Feasibility report: 720 East Gorham St..

Landmark Research, Inc.
[s.l.]: [s.n.], [s.d.]

FEASIBILITY REPORT:

720 EAST GORHAM ST.

June 20, 1982

Professor James A. Graaskamp
University of Wisconsin
Graduate School of Business
1155 Observatory Drive
Madison, Wisconsin 53705

Dear Professor Graaskamp:

We submit herewith the feasibility study you requested on the property located at 720 East Gorham Street, City of Madison, County of Dane, Wisconsin.

In your letter authorizing this work, you indicated that the report should focus on the feasibility of developing condominiums on this site, with special emphasis on the supply and demand factors affecting this market.

Overall, the condominium market in Madison is soft with a vacancy rate of 55.5%, or 526 units. However, condominium buyers in Madison are very product- and price-sensitive. Better quality, well located projects in the Isthumus area have achieved capture rates of 70-90% in a 12-month period. We believe that the proposed project will be met with similar market acceptance--a reasonable expectation, given the fact that product amenities and locational attributes of the site are at least comparable with those being offered in successful projects in the Isthmus area.

Our analysis indicates that the market will support a development on this site of between 20-25 units. The total cost of the project including contingencies is estimated to be $1,425,706 for 25 units and $1,166,037 for 20 units. The higher density can only be achieved if a Planned Unit Development (PUD) proposal is approved by the city. Under the PUD scenario the investor, Creative Homes Inc., should realize a before-tax return of 33.4% from the 25-unit scenario and 22.7% from the 20 unit scenario. This return is based on a 12-month sellout period.

The cost and return forecasts are sensitive to two major assumptions. First, we assume the property can be rezoned from Parkland to R-5. Certain members on the City of Madison Planning and Development staff have indicated that some type of residential development would be appropriate on the site. Second, the costs and return forecasts are based on the presumption that the land can be leased from the city on a long-term basis for $.065 per square foot. The city has stated that if the site was developed in conjunction with the conversion of the Lincoln School (located immediately east of the subject property) a lease of this type could be negotiated.

Traditional sources of financing for this project are nearly nonexistent in Madison. Through a survey of many of the financial institutions, we learned that no speculative condominium projects would qualify for construction financing unless at least 80% of the units could be presold.

To our knowledge, no condominium project in Madison has been able to come close to this mark. In this regard, we recommend that Creative Homes form a general partnership in an effort to raise the required capital. Creative Homes would act as a managing partner contributing 10% of the required equity for a 20% share in the cash flow.

We hope you will find the details of this feasibility report relevant to your needs. We would be happy to answer any questions you might have.

Sincerely,

Peter Tedesco

Peter Gloodt

/gm
Encl.

ACKNOWLEDGEMENTS

The authors greatly appreciate the assistance of the following people and companies in providing information and/or guidance for various parts of the report:

Professor James Graaskamp, Ph.D., SREA
University of Wisconsin-Madison

Professor Herman Berkman
University of Wisconsin-Madison

Tony Frey
Principal Planner
City of Madison Department of Planning and Development

The Madsen Corporation
Madison, Wisconsin

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SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

The conclusions and recommendations that follow are based on a thorough analysis of the many factors that affect the market for condominium housing at the subject site. The analysis on which these findings are based is presented in detail in later sections of this report. The conclusions and recommendations are:

SITUS

- The subject property is well suited for condominium development. The site under study is located at 720 East Gorham Street, on a hill overlooking Lake Mendota. The lot is large enough to permit a 20-25 unit development while still preserving the existing flora which consists of a stand of eight red oaks along the west lot line.
- Through an analysis of the physical constraints on the site (e.g., soils, topography, drainage, and vegetation), we believe that no major obstacle to development exists.
- The site possesses excellent linkages with major shopping, employment, and recreational facilities of the Capitol Centre located within a one-mile radius.
- The residents of the neighborhood are predominantly young, single, and middle-to-lower income. However, there is a submarket of older affluent families living along Gorham Street and Sherman Avenue fronting the lakeshore. These families are relatively wealthy (incomes greater than $25,000) and their homes are of a high quality (property values exceeding $90,000).
- The City of Madison is taking an active interest in stabilizing and revitalizing the Isthmus residential and retail districts. The City has begun to realize that to do so they must attract the type of residents into the area that enjoys urban living and have disposable income necessary to support those activities. In pursuing this policy, the city has invested over $10 million on the State Street Mall/Capitol Concourse redevelopment and the Capitol Centre mixed-use development, and targeted over 70% of its urban redevelopment funds to Isthmus neighborhoods. The city will be a full and important partner in any project built on the subject site.

ECONOMIC BASE ANALYSIS

- Madison is expected to experience slow to moderate population growth over the next ten years. The heavy concentration of employment in government, insurance, and services indicates that Madison will not experience the population losses of such manufacturing centers as Milwaukee and Detroit. We expect the Madison population to grow at an average annual rate of 2.1%.
- Population and employment grew mainly on Madison's west side and in the nearby suburban districts during the 1970s. We expect to see this trend stabilize as suburban land costs increase and the city continues to exercise its growth-limiting extraterritorial zoning powers. The Isthmus is already beginning to benefit from a "back-to-the-city" movement by young, single professionals who enjoy the urban setting. In addition, neighborhood improvement programs in the Isthmus have helped to stabilize many of these areas resulting in a higher proportion of owner occupancy. This is especially true in the neighborhood located immediately east of our site known as the Tenney-Lapham neighborhood. As service sector employment catering to governmental employment in the Isthmus increases, so will the demand for downtown housing for their employees.
- Employment in Madison is expected to increase by between 10,500 and 25,000 jobs in the next ten years providing incomes and population to support a growing housing market.
- Madison experienced a significant improvement in real income in the 1970s as the median income rose from $5,633 in 1976 to $10,274 in 1982. The major increase was in the $15,000 and up income bracket suggesting that there is a larger market for more expensive housing purchases today than there was six years ago.
- New household formation in Madison will remain strong because of the predominance of residents in the 25-44 year old age bracket. We expect that at least a total of 7,750 new housing units will be demanded in the Madison area by 1990, representing an average demand of 775 units per year which corresponds to the lowest level of household growth that has occurred in the last ten years. Condominiums have been capturing an ever increasing share of the Madison market and we expect that share will stabilize around 35%. We also expect that 25-30% of new units will be constructed in the Isthmus area. The result is that we expect

approximately 760 new condominium units to be demanded in the Isthmus area by 1990 and approximately 300 units by 1985.

IDENTIFICATION AND DESCRIPTION OF BUYER GROUPS

- The primary trade area for condominiums on the subject site consists of lakeshore residential areas in the Isthmus. A secondary trade area consists of the remaining Isthmus area plus all other lakeshore residential areas in Madison. We expect that over 70% of the ultimate purchasers would come from these areas.
- Three buyer groups were identified as our target market for condominiums on the site. They are (1) young, single, professionals between the ages of 18-44 with median incomes of $40,000, (2) older, married, professionals between the ages of 45-55 with median imcomes of $52,500; and (3) older semiretired people who formerly lived in single family homes and have median incomes of $30,000.

MADISON CONDOMINIUM ANALYSIS

Background

- Of all condominium units constructed in Madison, 67% were put on the market between 1979 and 1981. The majority of all condominiums were built on the west side (68%) with a significant number being built in the Isthmus (28%).
- Condominium conversions outpaced new condominium development in 1979 and 1981 as apartment rental increases lagged behind operating expense increases.
- The condominium has become an acceptable alternative to the traditional single-family detached home in the Madison market. This is caused basically by spiraling land and development costs that have priced the single-family home out of reach of all but the most wealthy people. In the past two years, 953 condominium units were added to the Madison housing supply, while only 362 single-family units were added.
- The most common condominium units constructed and sold is the two-bedroom variety. Prices of condominiums vary greatly depending on location, construction quality, unit sizes, and amenities. Generally, prices range from $39 to $85 per square foot.
- Financing is the single greatest barrier to sales in today's market. This has led developers to offer a wide variety of subsidized financing schemes to help buyers. Current market mortgage rates are 17.5% interest with 4-6 points at closing which is affordable only by someone earning

more than $30,000 per year. Financing terms offered by developers range from a five-year, no-interest land contract at Maplewood to a variety of variable rate, short-return land contracts in the range of 12%.

Absorption

- The overall three-year absorption rate for condominium projects is 75%. However, the one-year absorption rate is only 20.7%.
- The current condominium vacancy rate in Madison is 55.5% or 526 units.
- New condominium projects meet with greater market acceptance than conversions. The three-year absorption is 57.3% for new condominiums and 35.5% for conversions.

Condominium Sales by Price

- Resales accounted for 18% of all sales from January 1979 to January 1982. Turnover, however, varied significantly from one project to another. Projects in highly desirable locations and/or of high quality construction experienced turnover rates as low as 4% and 7% (e.g., Tamarack Trails and the Fauerbach) while projects in inferior locations and/or of a cheaper construction quality experienced turnover rates as high as 25% and 35% (e.g., the Cove and Sherman Terrace).
- The Madison market absorbed approximately 836 new condominium units in the last three years. This is an average of 279 units per year. The median sales price increased in nominal terms from $60,000 in 1979 to $65,000 in 1981. However, in constant 1979 dollars, the 1981 median sales price decreased 1% to $59,400.

Capture Rates of Specific Condominium Projects

- Higher-priced condominium projects ($75,000-$120,000) achieve capture rates of between 40% and 70%. Lower-priced condominiums ($50,000-$75,000) typically have capture rates ranging from 7% to 20%.
- The successful higher priced condominiums have achieved high capture rates by providing a number of locational attributes and product amenities. These include: location on or near a major arterial street; location within a ten-minute driving distance of a major employment center and shopping district; garage; fireplace; central air conditioning.
- The type of best-selling units is two-bedrooms with sizes ranging from 1,100 square feet to 1,600 square feet. They sell for between $65 and $78 per square foot.

Present and Future Competition

- The Fauerbach, Maplewood, and Franklin House Condominiums are the only Isthmus area projects that would be competitive with a development on the subject site. However, the Fauerbach site is most comparable to the subject site because of its lakeshore location. This project sold 89% of its units in a 12-month period. Significantly, its two-bedroom units captured 59% of all Madison condominium sales in the $87,000 to $96,000 price range in 1980. The layout, design, and construction of the Fauerbach were far superior to other projects in the same price range. In contrast, Franklin House has limited parking, no garages, and is experiencing serious sales difficulties. Maplewood has excellent construction and a convenient location, but the architectural layout of the units is awkward, while the price per square foot is relatively high. It too is experiencing slow sales, especially considering that they are offering a no-interest, five-year land contract.
- There are five new condominium projects in various stages of development that could potentially add 234 new units to the Isthmus condominium market. Additionally, there are five apartment buildings that are prime candidates for conversion to condominiums that could add another 192 units. Considering the condition of the Madison market and the development stage of each project, we estimate that 173 total new and converted units will be added by 1985.
- The projects that will likely be built (new or converted) in the next few years in the Isthmus are all receiving some type of public aid or support. Municipal support was also instrumental in making the Fauerbach a success and will continue being a necessary component in any future Isthmus area projects.

PRODUCT RECOMMENDATIONS

- The condominium units placed on the site should be of townhouse design, 2-3 floors, with clusters of four to seven units. Construction should be of high quality, wood frame, with either brick or clapboard facades. The units should include a complete amenity package including underground parking, a fireplace, patio or deck, security system, central air conditioning, complete kitchen applicanes, double pane glass, and wall-to-wall carpeting. Landscaping, building layout, and the community clubhouse should be used to design the project to the unique needs of the target market profiles.

- The total units for this project are limited to 20 by the R-5 zoning restrictions. This figure might be increased to 25 units if a Planned Unit Development scheme can be approved. The unit sizes and mix is recommended to be: 25% one-bedroom units ranging from 850 sq. ft. to 950 sq.ft.; 75% two-bedroom units ranging from 1,120 sq.ft. to 1,455 sq. ft.; and 10% three-bedroom units ranging from 1,500 sq.ft. to 1,700 sq.ft.
- To merchandise the project, the location on Lake Mendota close to the Capitol should be stressed for all target market. If the young singles are the target market, a recreation motif centered around a health spa clubhouse is recommended. Prestigious location, quality construction, and low maintenance should be the merchandising themes for the older married couples while security and low maintenance should be stressed for the older, semiretired market.

FINANCIAL ANALYSIS

General Partnership Framework

- Construction and mortgage financing through conventional sources (banks and savings and loans) is not available for condominium projects built on a speculative basis. If conventional financing was available, the rates would approach 20% and be tied to an 80% presale requirement with a firm takeout commitment in place.
- TIF financing is available but would probably not be provided for the project.
- Discussions with city officials indicated that the land for the project would be leased and not sold. This is a critical assumption because it represents at least $192,535 in lower costs. The lease terms would be $.065 per square foot of land (based on a 1981 land value of $6.50 per square foot and a 12% return to the city) for 49 years. The lease payments will be in lieu of real estate taxes.
- We recommend that a general partnership be formed to raise the cash needed for development. Creative Homes would act as managing partner, contributing 10% of the capital required and receive a 20% share in the profits plus a development and partnership management fee.

Cost Estimates

- Two design scenarios were analyzed. Scenario 1 meets all R-5 zoning restrictions and includes 20 units. Scenario 2 assumes that some of the setback and yard requirements of the R-5 zoning district are relaxed

through the use of a Planned Unit Development so that 25 units could be built. Scenario 1 achieves a density of 31.7 swelling units per acre while Scenario 2 is a more dense 39.7 dwelling units per acre. Both scenarios fit their allotted units into three buildings and both assume that construction is of very good quality. Product features include: extensive landscaping, terracing of buildings to provide lake views for all units, heated underground parking, fireplace, community room, security systems, patio or deck, complete major appliance package, and central air conditioning. The proposed design results in per square foot costs that are almost $10 per square foot less than the costs of comparable developments. Part of the savings occur because of economies of scale realized in building a compact, high density project, but the major savings are realized because land costs are zero. The land will essentially be donated by the city and lease costs will be passed through to the residents in the form of real estate taxes. As a result, the project will enjoy a substantial competitive advantage relative to other projects currently on the market.

- We recommend this cost saving advantage be used to buydown the mortgages of the condominium purchasers from the current market rate of 17% to 14.75%. Such a buydown would cost $114,500 for Scenario 1 and $145,000 for Scenario 2. In today's market, financing is a major problem keeping potential buyers from making a commitment. We believe a lower interest rate should help to increase sales more than would lowering the unit prices an equivalent amount.

Cash Flow Analysis

- We estimate that a before-tax rate of return of 22.7% annually could be achieved from Scenario 1 while a return of 33.4% could be achieved from Scenario 2. These forecasts are based on providing a high amenity, high service package residential unit.
- We believe these return forecasts could be achieved over a one-year sellout period given the target market, construction quality, and financing package previously identified. The general partnership could absorb a no sales period of up to eight months before the estimated profit of $179,920 from Scenario 1 is lost to ongoing expenses equated with an opportunity cost of capital.
- Under the cash flow assumptions, Scenario 1 would have to capture 29.5% of the primary market ($80,000-$95,000) to achieve success. This capture

rate is considerably less than the Fauerbach achieved in the same market (59%). We think this is a reasonable forecast given the location, construction quality, and amenities proposed for the project.

CLIENT PROFILE

The client is Creative Homes Inc., a regional development company specializing in urban housing and redevelopment in the Southeastern Wisconsin region. In the past the development company has built strictly single-family homes on the urban fringe. However, given the depressed market for this type of unit, the investor is now attempting to break into the condominium market.

Creative Homes Inc. is particularly interested in the urban "infill" market in Madison, particularly in the Isthmus area. The investor believes that the city is encouraging this type of development because of Madison's continuing efforts on revitalizing the downtown area. Creative Homes further believes that there exists an unsatisfied demand for this type of development, given the desire of many people to move back into the downtown area. However, he feels buyers have been hesitant because of the lack of satisfaction with the type of product currently being offered.

