PK	216,374	107,000	109,374	14,668	13.41	7,414	6.77
BR	246,851	190,000	56,851	9,111	16.02(1)	4,016	7.06 (1)
SG	81,880	58,800	23,080	4,667	20.22	3,553	15.39
PG	126,520	105,000	21,520	5,865	27.25	3,725	17.30
WIT	70,175	55,300	14,875	3,672	24.69	2,307	15.50
GP	437,766	200,000	237,766	23,137	9.73	12,937	5.44
MP	750,317	600,000	150,317	35,434	23.57	22,308	14.84
CB	79,655	69,000	10,655	2,966	27.84	1,525	14.31
EM	212,241	200,000	12,241	8,051	65.77	4,114	33.60
CB	183,902	150,050	33,852	9,233	27.27	6,741	19.91
MS	275,000	200,000	75,000	8,107	10.81(1)	4,807	6.40 (1)
ST	365,423	315,000	50,423	13,902	27.57	6,692	13.27
BW	*A 281,250	182,000	99,250	13,842	13.95	11,142	11.23
YT	*B 71,250	60,000	11,250	1,688	11.33	762	6.77
	3,677,124	2,692,150	984,974	165,169	16.76	92,169	9.36

(1) Reflects Vacancies

from management skill and price inflation. These institutions do buy well located motor inns lacking good management and therefore in distress. Given the weakness of the subject property site as a motor inn location and the only average construction quality of the building, it is unlikely that a financial intermediary would be the buyer.

- D. More likely it would be a small group of sophisticated investors forming a general partnership with the objective of a minimum 12-15% cash return after taxes and no less than 15% return before taxes. Such a return is extremely low when compared to the cash returns generated from commercial properties by the Madison Investment Trust during the 1973-1975 investment period. Reference to Exhibit 7 will indicate the Trust enjoyed a cash-on-cash return of 16-30% on its commercial property investment. Thus the smaller yield expectations of less professional investors who are the most likely group buyers of the subject property will produce the highest price at which the property might sell on May 1, 1974.

VII. THE INCOME APPROACH TO VALUE

For lack of arms-length sales of modern, high-rise motor inns comparable to the subject property, it is the opinion of the appraiser that the only correct approach to valuation in the present instance is the income approach to value, more specifically the mortgage-equity approach to value. The mortgage equity approach has been generally approved for use in the City of Madison in Wild, Inc., realtor, versus the City of Madison Board of Review, Case #140-201, Dane County Circuit Court before the honorable George R. Currie on the James Wilson Plaza Building.

A. Income Approach Methodology

To determine the present value of a series of negative and positive cash flows before income tax to an investor purchaser of the subject property, the following procedures will be followed:

- Step 1: Convert expected room occupancy levels to an estimate of revenues and expenses contributed by real estate components of the total hotel enterprise. (Exhibit 8)
- Step 2: Convert net income before real estate taxes to value by using a capitalization rate based on the Ellwood mortgage equity approach. A computer program called Investment Market Value on the EDUCARE network will be used.
 - a. On the first run desired return on equity will be increased by the capitalized equivalent of the real estate tax share of income which will be the 65% Madison equalization rate x the 1974 tax rate of \$43.87 per \$1000 of assessed value. (Exhibit 9)
 - b. Estimated real estate taxes will then be deducted from net income before real estate taxes and reprocessed

Howard Johnson - DT Madison
Schedule of Projected Income and Expenses
For the Years Commencing May 1, 1974-78

Exhibit 8

Period	1974-75	1975-76	1976-77	1977-78	1978-79
Occupancy (163 rooms)	68%	70%	71%	72%	73%
Revenue:					
Available Rooms	59,463	59,400	59,400	59,400	59,400
Occupied Rooms	40,463	41,580	42,174	42,768	43,362
Rate Average ¹	18.89	19.00	19.50	20.00	20.50
Room Revenue	764,450	790,020	822,390	855,360	888,920
Public Room Rental ²	7,116	7,200	7,200	7,200	7,200
Restaurant Rental ³	31,500	31,500	31,500	31,500	31,500
Telephone ⁴	(14,345)	(14,795)	(15,375)	(15,960)	(16,560)
Other Income ⁵	6,113	6,165	6,405	6,650	6,900
Room Service Commissions ⁶	1,635	1,850	1,920	1,995	2,070
Total Revenue	796,468	821,940	854,040	886,745	920,030
Operating Expenses:					
Payroll ⁷	166,180	164,390	170,808	177,349	184,006
Housekeeping ⁸	33,160	33,700	34,200	34,700	35,200
Adm. & Gen. ⁹	83,150	85,890	89,250	92,665	96,145
Adv. & Promotion ¹⁰	82,250	82,735	84,704	86,352	88,030
Utilities ¹¹	66,500	76,030	79,000	82,025	85,100
Repairs & Maintenance ¹²	16,550	13,500	13,500	13,500	13,500
Total Operating Expenses	447,790	456,245	471,462	486,591	501,981
House Profit	348,678	365,695	382,578	400,154	418,049
Misc. Interest Income	720	720	720	720	720
Gross Profit	349,398	366,415	383,298	400,874	418,769
Less: Insurance	10,314	9,926	9,926	9,926	9,926
Land Rental ¹³	7,680	7,680	7,680	7,680	7,680
Income to Furnishing ¹⁴	64,000	64,000	64,000	64,000	64,000
Income before RE Taxes and Debt Service to Land and Buildings	267,404	284,809	301,692	319,268	337,163

Notes to Exhibit 8

1. Rate Average:

- The average room rate for the year ending April 30, 1975 was \$18.89. This was a \$.19 increase over the room rate for the period ending April 30, 1974, or about 1%. The increase was due in large part to standardizing room discounts for major clients and for functions requiring a large number of rooms.

2. Public Rooms:

- For the year ending April 30, 1975 the total dollar volume was \$7,116. In comparison, for the year ending December 31, 1974, the total volume was \$6,854. Public room rental was not found to be related to the level of occupancy or total revenues, thus it is assumed to be fairly fixed in character.

3. Restaurant Rental:

- The restaurant is leased to Howard Johnson's for a minimum rent of \$31,500, plus 5% of the amount of gross receipts which exceeds 20 times the minimum rental.

4. Telephone:

- Telephone revenues have averaged 3.4% of room revenues, compared with an industry average of 3.6% (Lodging Industry, by Laventhal, Krekstein, Horwath, and Horwath).
- Annual equipment lease payment is \$12,764.40.
- Net losses have average 1.8% of revenues. With increased occupancy, losses should not exceed 1.5%, comparable to national averages in Laventhal, Krekstein, Horwath and Horwath.

5. Other Income:

- Includes valet and laundry, vending sales, sundry sales, and 10% commission on banquet food sales. Vending has averaged 1/2 of 1% of total revenues. The remainder accounts for 1/4 of 1% of total revenues.

6. Room Service Commissions:

- 2% commission on restaurant bills and room service charged through motel plus 20¢/room service ticket, thus variable with occupancy.

7. Payroll:

- Actual and target results are 20% of total revenues.



8. Housekeeping:

- Averages have ranged from \$33,157 (December 31, 1974 closing) to \$33,775 (April 30, 1975 closing), or 4.06% to 4.27% of total revenues. Dollar amounts are fairly constant within a narrower range of occupancies.
- Includes commissions to travel agencies.

9. Administrative and General:

- For the year ending December 31, 1974 the total amount was approximately \$82,750, or 10.45% of revenues. The totals are comprised of expenditures the majority of which are variable in nature.
- Includes a 3% fee for management services.

10. Advertising and Promotion:

Schedule

	<u>1975-76</u>
Outdoor Sign	
Hanson Sign Co.	\$1625.50/mo.
National Advertising Co.	31.50/mo.
Less: Howard Johnson's share	(275.00/mo.)
Total	\$1377/month X 12 = \$16,524
Promotions	1,500
Publications	7,200
Franchise Fee (5% of gross room receipts plus public room rentals)	39,537
Manager Expense and Promotion	3,475
Miscellaneous Advertising	2,500
Reservation Charge to Howard Johnson	12,000
Total	<u>\$82,736</u>

11. Utilities:

- The total is comprised of four elements: electric bulbs, electric current, fuel, and water. The total for the year ending December 31, 1974 was \$64,274 or 8.12% of total revenues.
- Interim rate increases by Madison Gas and Electric commenced in June 1975. Electric increased 17.7% while fuel (gas) increased 7.33%. At present, additional proposed increases are being evaluated by the Public Service Commission which would become effective in 1976. Electric increases are proposed to be an additional 14.9% while gas is to increase 4.9%. Beyond 1976, increases are expected to be between 5% and 10% per year for both forms of energy.
- Utilities are not expected to exceed 9.23% of total revenues without a corresponding increase in room rates. Increases in utilities are expected to occur faster than any corresponding increase in room rates, thus it should be some time before the utility expense ratio will stabilize at approximately 9%.
- Year to date totals indicate the projections for 1975-76 are consistent with the above assumptions concerning the room revenue increase lag.