The client was particularly impressed with the success of the Fauerbach Condominiums. This thirty-seven unit complex is located on a site which fronts on Lake Monona. The Fauerbach development was marketed in 1981. During the first twelve months on the market the Fauerbach achieved an 89% capture rate. Creative Homes believes a major reason for the success of this project can be attributed to its lakeshore location. In this regard Creative Homes has become particularly interested in a .63 acre parcel of land located at 720 East Gorham Street. This parcel fronts Lake Mendota and is located immediately east of Lincoln School. The site is currently owned by the Madison Parks Department. However, the City of Madison Department of Planning and Development has voiced their interest in developing this site.

The client has asked us to conduct a condominium market study which will aid him in identifying the effective demand and financial feasibility for this site. Creative Homes has requested that we identify a buyer profile, a product mix (unit type and size) that should be offered, as well as the capture rate he can expect.

Creative Homes intends to finance this development completely without debt (unless some subsidized loans [TIF] are available) because of the prohibitive costs of construction financing (19% to 22% with a floating rate). As an alternative, Creative Homes feels it has the ability to raise

the required cash by organizing a general partnership which will include four to seven prominent Madison businessmen, in which Creative Homes would act as the managing partner. The client feels that in order to raise the required cash the project must yield an Internal Rate of Return (IRR) of at least 25%.

SITUS

Introduction

Understanding the urban environment on which a specific urban land use on a specific land parcel functions and which it interacts at a specific time is necessary to ensure the success of any anticipated land use. In this section of the report we will deal specifically with the economic, social, institutional, historic and physical structure of the urban environment which impacts directly upon the site under study. Through such an analysis we can begin to identify and evaluate some of the opportunities and constraints existing in the area.

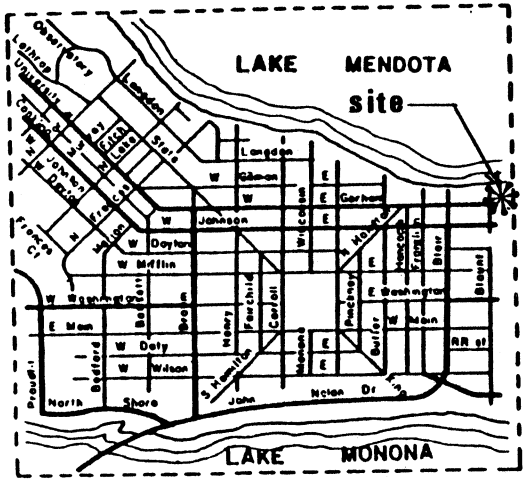
Physical Attributes

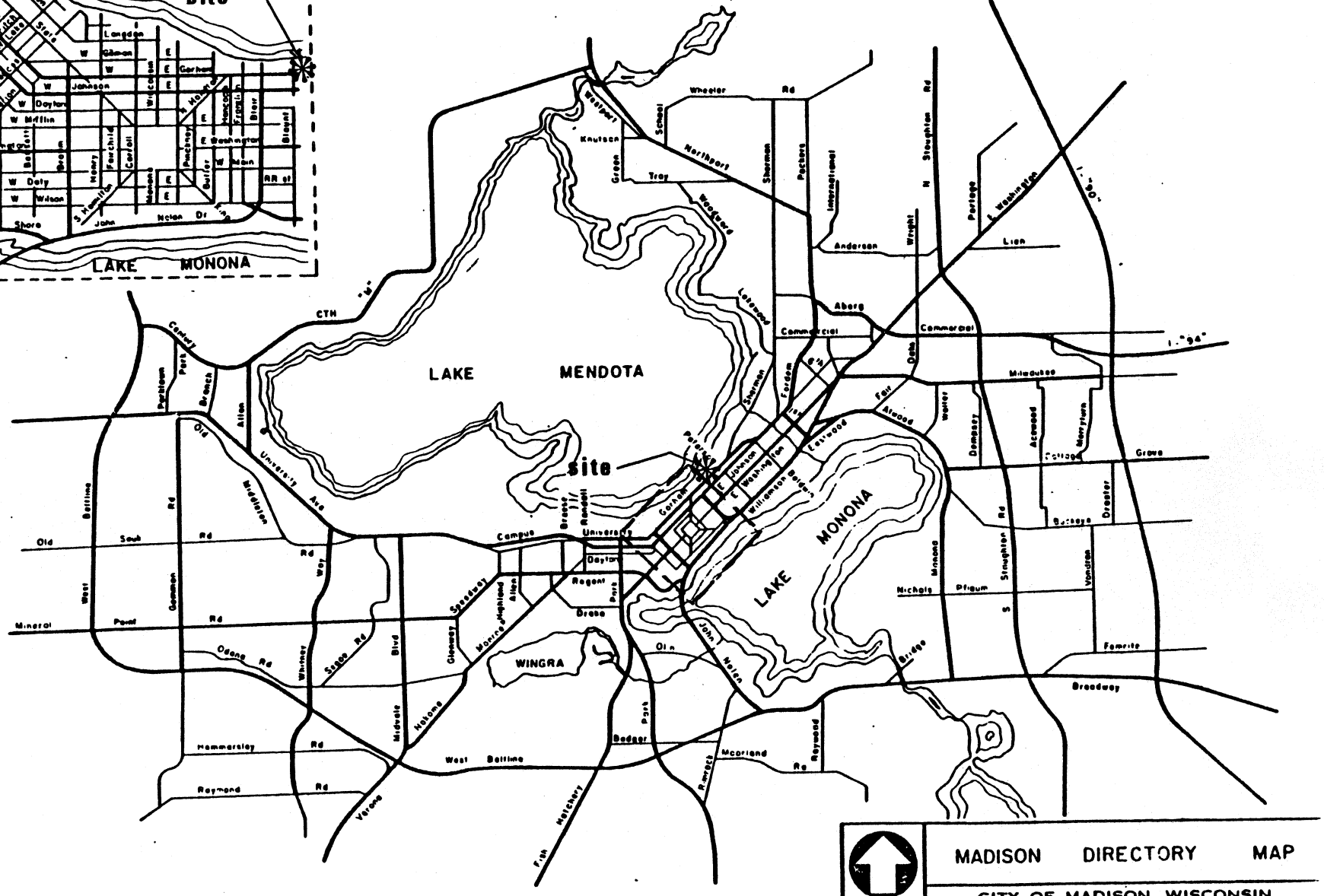
The site is located at 720 East Gorham Street on Madison's near-east side as shown in Exhibit 1. It is a .63 acre vacant piece of land on the shore of Lake Mendota, located immediately east of Lincoln School. The site is basically rectangular in shape with the Lake Mendota shoreline angling to the north. The lot dimensions are 150 feet along Gorham Street, 244 feet on the eastern boundary, 200 feet along the westerly lot line and 160 feet along the lakeshore. The total lot size equals 33,300 square feet or .63 acres. The site dimensions are shown in Exhibit 2. Recent photographs of the property are shown in Exhibit 3.

The site has physical characteristics that make it particularly well-suited for development. The site consists of a hill that slopes to the lake. The front of the site closest to Gorham Street is a plateau with an elevation of 40 feet above the Madison datum line, while the back slopes steeply to the lakeshore, falling 27 feet in elevation over the 200 foot depth of the site. The average slope is 13.5%, but the slope at the boundary separating the buildable from the unbuildable parts of the site is 17.6%. The soil consists of four variations of McHenry loam, changing from a silt loam near the surface to a sandy loam three feet underground (Exhibit 4).

EXHIBIT 1

LOCATION OF SUBJECT PROPERTY





MADISON DIRECTORY MAP

CITY OF MADISON, WISCONSIN
DEPARTMENT OF TRANSPORTATION
DIVISION OF TRAFFIC ENGINEERING

SCALE
NONE

EXHIBIT 2

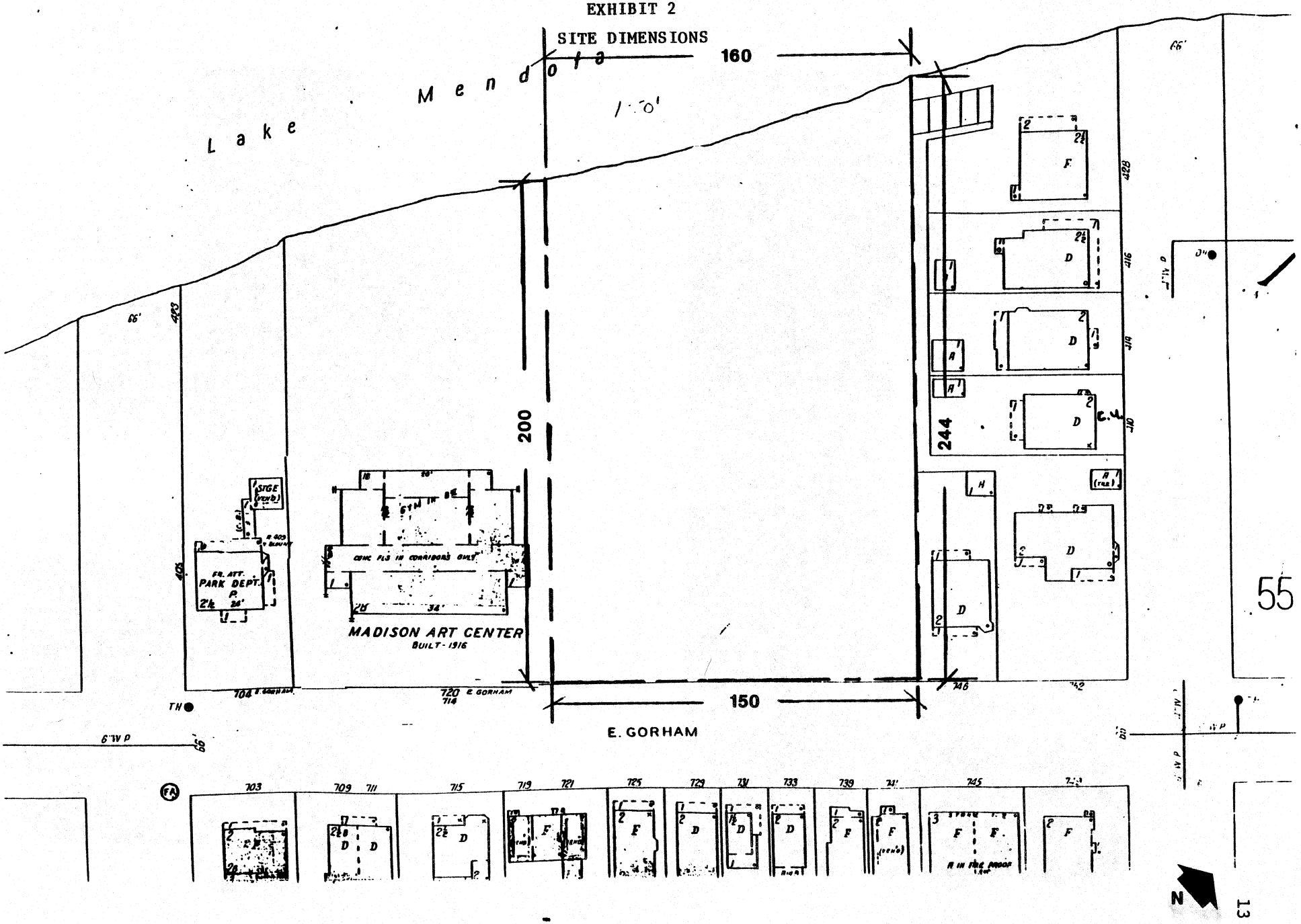
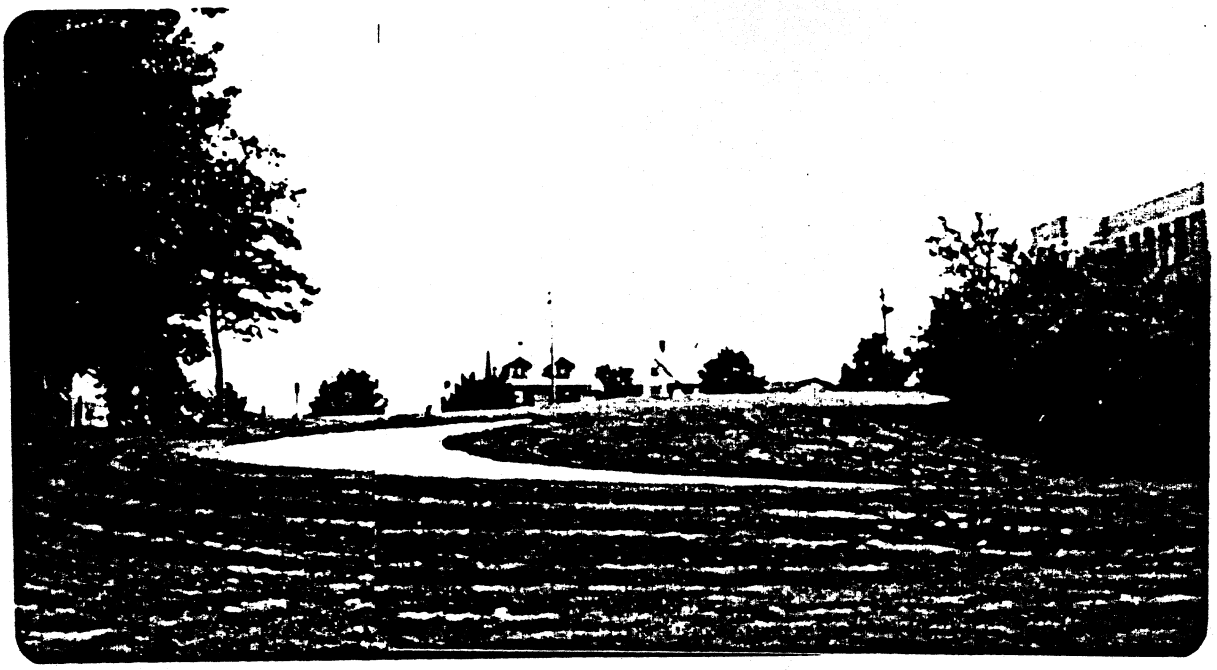
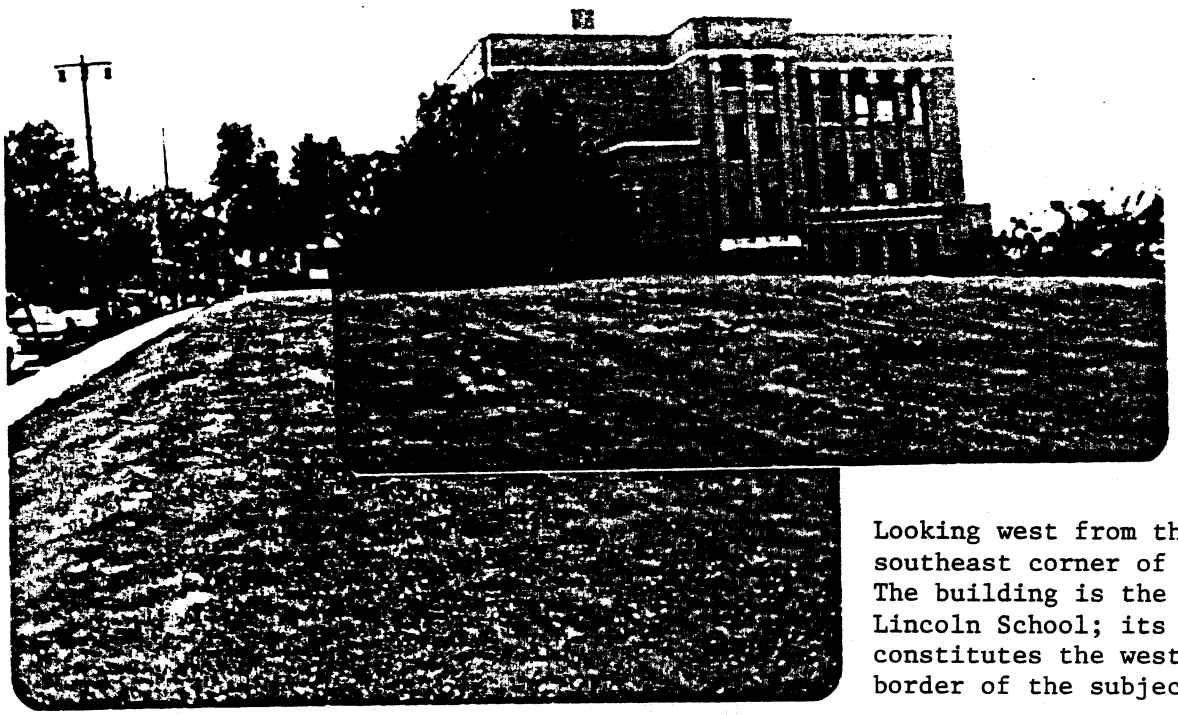