12. Repairs and Maintenance:

- Contracts
 - Plabocki Sign Repair Contract \$1,060
 - Westinghouse Elevator Contract 3,336
 - Pellitteri Wast Removal 738
- Actual for year ending December 31, 1974 was approximately \$16,550.
- For the year 1975-76, the year to date totals indicate a decrease in expenditure. Such expenditures should remain fairly constant over the next five years.

13. Land Rent:

Monthly rental charges	\$1000
Less: Recovery from leased property	(360)
Net land cost per month	640

14. Furnishings and Other Assets:

Furnishings and Equipment	
Furnishings and Equipment	\$251,120
Carpeting	60,490
Two Autos	9,480
Signs	9,967
Leasehold Improvements	5,778
Total per Audit	336,835

Factors Attributed to Furnishings

Rate of Return	9.0%
Recapture	10.0%
Personal Property Tax	4.5%

Income Equivalent of Recapture and Return to Equity

$$336,835 + 336,835(9\% \times 10 \text{ years}) = 639,987$$
$$639,987 \div 10 = 63,999 \text{ or } \underline{\underline{64,000}}$$

In the IMV program to prove the before tax yield and the after tax yield equivalent. (Exhibit 10)

B. Explanation of Revenue and Expense

Purchase of a real estate investment for financial return and acceptance of an appraisal valuation must be recognized as essentially the acceptance of many, many assumptions about the future under conditions of great uncertainty. Therefore it is important that the reader understand the implications of the many footnotes which support Exhibit 8, the forecast of revenues and expenses for the next five years of hotel operations. These footnotes represent the reasoning process by which the appraiser has estimated the magnitude of each component. The final line on Exhibit 8 represents the net operating income attributable to the real estate elements of the hotel enterprise, before deduction of real estate taxes.

In making such forecasts it is the opinion of the appraiser that errors which overestimate or underestimate on many small facets of the problem tend to offset one another so that ultimately forecasted returns represent a reasonable forecast of the future but obviously there can be as many alternative forecasts as there are estimators. To accept the appraisal valuation it is only necessary to accept the equity and objectiveness with which the assumptions have been assembled as representative of the future but by no means as a precise prophecy. Business risk is always the variance between one's assumptions (or expectations) and one's realizations. The vagueries of the hotel business in Madison lead the prudent investor to discount his expectations sharply, and a 20% return to equity before tax is the minimum acceptable for hotel investments by knowledgeable investors.

C. Construction of the Capitalization Rate

The mortgage equity approach requires the following assumptions to determine the capitalization rate:

1. Mortgage loan ratio for new buyer would not exceed 75% of probable market price.
2. The interest rate as of May 1, 1974 under the most favorable circumstances would have been .095 for a 20 year loan amortization but a maturity date of 15 years.
3. Overall return to equity would be 20% compounded before taxes, including appreciation in the equity reversion. Equity would contribute 25% of the purchase price.
4. The capitalized equivalent of the real estate tax is the mill rate of $.04387 \times .65$ equalization rate which equals .0285. This factor must be weighted for relative load on 25% equity so that it is the equivalent of $.0285 \times 4$ or .114% on the equity base.
5. Since appreciation or depreciation is equally probable given the tendency of prices to rise over the five year projection period and the tendency of price competition among Class A hotels to prevent a full shift of costs to the traveler.

MAX1 15:02CST 10/27/75

100 HOWARD JOHNSON MOTOR INN
101 JOHNSON AND MARION STREET
102 MADISON, WIS.-----MAY,1974
103 B,.314
104 AD,0,5,.02
105 267404,284809,301692,319268,337163
110 5,.35,0,0
111 4,0
112 .90,1,35,.20,1
122 1,.75,.095,240,0,1

IMV 15:12CST 10/27/75

WHAT IS YOUR DATA FILE NAME?MAX2

IMV : \$ 1918142
AFTER TAX YIELD(IRR) : 14.80%
BEFORE TAX YIELD(IRR) : 20.00%
DO YOU WANT DETAIL (0=NO,1=YES)?1

INVESTMENT MARKET VALUE ANALYSIS 15:12CST 10/27/75

HOWARD JOHNSON MOTOR INN
JOHNSON AND MARION STREET
MADISON, WIS.-----MAY,1974

AFTER TAX YIELD(IRR) : 14.80%
BEFORE TAX YIELD(IRR) : 20.00%

INVESTMENT MARKET VALUE: \$ 1918142

FINANCING:

MORTGAGES:

1. 1ST MONTH 9.500% 20 YRS 0 MONS \$ 1438606

EQUITY CASH: \$ 479536

RESALE OF INVESTMENT IN 5 YEARS:

ESTIMATED RESALE PRICE \$ 1918142

LESS: MORTGAGE BAL. 1284178
SALES COMMISSION 38363

CASH REVERSION BEFORE TAXES \$ 595601

LESS: CAPITAL GAINS TAX(STD.) 43157
TAX ON RECAPTURED DEPR. 0
TAX PREFERENCE TAX 1150

CASH REVERSION AFTER TAXES \$ 551294

YR	NET INCOME	MORTGAGE INTEREST	BOOK DEPR.	TAXABLE INCOME	INCOME TAX	CASH FLOW BEFORE TAX	CASH FLOW AFTER TAX
1	213903	135583	49323	28997	10148	52987	42839
2	231308	133069	49323	48916	17120	70392	53272
3	248191	130305	49323	68563	23997	84194	64278
4	265767	127267	49323	89177	31211	104851	73640
5	283662	123928	49323	110411	38643	122746	84103

MAX2 15:12CST 10/27/75

100 HOWARD JOHNSON MOTOR INN
101 JOHNSON AND MARION STREET
102 MADISON, WIS.-----MAY,1974
103 B,.20
104 AD,0,5,.02
105 213903,231308,248191,265767,283662
110 5,.35,0,0
111 4,0
112 .90,1,35,.20,1
122 1,.75,.095,240,0,1

D. Other Assumptions

The IMV program requires explicit statement of a number of assumptions to complete the appraisal valuations, as in the Ellwood approach:

1. The projection period is five years with resale of the project assumed to occur at the last moment of the fifth year.
2. Sales commission and other transaction costs are assumed to be a minimal 2% of estimated resale price.
3. It is assumed that whatever the value, 90% will be assigned to the value of depreciable assets and 10% to land.
4. As a check on the 20% before tax yield and to demonstrate the minimal impact of tax law on the investment tax decision of a second buyer, the IMV program also computes the equivalent after tax yield.

E. Execution of the IMV Model

A preliminary valuation to determine the range of real estate taxes was made on Exhibit 9:

1. Net income before real estate taxes attributable to real estate taken from Exhibit 8 was capitalized at before tax yield to equity of 31.4% (11.4% + 20%) to produce an initial value of \$1,877,000.
2. This initial value, x the equalization rate of 65% and the 1974 net tax rate of \$43.87 per thousand, suggested real estate taxes of \$53,500.
3. Net income for each of five years was then reduced by that amount for Exhibit 10 as indicated in Max-2 on the backside of Exhibit 10. It should be noted that the assumption that taxes would remain at the very low 1974 mill rate for the next five years is most optimistic and therefore will over-estimate the net income and appraisal value for the remaining four years of the forecast.
4. Exhibit 10 indicates that the computation value based on net income after real estate taxes would be \$1,918,142 or rounded \$1,920,000. It should be noted that a 20% return before taxes produces only a 14.8% return after taxes to the equity position, the very least that an equity investor would expect from a high risk motel investment in May 1974.

EXHIBIT 11

ASSESSED VALUES PER AVAILABLE ROOMS FOR LAND AND BUILDING

FOR COMPETITIVE CLASS "A" MOTOR INNS IN OPERATION

Motor Inn Parcel #	# Rooms	Total Assessment (Land & Build)	Total Asses/ /Rm.	Land Assess.	Land Assess/ /Rm.	Improvement Assess.	Improvement Assess/ /Rm.
MADISON INN 0709-143-0201-6	74	543,000	7,240.	65,800	877.	477,200	6,363.
TOWN CAMPUS 0709-232-0211-6	70	487,500	6,964.	132,300	1,890.	355,200	5,074.
SHERATON 0709-253-0109-9	270	2,112,400	7,824.	279,800	1,036.	1,832,600	6,787.
PARK 0709-231-1001-2 Edgewater (incomplete operation as of May 1, 1974)	148	1,310,100	8,852.	419,000	2,831.	891,000	6,020.
RAMADA 0810-331-0097-6	198	924,500	4,670.	58,000	293.	866,600	4,377.
HOLIDAY I 0810-284-0110-7	165	765,700	4,641.	88,000	533.	677,700	4,107.