SITE DIMENSIONS
160
200
150
Lake Mend
MADISON ART CENTER
BUILT - 1916
PARK DEPT.
E. GORHAM
244
55
13

EXHIBIT 3

RECENT PHOTOGRAPHS OF SUBJECT PROPERTY

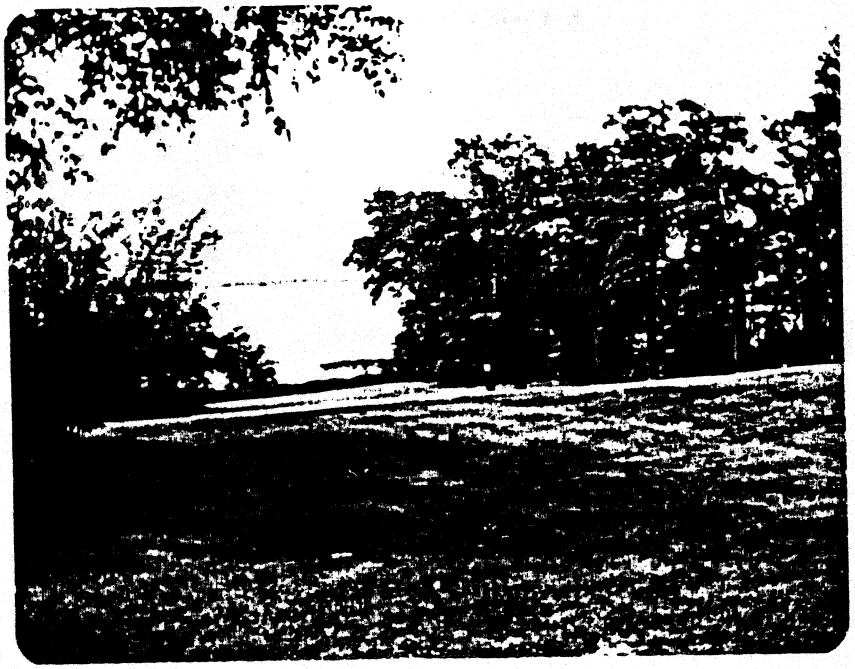


Looking toward Gorham Street from Lake Mendota

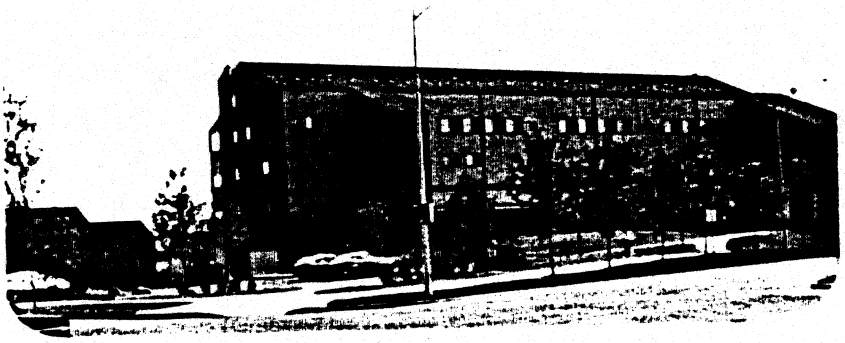


Looking west from the southeast corner of the lot. The building is the old Lincoln School; its wall constitutes the western border of the subject site.

View of Lake Mendota from the middle of the lot just off Gorham Street



The Fauerbach



View of Lake Monona from the Fauerbach

EXHIBIT 4

SOIL TYPES AND CHARACTERISTICS

Soil Type	Depth From Surface	Depth To Bedrock	Highwater Table	Suitability For Development
Silt Loam	0"- 7"	5'-10'	5'	Moderate
Silty Clay Loam	7"-18"			
Sandy Clay Loam	18"-33"			
Sandy Loam	33"-60"			

Source: Dane County Soil Survey

The McHenry series consists of deep, well-drained soils that are found on sloping to moderately steep glacial uplands. These soils are formed in thin loess and sandy loam glacial till underneath sparse stands of mixed hardwood vegetation. They are moderately suitable for development as their percolation rates and liquid limits are low to moderate. The shrink/swell characteristics are moderate suggesting that foundations of buildings should be well constructed to withstand seasonal changes in ground pressure. The seasonal high water table is more than five feet below the surface which would restrict development close to the lakeshore. Because the site is a hill, storm water drainage is good and there is no problem with off-site drainage interfering with any on-site structures. The lakeshore property line consists of a bulkhead built to shore up the land and prevent children from playing in the lake when the property was used as a school. The vegetation consists of a stand of oak trees along the eastern boundary that buffers the site from the neighbors. The rest of the area is covered with grass, with the exception of a gravel drive that curves down the hill to a parking area close to the lake. Perhaps the most important physical characteristic is the lakeshore itself.

One negative attribute of the site is that it has a northwesterly orientation. According to the State of Wisconsin Climatology Department, prevailing winds during the months of October-March are west to northwesterly with an average speed of 10 to 15 mph. For locations along the lake these average wind speeds can be expected to increase by 3 to 5 mph, with gusts of between 20 to 30 mph during storms. In this regard it will be important to mitigate this adverse effect through proper design and

layout of the units.

The subject property is presently connected to all utilities and municipal services required to support any type of residential development on this site. These include gas, electricity, and sanitary sewer. A description of these infastructure services is provided in Appendix A. It should be noted that no storm water drainage system is provided on this portion of Gorham Street. According to City of Madison Engineer, Mr. Bill Hebley, all storm water on this site could be drained into Lake Mendota. However, to avoid conflicts with the DNR and/or EPA, we strongly recommend that the development be designed in such a way as to retain on-site as much of the storm water as possible, thereby reducing the amount of runoff and sedimentation into the lake.

History of the Site

The property was originally acquired by the Board of Education over the period between 1867 and 1914 as the site for a school. The Lincoln School was constructed in 1916. Starting in the early 1900's the City of Madison pursued a policy of buying lakefront property for the purposes of a "Down Town" park on the shores of Lake Mendota. Lots were purchased as they became available until today the James Madison Park stretches from Butler Street to the eastern edge of the Lincoln School property. Lots 5, 6, and 7 of the Lincoln School site were purchased between 1926 and 1928 (Lot 5, Vol. 364, p. 596; Lots 6 & 7, Vol. 332, p. 150) by the city pursuant to this policy. The Landislas Segoe Comprehensive Plan of 1938 recommended that the Lincoln School building and property be made part of the park when the school was abandoned. The school was abandoned by the Board of Education in 1963 and the city bought the building and property for $377,230. From 1963 until 1979 the school was occupied by the Madison Art Center but has been vacant since they moved out. The city delegated control of the land to the Parks Department, under whose jurisdiction it has been since that time. The land is currently included as part of the James Madison Park Master Plan. On January 22, 1979 the building and land were designated as a City Landmark, No. 58, and on August 28, 1980 they were placed on the National Register of Historic Places. In May, 1980 the property was declared surplus by the city and an Ad Hoc Committee on the Lincoln School was appointed to make recommendations about how to use or

dispose of it. On January 27, 1981 the Common Council adopted a Resolution, 3101-80, approving a land use schedule for the reuse of Lincoln School and a Request For Proposals (RFP) was made to the development community. No proposals were received which met the criteria established by the Common Council "for the renovation of the entire building for a combination of public and private recreational and cultural facilities." On January 22, 1982 a new Development Prospectus for the Lincoln School property was drafted and presented to the Common Council for consideration. This draft resolution proposes that the property be used for residential purposes with the city having a preference for "one-and-two-bedroom rental units that would be marketable at a 'reasonable' price."

Legal

A. Description

The following is the legal description of the Lincoln School site:

> Lots 2, 3, 4, 5, 6, and 7, Block 138, City of Madison, Dane County, Wisconsin.

The City of Madison and the Board of Education of the City of Madison are the only parties with a recorded interest in the property. The extent of their interests are shown in Exhibit 5. It is important to note that although the City of Madison has operating control of the land, the Board of Education holds the title. The City of Madison is not willing to sell the land to a developer, they will only offer a long term lease on the minimum amount of land needed to build the structure and provide for parking. Our project will be located on the vacant ground adjacent to the east wall of the school building and will probably fit entirely within the southern 200 feet of Lots 5, 6, and 7.

The use of the property is restricted by two easements which designated the property as a City Landmark. The first was recorded on April 14, 1975 in Volume 567, p. 663 of Records and the second was recorded on October 31, 1980 in Volume 2357, p. 39. The effect of the easement is to require any proposed development to be reviewed by the Landmarks Commission and receive a Certificate of Appropriateness before a building permit could be applied for.

EXHIBIT 5

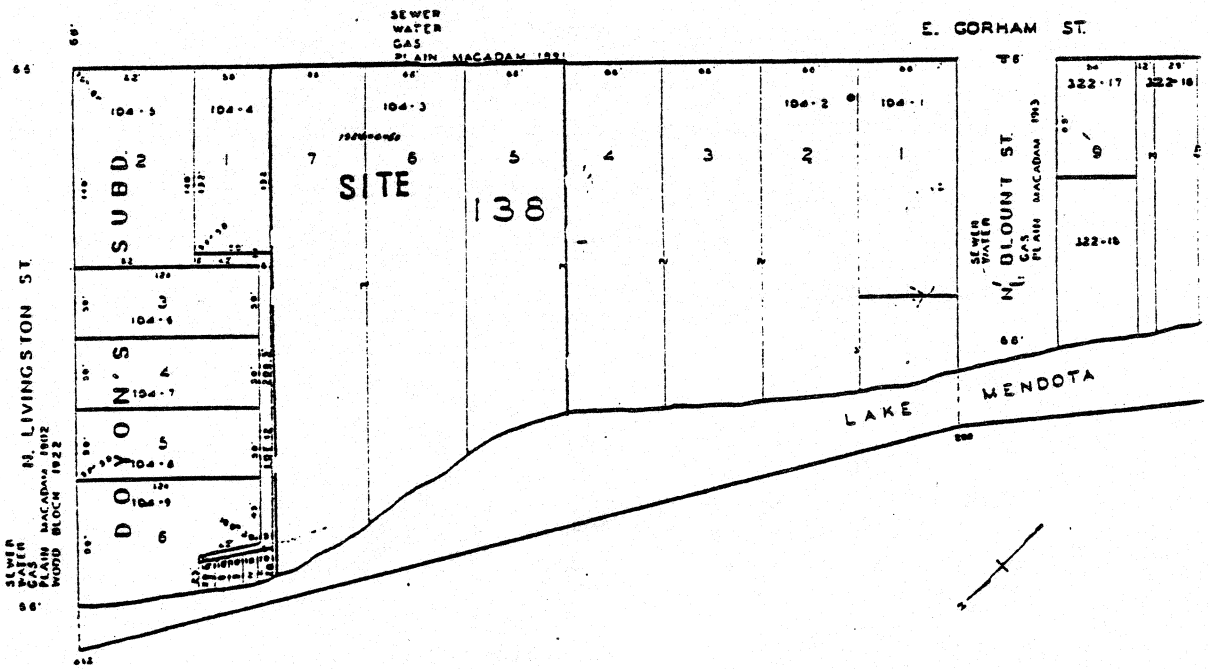
LEGAL DESCRIPTION OF THE PROPERTY

LINCOLN SCHOOL
BLK. 136, ORIGINAL PLAT

LOT	RECORDED TITLE HOLDER	DATE	VOLUME	PAGE
2	Board of Education, City of Madison	01/09/1867	73	391
2	Board of Education, City of Madison	01/11/1867	74	116
3	Board of Education, City of Madison	01/11/1867	74	117
4	Board of Education, City of Madison	03/05/1867	76	190
NE¼ 4*	Board of Education, City of Madison	04/16/1914	243	251
5	City of Madison	09/13/1928	364	596
6 & 7	City of Madison	06/14/1926	332	150

* Is a fulfillment of a Land Contract dated 13/10/1913. The Land Contract provides for the property to be used for school purposes only. However, the Deed of Conveyance is silent regarding this restriction and there is no penalty for violation.

There is no deed recorded conveying the property from Board of Education to the City.



B. Zoning

The subject property is located in a park zoning district. Residential development is not permitted in park districts. If the city decides to approve a residential development proposal, the zoning would be changed either through a rezoning, a variance, or a Planned Unit Development. In that event, the most likely zoning ordinances that would control the site would be that of the surrounding neighborhood, R-5. The basic goal of R-5 is to stabilize and protect the essential characteristics of certain medium-density residential areas normally located in the inlying parts of the city. Permitted uses include single-family detached dwellings, schools, two-family detached dwellings, clubs, convalescent and nursing homes, offices for professionals, community living apartments for less than 15 people, and apartment hotels. There are other restrictions regulating lot area, yard setbacks, and parking which are shown in Exhibit 6.

EXHIBIT 6

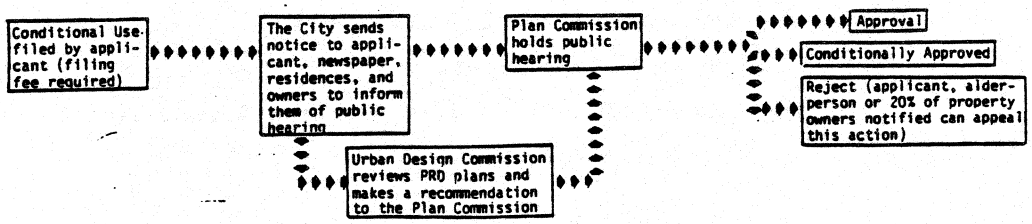
LAND USE RESTRICTIONS IN R-5 DISTRICTS

	R-5	PUD
Permitted uses	See text	Any use approved
Height restrictions	3 stories or 40'	As approved
Yard setback requirements:		
Front	20'	As approved
Side	2 story: minimum 6', 15' total 3 story: minimum 8', 20' total Zero side yard permitted as cond. use	" "
Rear	30' (35' if zero side yard)	"
Useable open space	160 sq. ft. per BR	"
Parking for residential	1 space per dwelling unit min. 1.5 spaces per dwelling unit max.	" "
Joint driveways	Allowed if approved	"

In addition to the restrictions in Exhibit 6, each residential unit must have a certain amount of land. The amount of land required depends on the type of living unit as follows:

Type of Unit	# of Sq. Ft. of Land Required For Each Living Unit
Efficiency	700
1 BR	1,000
2 BR	1,300
More than 2 BR.	1,300 + 300 sq.ft./each additional BR.

Any use on the subject property, however, must be a conditional use because the land is in a city park and is a designated Landmark. Madison City Ordinance 28.04(21) requires that all uses in developments adjacent to city parks be conditional uses. A conditional use must be heard at a public hearing and then approved by the Plan Commission. In addition to the normal review standards a conditional use must meet, a development adjacent to a public park must file with the Plan Commission an inventory of all vegetation on the site including an identification of all trees and shrubbery that will be cut, a study of the effects of the development's grading and draining on the park trees and ground cover, and the effect the development will have on pedestrian traffic. The conditional use approval process is shown below:



Because the site is a designated Landmark, City Ordinance Section 33.01 also requires all uses placed on the site be treated as conditional uses. In addition to the normal public review process, the development must be reviewed by the Landmarks Commission for its compatibility with the historical qualities of the building or district within which it is located.

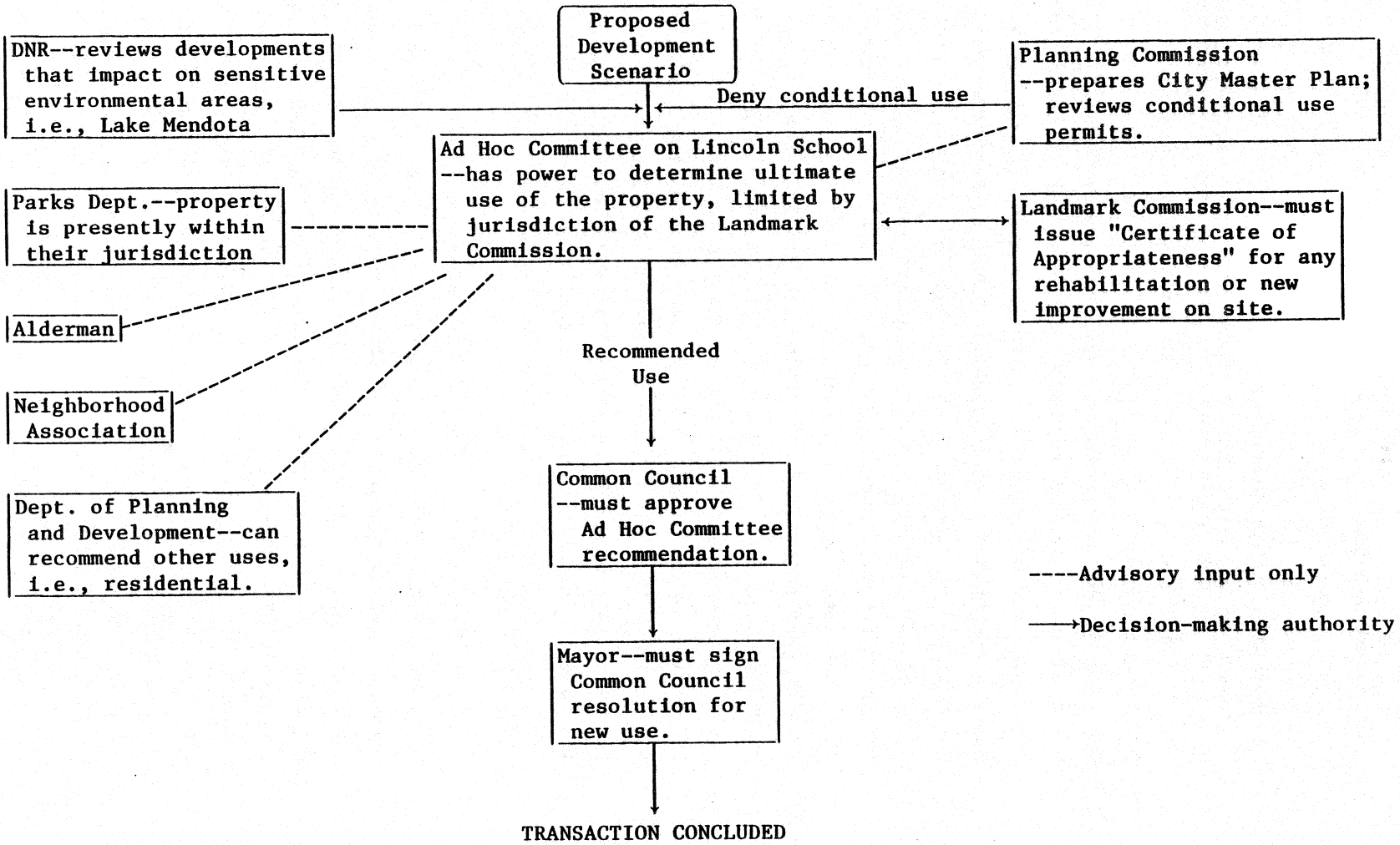
The narrow, specific nature of the R-5 zoning district is deceptive because of the flexibility provided in the Code with the Planned Unit Development ordinances (PUDs). The purpose of a PUD as stated in the Madison Zoning Code (Sec. 23.07[6]) is to encourage and promote improved environmental and aesthetic design in the City of Madison by allowing for greater freedom and flexibility in the development of land while insuring substantial compliance to the basic intent of the Zoning Code and the general plan for community development. To this extent it allows diversification and variation in the bulk and relationship of uses, structures, and spaces in developments conceived as comprehensive, unified plans and projects. Essentially the PUD process allows a developer to write his own zoning ordinance for his parcel of land subject to public hearings and approval by the Plan Commission. Tony Frey, principal planner with the Department of Planning and Development, has said that any use proposed for the site would have to be handled with a PUD. The PUD is a two-step process that requires close cooperation between the developer, the City Department of Planning and Development, and the Plan Commission. First, a General Development Plan (GDP) must be reviewed and approved by the Urban Design Commission, the Plan Commission, and the Common Council, and second, a Specific Implementation Plan must be reviewed and approved by these same three bodies. A more detailed description of the PUD process is included in Appendix B.

C. Governmental Agencies

Numerous governmental agencies, in addition to the zoning administrator, have jurisdiction over the use of the building and site. Each agency affects the site in its own special way and their powers, jurisdictions, and relationship to each other and the site must be understood to determine which uses would be prohibited and which uses would be allowed. Exhibit 7 illustrates the agencies, their relationship to one another, and

EXHIBIT 7

DEVELOPMENT APPROVAL PROCESS



the impact each has on the development decision. The unique perspectives and powers of each agency is discussed next.

·Ad Hoc Committee on Lincoln School

The Lincoln School Committee has the power to determine the ultimate use of the property subject to the approval of the Common Council and the Mayor, as well as to the special restrictions relating to the powers of the Landmark Commission (which will be discussed next). This Committee was created by the Common Council in May, 1980 to decide how the city should dispose of, or develop, the Lincoln School site. It consists of seven aldermen and a representative from the Fourth District Neighborhood Association and is chaired by Doug Kratsch, the Fourth District Alderman. A representative from the City Market Neighborhood Association sits on the Committee as a non-voting member. Because of its purpose and membership, the Committee is supposed to consider city-wide concerns and needs when developing project selection criteria and when evaluating specific proposals. In January, 1981 the city solicited proposals for redeveloping the site based on criteria which stressed recreational and cultural uses and minimizing the impact on the James Madison Park. No proposals meeting the criteria were received by August 19, 1981. Since then the city and this Committee have been in the process of reviewing the selection criteria and considering uses other than recreational and cultural.

·Landmark Commission[1]

The building and site were designated City Landmarks on January 22, 1979, bringing them under the jurisdiction of the Madison Landmarks Commission. The Commission's primary purpose is to protect and enhance buildings, districts, and sites that are of historical and architectural significance to the history of Madison (Sec. 33.01 Madison City Code). The effect of the designation is that whenever the owner of a designated landmark, or the site of a landmark, wishes to apply for a building permit for exterior work or for a new building, the Landmarks Commission reviews the proposed work. The purpose of this review is to ensure that the proposed actions will be compatible with the historic integrity of the

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[1]From Bringing It All Back Home: SELF HELP FOR NEIGHBORHOODS, 3rd Edition, p. 16.

Landmark building or neighborhood. If the alterations are compatible and meet the criteria for review listed in the Ordinances (33.01[5][b]3), the Landmarks Commission issues a Certificate of Appropriateness. This Certificate must be approved before a building permit can be issued. Unfortunately, the criteria in the ordinances do not provide specific guidelines for the Landmarks Commission to use to judge what alterations or improvements are favorable or unfavorable. This has the effect of inhibiting developers from going to the expense of drawing up designs and proposals for the redevelopment of a Landmark because they don't know the basis upon which their proposals will be judged. The Commission's present attitude towards new development on a Landmark site as expressed by Kitty Rankin, Madison City Preservation Planner, is that officially the Commission would not be opposed to new development but they would have to see the specific proposal.[1]

The Lincoln School Committee and the Madison Landmarks Commission have the greatest direct control over deciding the final use of the property through the exercize of their legislatively delegated powers. Another group of agencies and political power groups exert wide ranging influence over the site through use of regulatory powers, access to political pressure points, or bureaucratic intrigue.

Parks Department

The Lincoln School site is presently under the jurisdiction of the Parks Department and will remain so until the Common Council passes a resolution transferring it to another municipal agency or private developer. In this position, the Parks Department can significantly constrain future development options through present operating decisions. For example, the present James Madison Park Master Plan proposes to use the Lincoln School driveway as the primary access road to a proposed boathouse.[2] Such an operating decision can effectively limit the buildable area of the site so that residential uses may no longer be a feasible option. Although the site is under its jurisdiction, the Park Department has no authority

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[1] Interview, 2/8/82.

[2] Interview, 2/19/82.

to restrict the sale or development of the building or land if the Ad Hoc Committee and the Common Council choose otherwise. The Parks Department influence is limited to the political ability of its director, Forest Bradley, to protect the land under his department's jurisdiction from the designs of other bureaucratic agencies and political power groups.

·The Plan Commission

The Plan Commission serves a dual role with respect to the Lincoln School site. As the agency primarily responsible for writing the city's Master Plan guiding city land use policies, it has preferred access to all agencies involved in the developmental decision-making process. As such its director, John Urich, has many opportunities to lobby effectively for or against a given development scenario. Second, the Plan Commission must review all conditional use permits to see that basic zoning goals are not being violated. All improvements built on a Landmark site are conditional uses and must therefore be reviewed by the Plan Commission according to the provisions contained in the zoning code. The conditional use procedures force the developer to have the proposal reviewed by the Urban Design Committee and by the Plan Commission at a public hearing to determine if the conditional use standards can be met by the proposed use.

·Department of Natural Resources

The DNR has jurisdiction over all environmentally sensitive areas including the lakeshore of Lake Mendota. Any development proposal that would significantly impact on the lakeshore would have to be reviewed by the DNR. Mike Dresen of the DNR has said that removing the bulkhead at the shoreline of the site and replacing it with a public beach would not be approved by the agency.

·City Department of Planning and Development

Planning and Development providesa wide range of planning services to the city used to guide development in the Madison area. The Department is largely a staff function although it does have some regulatory power, especially with respect to zoning and building code enforcement. As a planning unit this department can propose land uses and development

scenarios to the Plan Commission, Common Council, and other municipal agencies and boards that it thinks would provide better benefits to the city than existing uses. Currently, Planning and Development wants to expand the Lincoln School Ad Hoc Committee's selection criteria so that residential uses would be considered. This department's input into the decision-making process, however, is strictly advisory.

Alderman and Neighborhood Associations

The local alderman, Doug Kratsch, and the two neighborhood associations in the area play a pivotal role in the decision-making process. As alderman of the Fourth District (which includes the Lincoln School site), Doug Kratsch chairs the Lincoln School Committee. His support for any development proposal is critical for its eventual adoption, as the proposal must be chosen by this Committee as well as the Common Council and the Mayor. Strong opposition by Mr. Kratsch can serve to kill a proposal at any point in the decision-making process. Originally, Mr. Kratsch wanted to see a neighborhood-centered recreational or cultural use on the site. After it became obvious that none of these could be found, he has broadened his outlook to consider some limited residential proposals. He is willing to consider rehabilitating the school to apartments, or condominiums, if apartments won't rent, and may consider adding on to the building if absolutely necessary. He is "adamantly opposed" to any additions or new buildings being erected on the vacant land east of the school.[1]

The Fourth District Neighborhood Association and the City Market Neighborhood Association also play pivotal roles in the decision-making process. These groups are the most active and visible representatives of the area's homeowners. Their primary function is to exert political pressure on their alderman, the Common Council, the Mayor, and city agencies, and to maintain and improve their neighborhoods. Additionally, as organized groups representing a neighborhood, the city gives them semi-official status by placing their representative on municipal boards and committees that deal with matters directly affecting their neighborhoods. In such a capacity Terry Berceau of the Fourth District sits on the Lincoln School Committee in a voting capacity and Gail Beyar of

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[1] Interview, 2/15/82.

City Market sits on the Committee in a non-voting capacity. These groups strongly oppose trading any of the area's parkland for housing, especially upper income housing.

Availability of Public Financing

The subject property is located in the City of Madison Tax Incremental Financing (TIF) District 9. In 1976 the State of Wisconsin enacted legislation allowing the creation of TIF districts. Under this legislation, governments are permitted to designate areas of their municipalities as TIF districts and to capture all increased real estate tax generated by improvements made in these areas. To qualify as a redevelopment area and allow the community development authority to exercise its power, this proposed site must be found to be a "blighted area" as defined in Section 66.431(4) of the Wisconsin Statutes.

TIF District 9 was created to encourage the redevelopment of the residential area along Gorham Street. This method works by having the city finance certain development costs and recouping their investment out of the increment in value that is created by the project. Wisconsin Statutes Sec. 66.46(2)(f) provides an extremely broad definition of the types of "project costs" that may be paid for by tax incremental financing. These costs include: acquisition of property, enlargement or installation of public improvements, acquisition of parks, construction of community centers, administrative, legal, financing, and relocation costs, and land writedowns. A conversation with Jerry Tucker from the City Planning Department disclosed that the maximum public financing available would be limited to an amount substantially less than the expected increment in value to be created. Assuming that the project consists of twenty-five townhouse condominiums that would conservatively be assessed at $75,000 each, the increment in value created would be 25 x $75,000 = $1,875,000. The property is presently owned by the city and exempt from property taxes. This value-increment considers only the effect of the subject development; it ignores any additional tax base created through the stabilization of neighborhood property values or increased sales tax revenues generated. Mr. Tucker said that there was no way to define more accurately what "substantially less" means. Assuming that 50% would represent "substantially less," then the project might receive (.50) x

$1,875,000 = $937,500 in TIF financing. The amount of TIF money available, however, is limited and extremely sensitive to local political pressure. Conversations with aldermen and other city officials indicated that it would be doubtful if any TIF money would be available to support a residential project that will principally benefit people who are quite well off to begin with. There are other projects benefiting politically more powerful groups that would be likely to receive the funding at the expense of the subject development.

The other form of public financing available is a lease of the land underneath any buildings. As of 10/1/81 the lease terms consisted of rent at the rate of $.065/square foot of land used per month for forty-nine years. This figure was based on an initial land value of $6.50/square foot and a 12% rate of return. (See the Financial Analysis section for more information on this.)

Linkages

Linkage attributes are the relationship of the site to its immediate environment, activity centers, and the largest Madison hinderland.

A. Vehicular Access

The site is located approximately two miles east of the State Capitol on East Gorham Street. East Gorham is a three lane, one-way major arterial running east to west through the Isthmus as shown in Exhibit 8. The average traffic speed along Gorham Street is approximately 25 to 35 mph. According to the City of Madison Traffic Department the number of vehicles passing through the 700 block of East Gorham Street in a twenty-four hour period is 18,650. This represents one of the highest traffic counts in the Isthmus area. In an effort to reduce traffic along both the Johnson and Gorham Street corridor, the City of Madison Transportation Commission has adopted the Fordem Avenue Extension Plan. The plan recommends the extension of First Street north from Johnson Street to Fordem Avenue thereby redirecting a significant amount of through traffic from Johnson and Gorham Streets to East Washington. The proposed plan is shown in Exhibit 9.