READY
RUN IMV

EXHIBIT 9

IMV 15:02CST 10/27/75

WHAT IS YOUR DATA FILE NAME?MAX1

IMV : \$ 1877227
AFTER TAX YIELD(IRR) : 22.47%
BEFORE TAX YIELD(IRR): 31.40%
DO YOU WANT DETAIL (0=NO,1=YES)?1

INVESTMENT MARKET VALUE ANALYSIS 15:03CST 10/27/75

HOWARD JOHNSON MOTOR INN
JOHNSON AND MARION STREET
MADISON, WIS.-----MAY,1974

AFTER TAX YIELD(IRR) : 22.47%
BEFORE TAX YIELD(IRR): 31.40%

INVESTMENT MARKET VALUE: \$ 1877227

FINANCING:

MORTGAGES:

1. 1ST MONTH 9.500% 20 YRS 0 MONS \$ 1407920

EQUITY CASH: \$ 469307

RESALE OF INVESTMENT IN 5 YEARS:

ESTIMATED RESALE PRICE \$ 1877227

LESS: MORTGAGE BAL. 1256790
SALES COMMISSION 37545

CASH REVERSION BEFORE TAXES \$ 582892

LESS: CAPITAL GAINS TAX(STD.) 42236
TAX ON RECAPTURED DEPR. 0
TAX PREFERENCE TAX 0

CASH REVERSION AFTER TAXES \$ 540656

YR	NET INCOME	MORTGAGE INTEREST	BOOK DEPR.	TAXABLE INCOME	INCOME TAX	CASH FLOW BEFORE TAX	CASH FLOW AFTER TAX
1	267404	132691	48271	86442	30254	109921	79667
2	284809	130231	48271	106307	37207	127326	90119
3	301692	127526	48271	125895	44063	144209	100146
4	319268	124553	48271	146444	51255	161785	110530
5	337163	121284	48271	167608	58662	179680	121018

MAX1 15:02CST 10/27/75

100 HOWARD JOHNSON MOTOR INN
101 JOHNSON AND MARION STREET
102 MADISON, WIS.-----MAY,1974
103 B,.314
104 AD,0,5,.02
105 267404,284809,301692,319268,337163
110 5,.35,0,0
111 4,0
112 .90,1,35,.20,1
122 1,.75,.095,240,0,1

F. Income Approach to Value Conclusion

The income approach to value using the mortgage equity technique as programmed in the IMV program leads to the conclusion that the highest price an investor would be willing to pay for the Howard Johnson property as described herein would be \$1,920,000 as of May 1, 1974 under the assumptions put forward and supported in this report.

1. Assuming 65% equalization, the total assessed value of \$1,248,000 would be a total assessment per room of \$7,656 per room, directly comparable with May 1, 1974 assessments of its competitors, the Sheraton and the Madison Inn as shown on Exhibit 11.
2. If land is 10% of total value, then \$192,000 represents \$4.45 per sq. ft. of subject site (43,258 sq. ft.) and an assessed value of \$124,800 shows land at \$765 per room. This value properly reflects the disadvantages of the site compared to the location of the Madison Inn or the other hotels on Exhibit 11 and the relative advantage of the site to peripheral units such as the Ramada or Holiday Inn #1.

VIII. VALUE CONCLUSION.

Since the cost approach is inappropriate to the subject property which represents an over-improvement relative to economic demand and an inappropriate improvement for the site, and ...

Since the market approach offers no transactions which are of comparable property or are recent sales of Madison motels which would be at arms-length and without financial duress ...

it is necessary to base fair market value of the subject property on the income approach. Based on the assumptions, limiting conditions, and property tax as presented, it is the opinion of the appraiser that the highest price in dollars and fair market value of the subject property herein described as of May 1, 1974 is:

ONE MILLION NINE HUNDRED TWENTY THOUSAND DOLLARS
(\$1,920,000)

CERTIFICATE OF APPRAISAL

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

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

ONE MILLION NINE HUNDRED TWENTY THOUSAND DOLLARS
(\$1,920,000)

James A. Graaskamp, SRPA, CRE

Date



STATEMENT OF LIMITING CONDITIONS

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

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