The traffic Commission predicts that the combined effect of the recommended plan is to reduce traffic on Johnson and Gorham streets by

EXHIBIT 8

TRAFFIC PATTERNS AND ROAD NETWORKS
IN THE VICINITY OF THE SITE

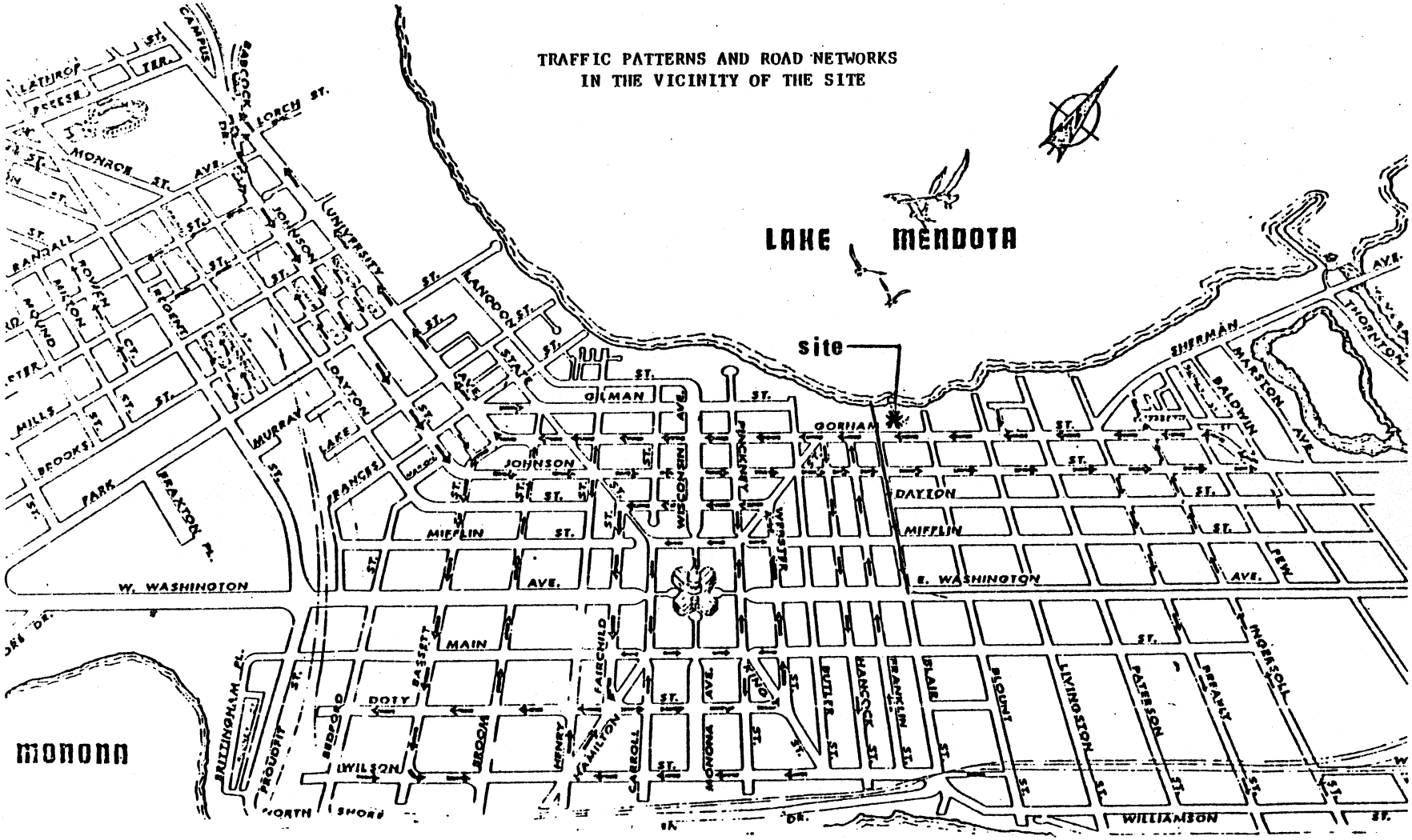
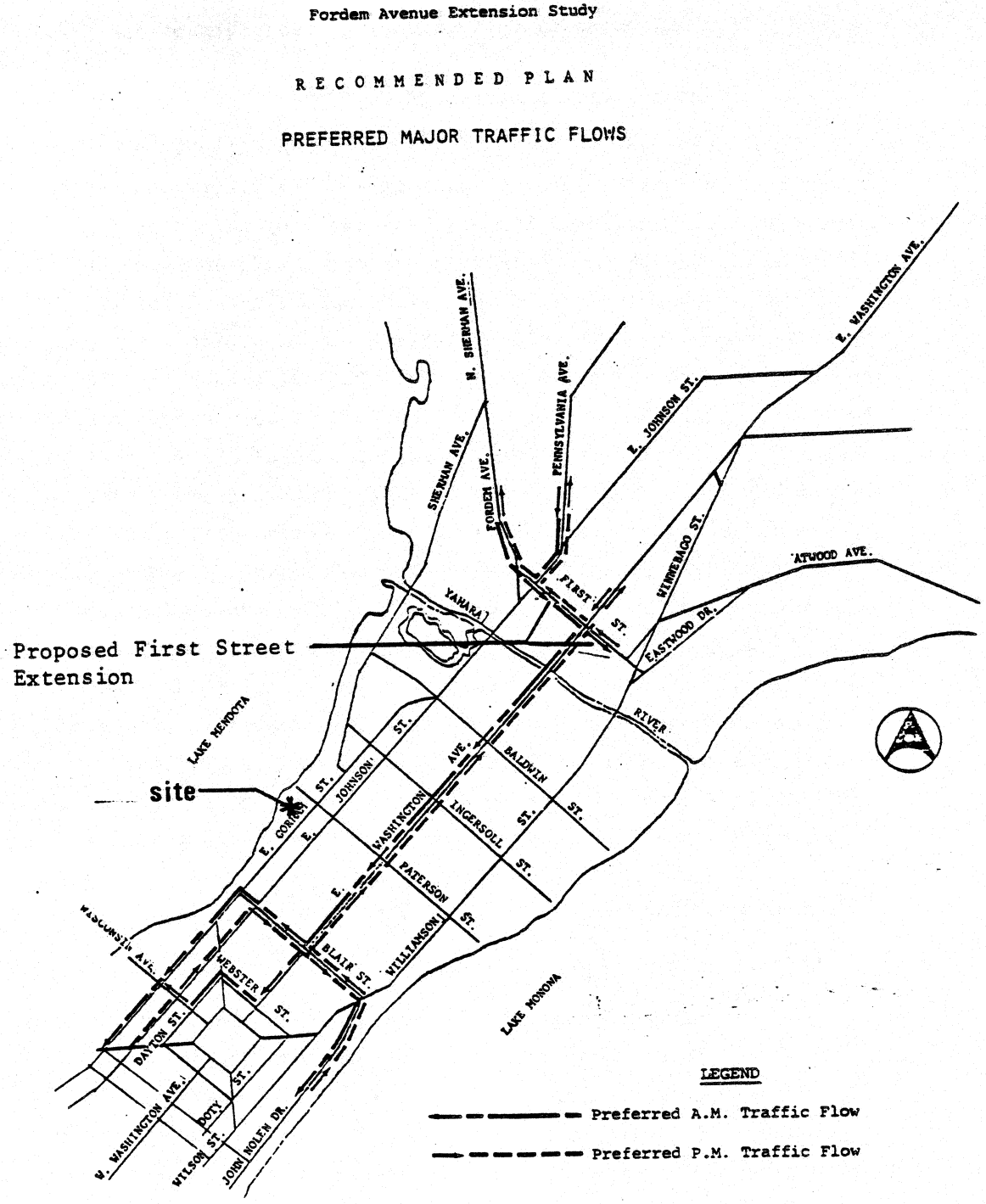


EXHIBIT 9

PROPOSED FORDEM AVENUE EXTENSION STUDY



Source: Ad Hoc Steering Committee, Fordem Avenue Extension Study

an estimated 17% during peak hours, 20% to 25% during off-peak hours, and 19% to 23% on a daily basis. If implemented, we believe that the reduced traffic volume will reduce noise and congestion along this corridor, thereby enhancing the residential qualities of the area.

Activity Centers--Residential Support Systems

The subject property is located in the Madison Isthmus area and thereby is in close proximity to a number of activity and residential support centers including schools, hospitals, parks, shopping districts, playgrounds, churches, and cultural centers. The location and identification of these activity centers is provided in Exhibit 10.

As shown in Exhibit 10 the site is located within two miles of the Madison Central Business District (CBD) defined as the State Street-Capital Concourse Area (Nos. 1 & 2 on Exhibit 10). Madison's CBD offers a multitude of cultural, recreational, financial and specialty shopping options to its patrons. Many people feel the strength of the CBD lies in its diversity of uses and users. Located immediately west of the site is James Madison Park (shown as No. 5 on Exhibit 10). This 7.1 acre park offers a number of recreational facilities including a basketball court, a boathouse, two softball fields, and a boat storage facility. Tenney Park, located six blocks east of the site on Lake Mendota (shown as No. 6 on Exhibit 10), is a forty-four acre park offering a complete range of recreational facilities including basketball courts, a boathouse, football field, hockey rink, bike trails, and tennis courts. Tenney Park is considered one of the finest parks in the Madison area.

Neighborhood Description

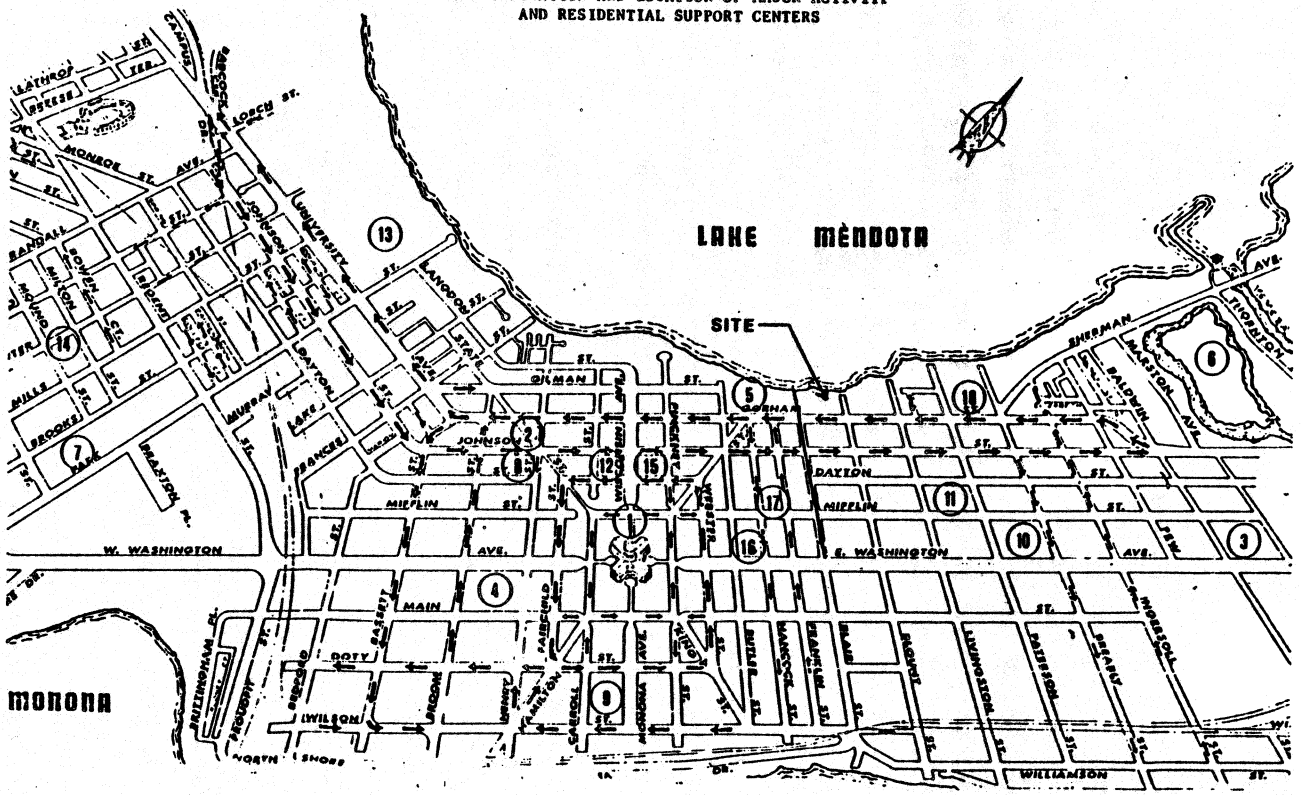
A. Historical Development

The property under study is located at 720 East Gorham Street in an area immediately east of a district known as Mansion Hill, Madison's silk stocking district (Exhibit 11). The social make-up of Mansion Hill's population was extremely homogeneous. The early Yankee settlers who dominated the area developed a closely knit society. Many of the homes along Gilman Street and Gorham Street (along the lake) were constructed during 1870-1890. Those who arrived in those early days were generally young and caught up in the westward migration that captivated their

EXHIBIT 10

IDENTIFICATION AND LOCATION OF MAJOR ACTIVITY
AND RESIDENTIAL SUPPORT CENTERS

1) Capital Concourse
(Financial, shopping & entertainment)
2) State Street Mall
(Shopping and entertainment)
3) Fiore Shopping Center
(Supermarket, discount stores)
4) Methodist Hospital
5) James Madison Park
6) Tenney Park
7) Madison General Hospital
8) Fire Station #1
9) City of Madison Police Station
10) Breese Stevens Park
11) Reynolds Field
12) MATC
13) University of Wisconsin
14) St. James Elementary School
15) First United Methodist Church
16) St. John's Luthern Church
17) St. Paul's A M E Church
18) Christ Presbyterian Church



spirits and imaginations. Often college educated, many had already worked for several years at trades or professions. Many of the homes were constructed by merchants, retailers, and manufacturers who wanted to be there for reasons of status, marriage, or business relations. The homogeneity and status associated with Mansion Hill lasted until approximately the mid-1920's. At this time the emerging middle-class began its exodus from the inner-city, which had formerly served as a buffer population between the rich and the poor. Residents of wealthy center-city "silk stocking" districts were finding it increasingly difficult to maintain their traditional social distance in a more heterogeneous urban society that was being increasingly dominated by lower income groups.

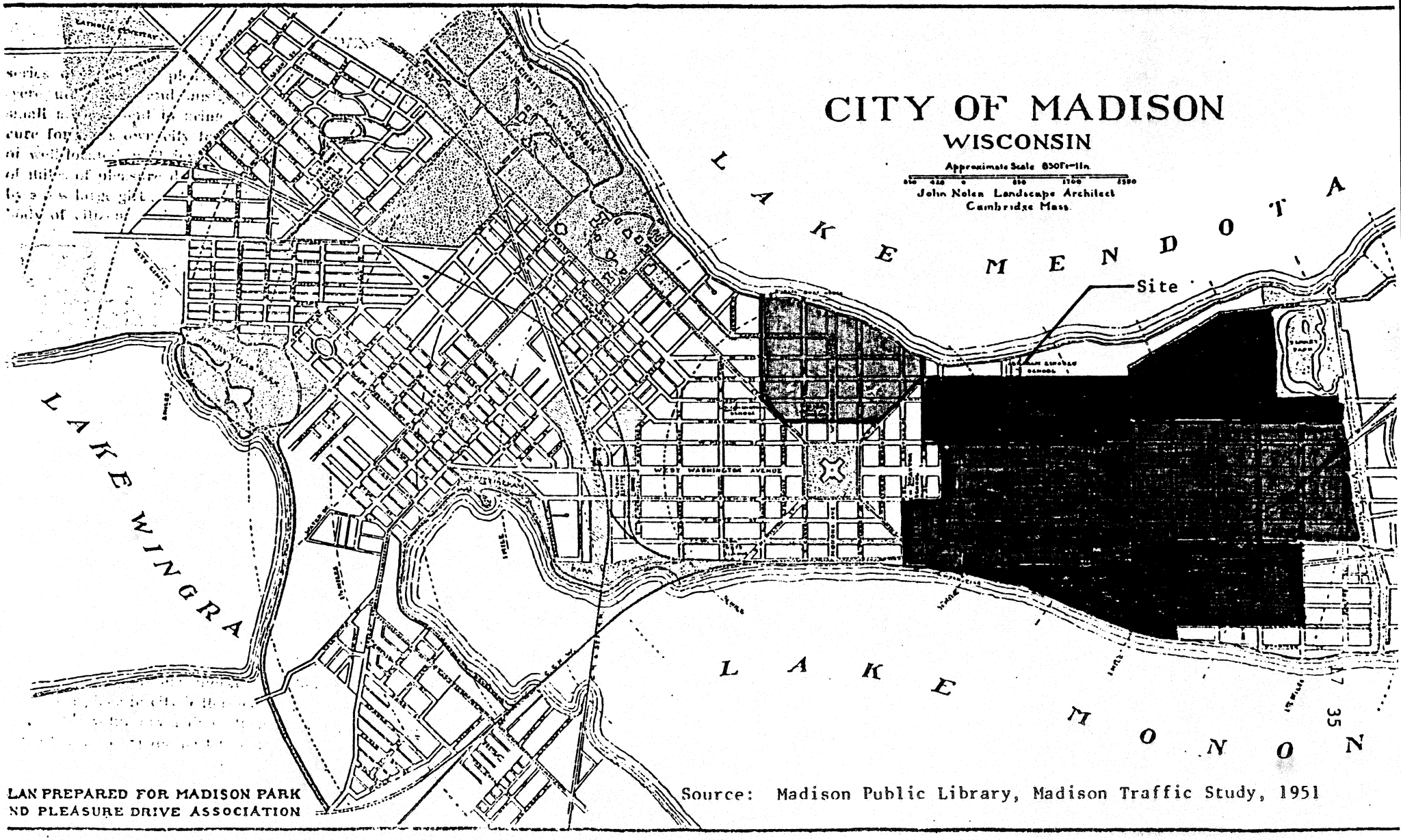
The separation of areas into somewhat homogeneous social groups was occurring all over the east side of Madison. Besides the Mansion Hill district, at least two other socially distinct neighborhoods appeared to be developing including: 1) a middle-income district, and 2) a low-income district. The approximate location of these social groupings is shown in Exhibit 11. South of East Washington Avenue, along Williamson and Wilson, an industrial strip began to take form along the rail corridor. Consequently, workers' housing began to form around that area. Generally, the land was cheap and the homes were of low quality. In contrast the area north of East Washington was used primarily by the emerging middle-class for housing. Except for a few small shops, this area was devoid of any non-residential use. The desire of the middle-class to move into this area was the fact that status awareness was now becoming paramount in the choice of residence and the urge to foster social distance from the status-challenging working-class, combined with an even stronger desire to be as near the wealthy (Mansion Hill residents) as possible. This sorting of persons by social class became more acute as time passed. Recent market studies have indicated that Lake Mendota is viewed as the status lake, while Lake Monona is not. It seems reasonable to assume that this association was developed during the streetcar era of 1890-1910.

The major growth in Madison from 1940-1970 occurred in the urban fringe in areas both east and west of the central Isthmus area. The main reasons for this shift include: 1) availability of cheap tracts of land in the unplatted farmlands east and west of the Isthmus, 2) availability

EXHIBIT 11

DELINEATION OF RESIDENTIAL DISTRICTS
ON THE EAST SIDE OF MADISON
(1940-1950)

- Mansion Hill District
- Middle-Income District
- Low-Income District
- Industrial District



LAN PREPARED FOR MADISON PARK
ND PLEASURE DRIVE ASSOCIATION

Source: Madison Public Library, Madison Traffic Study, 1951

of low interest FHA and VA loans, 3) expansion of roads and public infastructure, and 4) increased ownership of cars. In addition to these factors there is an important fifth reason; the increased impact of the University of Wisconsin student population. From 1950-1980 UW enrollment has increased 260% (1950-15,766; 1980-41,349). It has been estimated by the UW Campus Assistance Center that over 60% of those students live off campus. (See Exhibit 12.) This tremendous influx of students gave home owners in the downtown area an economic reason for moving out of their downtown homes. The units that have been vacated by the owner-occupants were quickly divided into two or three separate apartments and rented to the student market. The effect of renting out space in a formerly non-income producing property is to increase its market value. Thus the former owner-occupant can now collect rent, create a tax shelter on an annual basis, and realize a large capital gain upon sale of the unit. Many of these landlords have believed that the student demand for these types of units has been generally inelastic and, therefore, have not maintained the structures or provided much in the way of capital investment. This has lead to the further demise of many Isthmus neighborhoods.

Factors 1 through 5 have changed the urban economic structure of the neighborhood. During the late 60's and 70's, the Madison CBD lost its appeal as a regional shopping center because of the increased anxiety (cost of friction) realized by its patrons. The closing of large department stores such as Manchesters, Wolff-Kubly, and Simpsons have been testimony to this shift. Graaskamp states that, "The CBD has shifted from a regional shopping center towards a service-retail district directed at downtown employees and residents . . . ."

The shifts and changes described have had a significant impact upon the site under study which lies 3/4 of a mile from the capital and approximately 2¼ miles from the University. These impacts will now be examined in terms of the demographics in the surrounding area.

B. Demographics of the Neighborhood

The Lincoln School site is located on Madison's near east side on the shores of Lake Mendota. It lies within Census Tract 18, which serves as a buffer zone between the predominantly student oriented population Capital Square district (Tracts 16.01 and 16.02), and the largely owner-

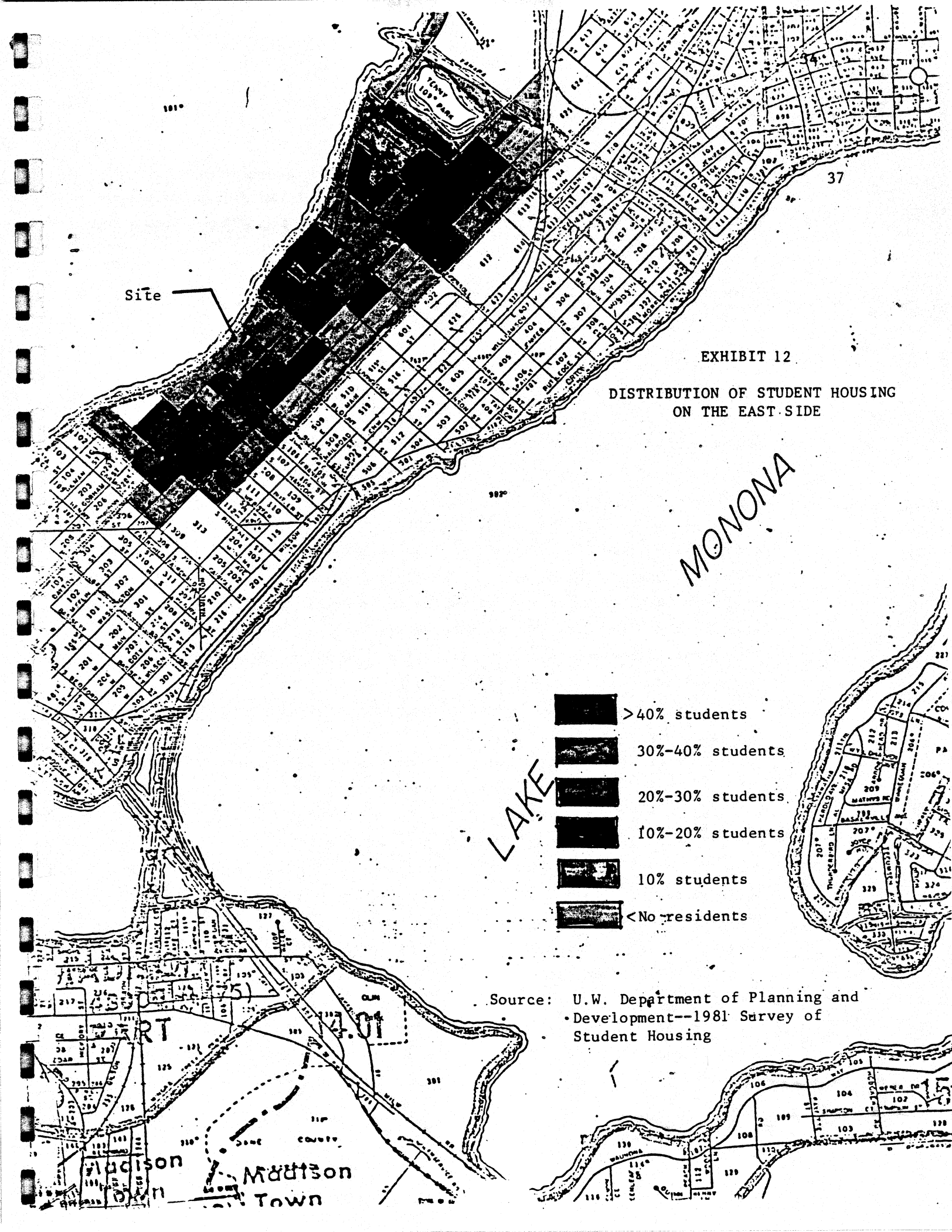


EXHIBIT 12

DISTRIBUTION OF STUDENT HOUSING ON THE EAST SIDE

Source: U.W. Department of Planning and Development--1981 Survey of Student Housing

occupied suburban area (Tracts 19, 20, and 21).

The following discussion will describe the social and economic characteristics of the neighborhood (initially delineated as Tract 18--Exhibit 13) in 1960-1980. Much of the information on which this section of the report is based was obtained through an analysis of the 1960, 1970, and 1980 U.S. Census of the Population.

Population

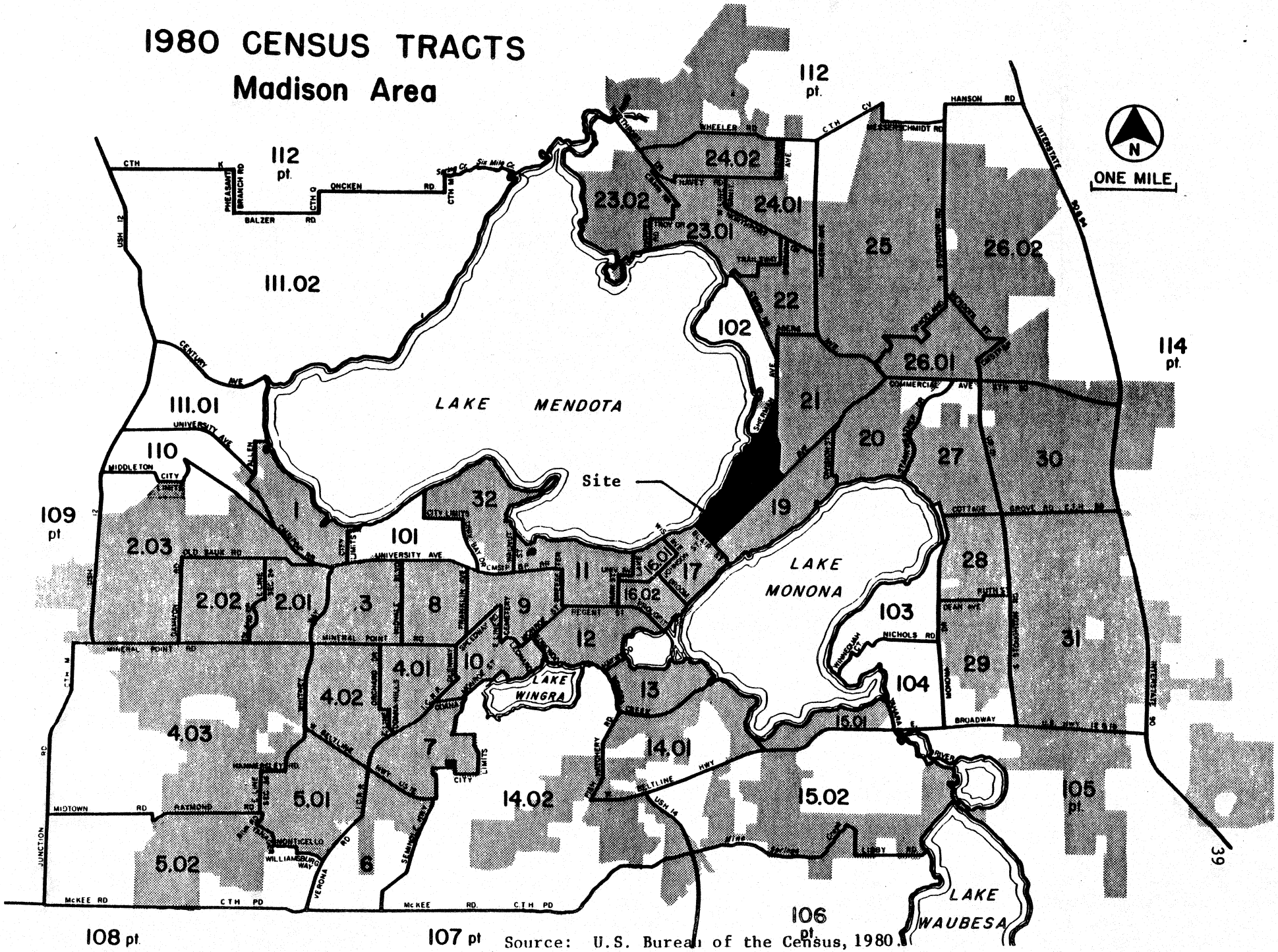
The age distribution, marital status, and household type distributions for Tract 18 are shown in Exhibit 14. This tract is dominated by students and young workers. Almost 16% of the 5,006 residents are 18-21 and over 52% are between the ages of 22-34. This compares with the City of Madison which averages 14.9% for the 18-21 age group and 31.02% for the 22-34 age group. The marital status of Tract 18 residents is predominantly single; 61.6% of them are single with another 15.6% being separated, widowed, or divorced. These figures are higher than for Madison as a whole which averages 43.3% for singles and 12.9% for separated, widowed, and divorced. Most households are small in the neighborhood. Single person households account for 42% and 30.5% are two-or-more person households made up of unrelated persons.

As one moves further east away from the University, the student influence begins to fall. Almost 60% of Tract 17's population is less than 24 years old, while 85% of the population is represented by the age group in Tracts 16.01 and 16.02. In contrast only 45% of Tract 18 is represented by the group, while Madison's urbanized area is 45%. The concentration of University students in this area is due to the fact that commuting costs increase for students as we move further east, away from the University. These costs can be measured both in terms of dollars and time which the students put a high premium on. According to the 1970 Census, 78% of the residents, 18-34, in Tracts 16.01 and 16.02 are enrolled in school. This percentage drops to 52% for Tract 17 and down to 27.9% for Tract 18.

Overall, the Madison population decreased by 1.7% from 1970-1980. Tract 17 experienced a 17% decrease in population while Tract 18 decreased only 7.2%. This is testimony to the fact that the exodus to the suburbs

EXHIBIT 13

PRELIMINARY DELINEATION OF THE NEIGHBORHOOD AREA



Source: U.S. Bureau of the Census, 1980.

EXHIBIT 14

DEMOGRAPHIC DISTRIBUTIONS FOR TRACT 18

	Tract 18		Madison
Age	Number	Percent	Percent
Under 9	235	4.70	10.32
10-13	61	1.22	4.75
14-17	100	2.00	5.45
18-21	799	15.96	14.90
22-24	979	19.56	9.58
25-34	1637	32.70	21.44
35-54	445	8.89	17.62
55-64	250	5.00	7.12
65 and over	500	9.99	8.73
	5006	100.00	100.00
Median age 26.50			
Marital Status			
Single	2892	61.56	43.31
Married	1071	22.80	43.77
Separated, widowed, divorced	735	15.64	12.92
Household Type			
Single person household		42.03	
Two or more persons:			
Married couple family		19.89	
Unrelated persons		30.52	

Source: 1980 Census

is still occurring. It is interesting to note that Tract 17, which was defined as the transition area, experienced one of the largest declines in population of all tracts in Madison (17%). The advancement of students in this area appears to be more than offset by the exodus of property owners.

Tenancy and Unit Type

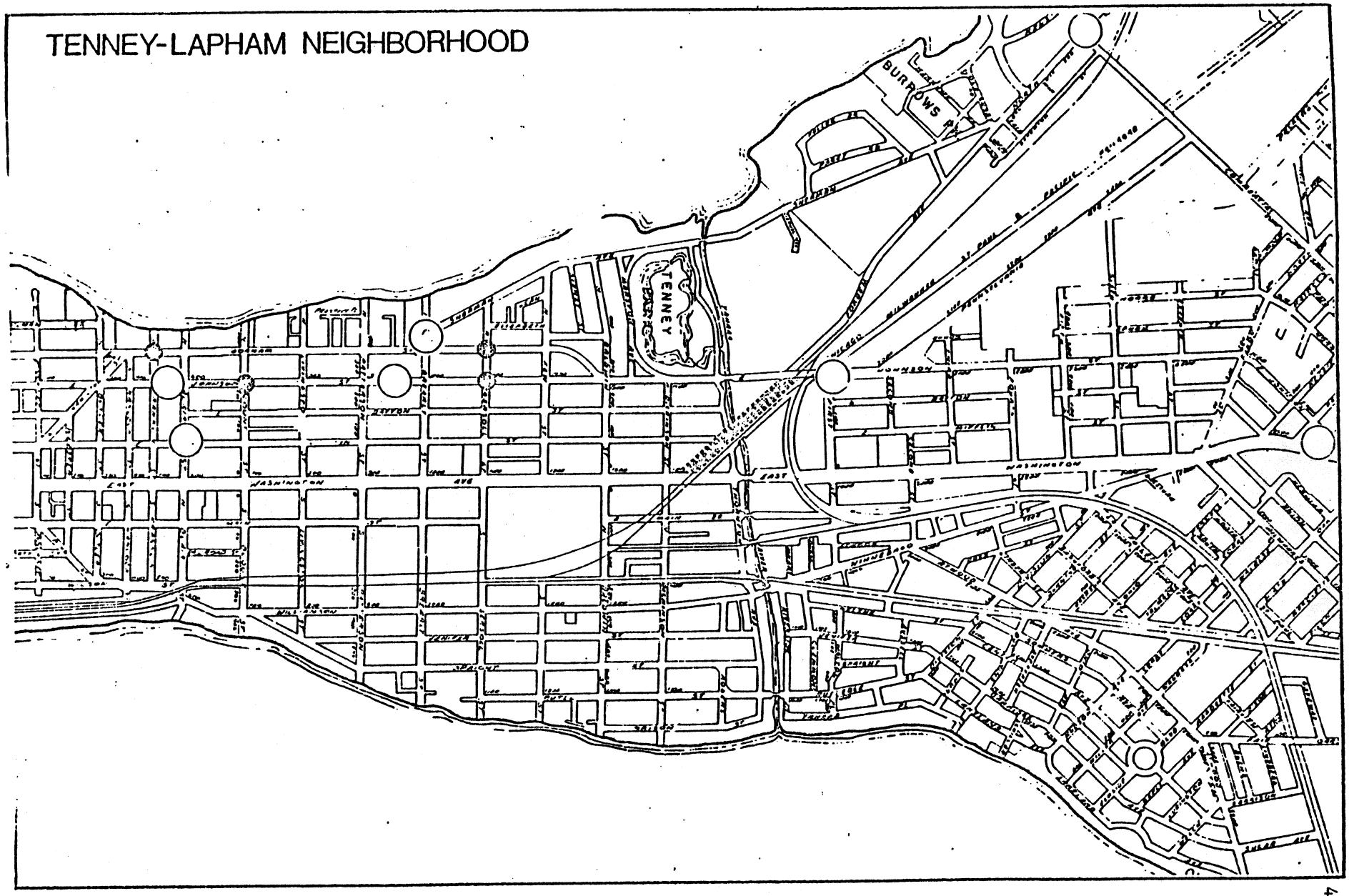
The continual push east by the students can be further observed by the examination of unit type. In 1960 59% of all units in Tract 18 were renter-occupied. This increased to 62% by 1970 as compared to 43% and 49%, respectively, for Madison as a whole. However, a recent survey (November, 1979) conducted by the Tenney-Lapham Neighborhood Association reveals that only 50% of all persons are renters. (The boundaries of the Tenney-Lapham neighborhood are shown in Exhibit 15.) Thus a trend away from absentee ownership may be occurring. An analysis of the age of the structures reveals that 86% of all units in Tract 18 were built before 1940. This contrasts with 45% for the City of Madison. The age of these structures suggests that maintenance for these units is high and many are in need of capital improvements to help alleviate the functional obsolescence that has occurred over time. The Tenney-Lapham Neighborhood Survey indicated that over 65% of those persons surveyed would be very interested in remodeling part or all of their home if low interest funding were available.

Examination of the tenancy in Tract 18 indicates that 55% of the residents in the area have lived there two years or less. For Tract 17, this group represents 66% of the population and for Tracts 16.01 and 16.02 this percentage is almost 80%. The transient nature of the residents, as one moves towards the University, is clearly evident. In 1970 this percentage averaged 44% for the City of Madison.

The relative stability of Tract 18 can again be shown by an examination of the term of occupancy. In 1970, 37% of this area's population had lived in the same household ten years earlier (only 2% lower than in 1960). This compares with 40% for Madison as a whole and contrasts with 13.5% for tracts 16.01, 16.02, and 17. The Tenney-Lapham Survey previously indicated the percentage of owner-occupancy in this area appears to be on the rise, further assuring continued stability in the area.

EXHIBIT 15

THE TENNEY-LAPHAM NEIGHBORHOOD



Source: Tenney-Lapham Neighborhood Planning Activities

·Income and Employment

In 1970 the median income in Madison was $11,385, of which 45% of the population was above. In Tract 18 only 35% of the population bettered this figure while in 16.01 and 16.02 only 12.5% of the population obtained this amount. However, 3% of Tract 18 population earned more than $25,000 per year while less than 1% of Madison's population was included in this group. This indicates that a very wealthy submarket exists in this area. As we shall examine in the next section, this submarket exists along the lakeshore. The existence of this submarket becomes even more evident through an examination of housing value. In 1970, 6.4% of all units in Tract 18 were valued at over $50,000. This compares with less than 3% for Madison and 2.2% for Tracts 16.01, 16.02, and 17. However, the median price of a home in Tract 18 was $17,500, while it was $22,100 for the city.

Employment in the area can best be characterized as white collar, with a strong emphasis on government employment. In particular 39% of Tract 18's working force has been identified as white collar (professional, management, sales, or administrative). This is an increase of 2% from 1960 figures. The percentage of workers in this category in Madison is 47%. In addition 42% of these workers in Tract 18 are employed by the government (including University).

·Summary--Demographics

The foregoing census information provided some insight into the social and economic make-up of the neighborhood area. Some of the salient results and observations included:

1) Tract 18 has not been as severely affected by the growth of the University as tracts closer to the school are. Tract 17 really serves as a buffer between the areas predominantly student (16.01, 16.02) and those predominantly family (Tract 18).

2) 60% of the area's population is under 24 years old.

3) Only 27% of persons 18-24 are enrolled in school.

4) The Tenney-Lapham Survey indicated that 50% of all units were owner-occupied, a decrease of 12% from 1970.

5) 86% of all units in Tract 18 were constructed by 1940.

6) 37% of the area's residents have been there ten years or longer.

7) 35% of the area's population earned greater than $11,385 (the median income for Madison). However, 3% of all workers earned more than $25,000.

Points 1 through 7 indicate that Tract 18 is in a relatively stable condition with the majority of residents non-student. The people in this area are determined to keep it that way. The Tenney-Lapham neighborhood*, which includes most of Census Tract 18, is a very organized and powerful group and has influenced much of the land use policy in that area over the past ten years.

The Neighborhood Association has just won approval of a downzoning of much of the neighborhood area (Exhibit 12). The objectives of the zoning change were:

> To preserve the physical character of the existing neighborhood . . . . Assume housing opportunities for existing housing mix . . . . Encourage owner-occupancy.

The effect of the land use change was to downzone a large portion of the area from R-4 and R-5 to R-4A. The only difference between R-4 and R-4A is that under R-4A, a unit may have one family plus four roomers if the owner lives there. If the owner does not live there, the unit can only have one family and one roomer. (A family is defined as one person or more.) Thus owner-occupancy is encouraged and speculative buying for assemblage or conversion into apartments is minimized. The result of this zoning change has been the protection of the collective consumer at the expense of the future consumer who may not be able to find housing in this area at a price which existed before the zoning change.

C. Delineation of the Neighborhood and Subneighborhood

In the previous section we indicated that the general neighborhood of the site would include Census Tract 18. A closer examination of Tract 18 indicated that at least four subneighborhood areas can be delineated. These areas are shown in Exhibit 16. In order to obtain current information on a micro scale (areas less than census tracts), a survey of the tax assessor's role was conducted. A sample of 203 parcels was gathered

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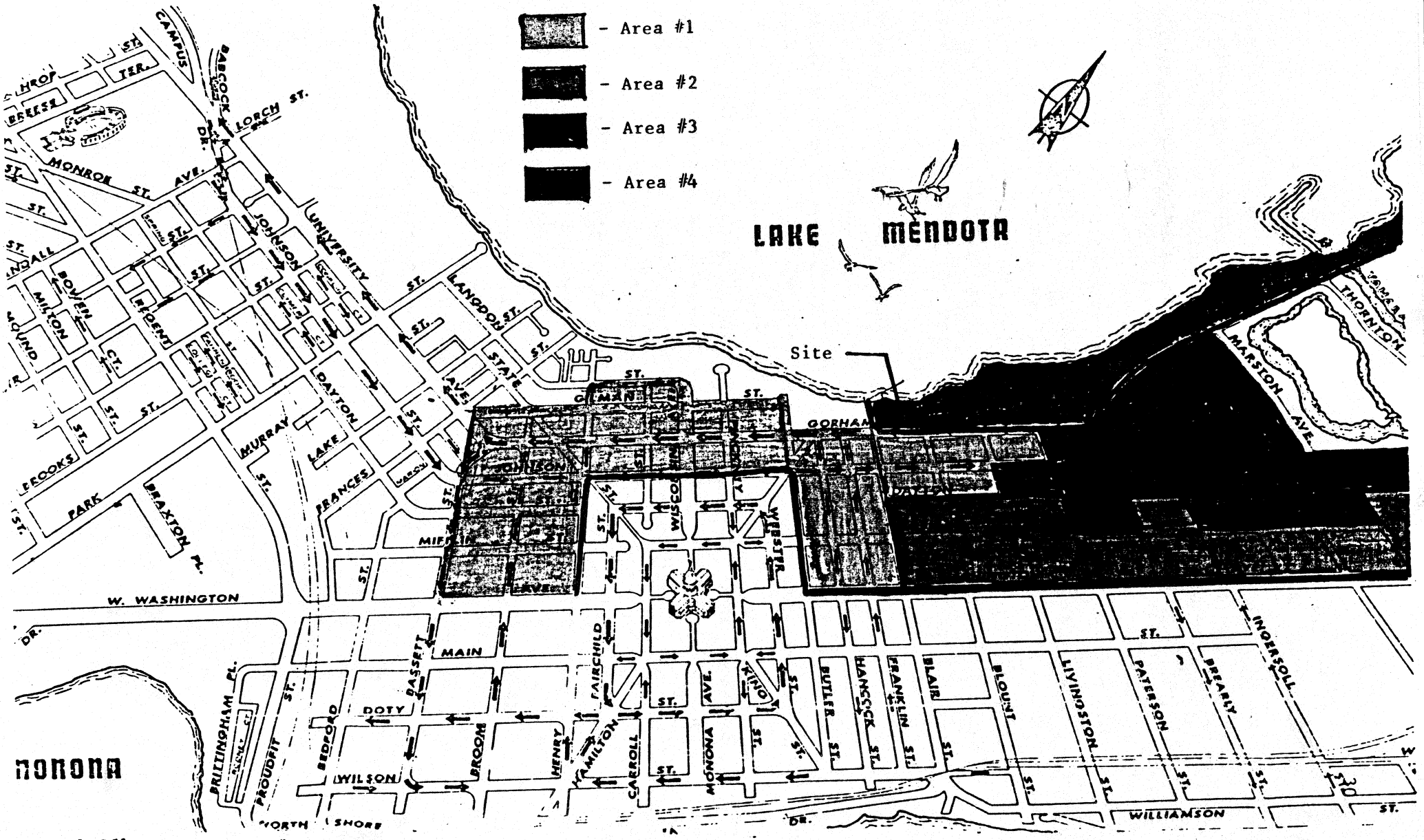
*Although the subject property is not located in the Tenney-Lapham Neighborhood (located ½ block west), it was felt that the opinions of people in that area were representative of those in the area surrounding our site.

EXHIBIT 16

SUBMARKET NEIGHBORHOOD DELINEATION



for the years 1978 and 1981 in the area surrounding the site. Based upon the information gathered, we were able to identify area's which were similar in terms of occupancy, tenancy, and value.

Exhibit 17 shows the breakdown of the land area based on assessed values. All land parcels which contained more than two units, or were used for commercial uses, were eliminated from the survey. This decreased the sample size from 203 to 157. These areas are colored gray in Exhibit 17. As can be observed, the values along the lakeshore stand alone with a value range of $90,000 on up. The areas north of Gorham and south of Prospect have values ranging between $45,000-$75,000. Moving south along Johnson Street, the unit values fall to below $35,000-$60,000 range.

Exhibit 18 shows the extent of owner-occupancy in the area surrounding the site. A unit was considered owner-occupied if the address to which the tax bill would be sent matched the address of the tax parçel under study. This assumption is justified given the fact that in Madison the landlord, not the tenant, pays the real estate tax. Examination of Exhibit 18 shows that owner-occupancy along the lakeshore averages 50%-100% and drops off very quickly as one moves south to Gorham and Johnson Streets. An examination of 1978 tax roles revealed that overall owner-occupancy was 44.6%. However, in 1980 owner-occupancy increased to 50.3%, indicating that this area appears to be holding stable.

A study conducted by the University Campus Planning Department on the location of off campus students revealed an eastward movement of students along Johnson and Dayton Streets as shown in Exhibit 12. As can be seen, along the lakeshore the student population is generally less than 20%, but increases quickly along Johnson Street.

Equipped with this information, it is possible to delineate at least four sub-areas within census Tract 18 as shown in Exhibit 16. These areas are described below:

Area #1

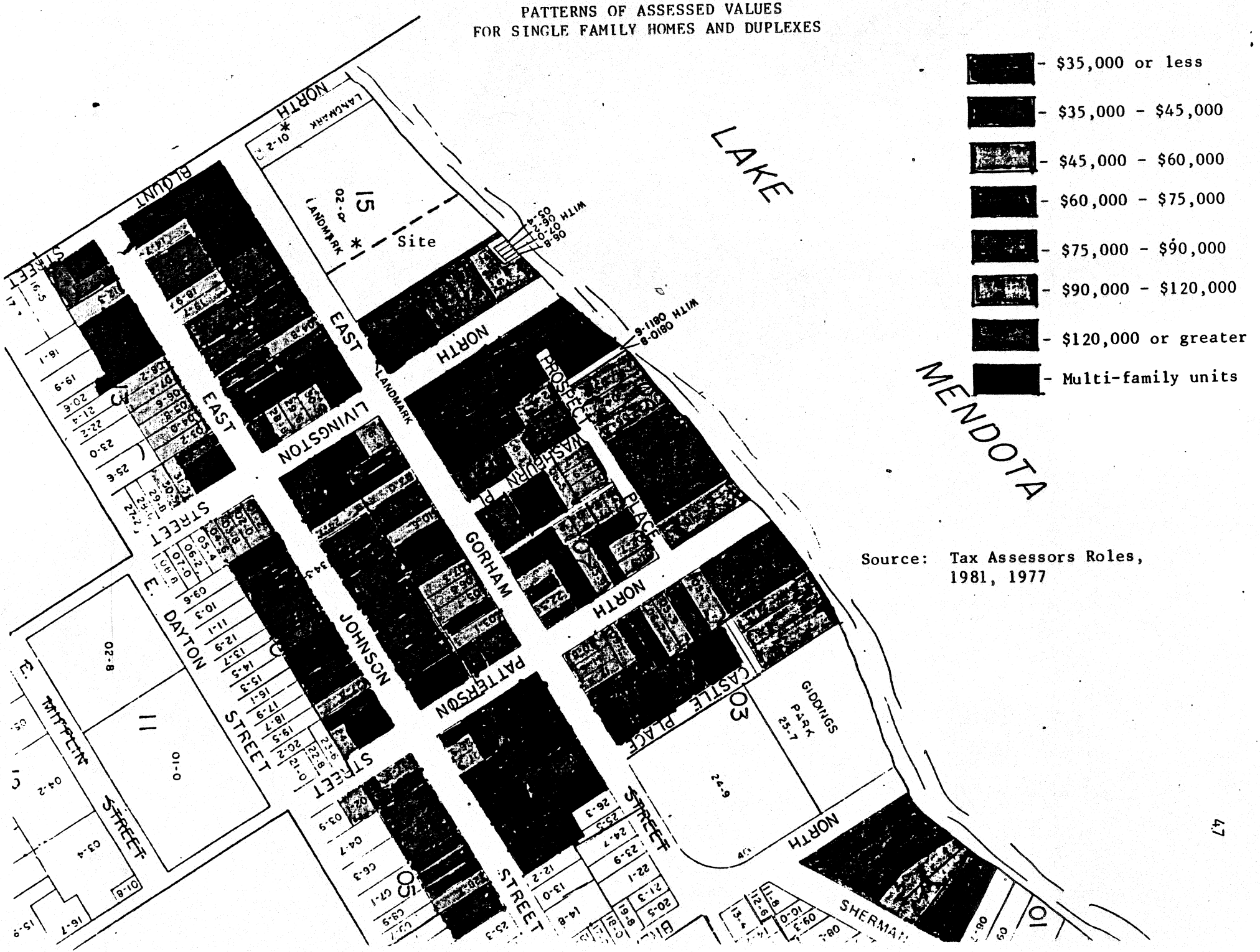
Area #1 delineates a neighborhood in which at least 30% of the occupants in the area are students. This neighborhood is unique to Tract 18 and shows this student movement eastward.

Area #2

Area #2 is composed mainly of warehouse space, light industry,

EXHIBIT I

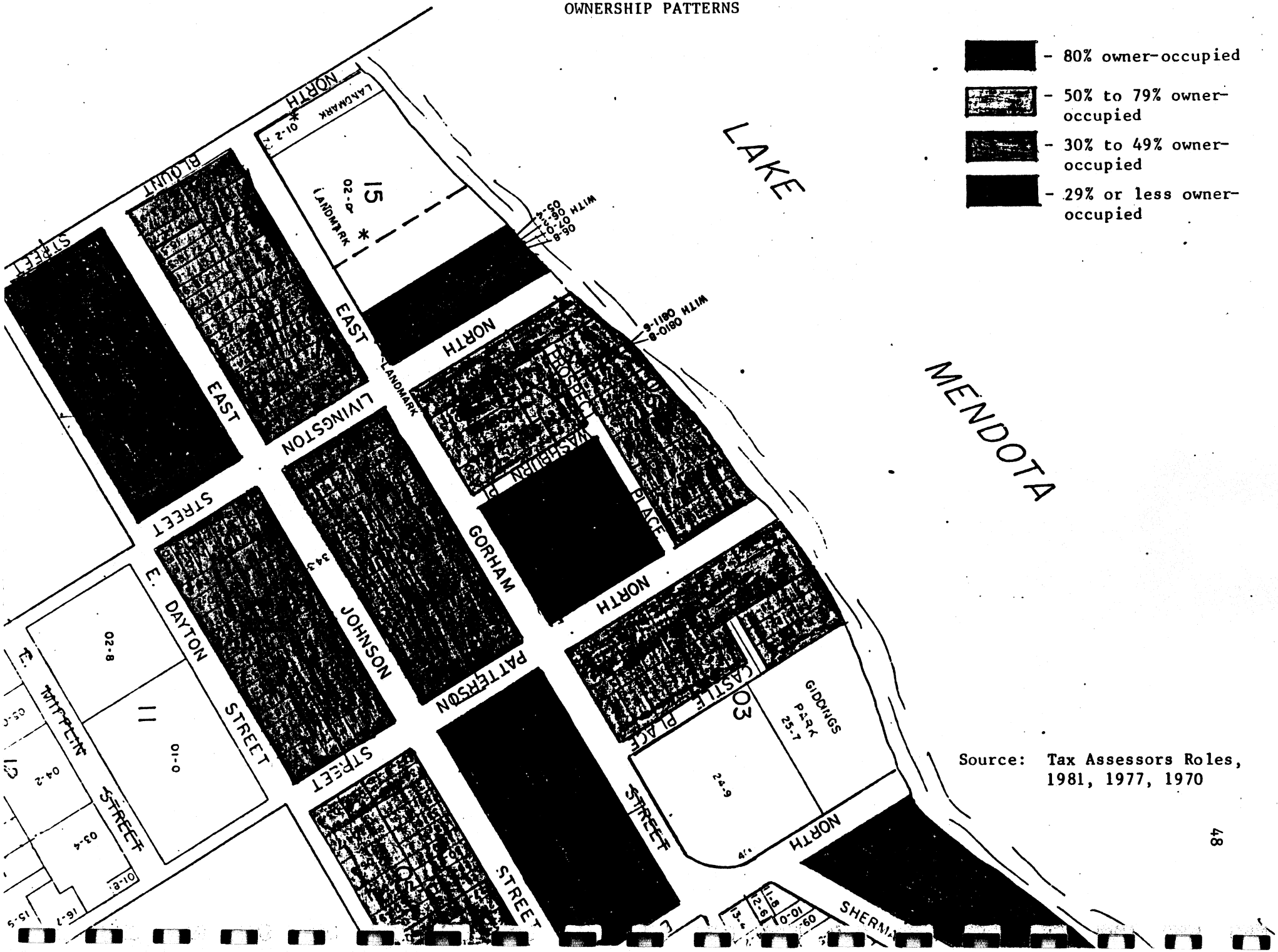
PATTERNS OF ASSESSED VALUES FOR SINGLE FAMILY HOMES AND DUPLEXES



Source: Tax Assessors Roles, 1981, 1977

EXHIBIT 1[illegible]

OWNERSHIP PATTERNS



Source: Tax Assessors Roles, 1981, 1977, 1970

and strip commercial development along Washington Avenue. This area began developing into an industrial area around the turn of the century. During the 40's-50's, the area was rezoned to commercial (C-3) along Washington Avenue and residential along Mifflin and Dayton. However, these areas have never really recovered from the industrial period and remain sparsely settled. Furthermore, the units are of low quality.

Area #3

Area #3 is typical of census Tract 18. Unit values range from $25,000-$60,000 and owner-occupancy runs about 25%-40%. This area generally contains a mix of elderly, student, and lower-income families. As we have previously mentioned, this area appears to be holding stable as owner-occupancy has actually increased more than 5% over the last four years.

Area #4

Area #4 includes the lakeshore properties along Gorham, Prospect, and Sherman Avenue. This area typically contains property values exceeding $90,000, an owner-occupancy ratio of greater than 50%, and a student population of less than 10%. The subject property is included in this subneighborhood and should maintain a close affinity for it. Examination of the 1970 tax roles indicated that over 95% of the persons living there in 1980 also were there in 1970. These findings indicate strong resident homogeneity and ownership stability.

The upper income group described in Area #4 occupies an area which Muller describes as typical of this group including such amenities as water, frontage, trees, and high ground. This group attempts to isolate itself from everything around them. Muller adds that this group does not welcome newcomers or persons of a lower socio-economic class attempting to integrate within it.

D. Housing and Employment Outlook

The demand for housing in a given neighborhood is determined to a large extent by the employment opportunities in the area, the stability of the neighborhood, the activity and cultural centers close by, and the changing housing preferences caused by lifestyle and demographic structural changes. The neighborhood the subject property is in serves as the residential back-up to the Capital Square employment district. This district is in the middle of a fundamental transition from being a diversified employment center serving the entire city to being a specialized

retail-service center serving downtown employees, students, and residents. The industrial employment base that was concentrated along the East Washington rail corridor and the Bassett neighborhood has moved out to cheaper and more accessible land around Truax Field and the West Beltline. The retail department stores moved their operations out to the newer suburban malls of East Towne and West Towne and their space has been taken over by professional offices, apartments, and boarding rooms. The residents of the area are becoming more and more "urban": singles, small family size, students, transients, elderly with generally lower income. The city has begun to realize that in order to revitalize the downtown, they must attract residents into the area of the type that enjoys urban living and have the disposable income necessary to support those activities. This represents a shift in the city's attitude from that of the early 1970's and the city is now willing to consider projects and public improvements that are designed to attract a higher social class to the downtown area. By doing this, they hope to stabilize the tax base, stimulate economic development and job creation, and revitalize the downtown retail district. The dominant employer downtown is government employing white-collar professionals, office, and clerical help. In the following discussion the downtown office employment trends will be considered first. Second, city revitalization programs that benefit and affect the immediate neighborhood will be discussed.

Employment

Exhibit 19 traces the total employment and Trade and Service employment in the Isthmus from 1970 to 1980. The area covered is Planning Analysis Areas (PAA's)[1] 1, 2, 3, and 4. PAA's 1 and 2 comprise most of the office district circling the Capitol and is the heart of the employment district. These districts contributed 9,587 new jobs in the decade, 4,544 of which were Trade and Service employment. A large part of the difference between total employment and Trade and Service employment in these areas is made up of government employment. This shift towards a high concentration of Trade and Service employment in the

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[1] PAA's are used by the Dane County Regional Planning Commission for a variety of analytical studies.

EXHIBIT 19

DOWNTOWN EMPLOYMENT BY PLANNING ANALYSIS AREA

	PAA	1970	1980[1]	% Change
Total employment	1	18,631	27,792	+49.2
	2	6,169	6,595	-6.9
	3	2,932	2,241	-23.6
	4	7,163	1,565	-78.2
Trade and service employment[2]	1	9,655	11,852	+22.8
	2	3,410	5,757	+68.8
	3	1,329	1,141	-14.1
	4	3,056	2,583	-15.5

[1]Based on 1978 unemployment compensation files from the Department of Industry, Labor, and Human Relations updated to 1980.

[2]SIC codes 50-89.

Source: Dane County Regional Planning Commission

Isthmus is projected to increase over the next decade because of the location of the University, the Capitol, and local and State government employment centers.

Because government is the largest employer in the area, their expansion plans are important. The local governments, Madison and Dane County, presently are suffering from a severe office shortage and are considering a number of alternative solutions. County space needs are projected to increase by over 161,000 square feet by the year 2000. They are faced with an immediate need of 126,330 square feet by 1985.[1] A number of plans have been proposed to meet this need, all of which will tend to stabilize the economy of the area and create jobs. These plans include adding 100,000 square feet to the City County Building and renting the additional space from vacant office buildings; buy the General Casualty Insurance Building and transfer city offices to vacated county offices and expand the jail; and buy the vacant warehouse on East Wilson Street to use for county needs. The city has proposed a long range downtown redevelopment plan called Olin Place that would, among other things, create 814,450 square feet of new office space by the year 2000. Olin Place is an ambitious vision of public/private development cooperation for the purpose of renovating and revitalizing downtown. In addition to the office space, the plan would provide 130,500 square feet of apartments, almost 900 new parking spaces, a 177,000 square foot hotel, and 79,800 square feet of retail space. The University of Wisconsin has a continuous Campus Development Plan in place that has authorized 392,260 square feet of new, assignable space and a 650 space parking garage to be built by 1987. There are an additional nineteen major projects of unspecified nature or size that will be completed as needed by 1987.[2] The plan calls for the extension of needed University facilities into the area south of Dayton Street and west of Lake Street. The UW enrollment is projected to stabilize around 42,000 students in 1982 then gradually decline to about 37,000 students in 1995. The major

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[1]Dane County Executive, Report on Vertical Expansion of the City County Building, 2/1/80.

[2]U.W. Department of Planning and Development, 1980 Campus Plan Development, 1980, p. 11.

decline will be in undergraduate enrollment who traditionally are housed in University owned dormitories. Because of this, the University proposes no new dormitory construction, although it is encouraging construction of up to 500 units in the South Campus Area. The Federal government is building a new courthouse adjacent to the Capital Center project in blocks 53 and 54 behind the Civic Center. It will be approximately 60,000 square feet and employ sixty people. There have been a number of other proposals to aid the redevelopment of the downtown area. The most ambitious was proposed by the Carley Capital group and was to be a remodeling of the Emporium Building on North Pinckney Street. It included an inside mall running from the Emporium to Manchesters, an ice rink, an underground parking garage, renovation of Pinckney Street to an old 1890's atmosphere, and some upper income condominiums at the foot of Pinckney Street by Lake Mendota. Currently, both Manchesters and the Emporium are in a TIF district and eligible for city financial assistance. The Emporium is currently being remodeled to offices and apartments while the rest of the proposal ran into heavy political opposition and has been shelved for the time being.

Neighborhood Stability

As indicated in the neighborhood section, the subject neighborhood is being stabilized in terms of ownership patterns and land values. A major contributer to this stability has been the city. During the Soglin Administration the city encouraged neighborhoods to organize and participate in Federal, State, and locally sponsored housing and community development programs. The Tenney-Lapham neighborhood has particularly benefited from the Deferred Payment Loan Program and the Homebuyers Assistance Plan which gives priority to housing located in the Lapham and Marquette School districts. These programs can be combined to produce an interest rate as low as 3% and priority is given to rehabilitation efforts to bring housing up to minimum standards. The Tenney-Lapham neighborhood has been selected as one of a small number of neighborhoods nation-wide to participate in the Federally sponsored Small Multi-Family Rental Rehab Program. This is a leveraged loan system whereby investor/owners of apartment buildings, which need substantial repairs to bring them up to minimum code standards, are eligible

for below market rate rehabilitation loans. The money is provided 50% by First Federal Savings and Loan at market rates and 50% by the city acting as an agent for the Federal government at 5%. There is a total of $100,000 available. The increased stability these programs create encourage permanent residents to move to the neighborhood. Owners take better care of their buildings and property which tends to stabilize and increase property values and make the area more attractive to new residents.

Dynamic Attributes

Dynamic Attributes are those factors that are perceived in the mind of the beholder. The subject property overlooks Lake Mendota. The site slopes northwesterly towards the lake from a high point of 42 feet on Gorham Street to a low point to the north of the site of 13 feet. This slope will allow units to be terraced on the hillside such that each unit will enjoy a lake view. The high point of 42 feet on Gorham Street represents one of the highest pieces of ground on this section, providing a very dramatic view of the lake from any point on the site.

The neighborhood, within which the site is part of, has an owner-occupancy rate of over 50% and all indications point to a higher ratio in the future. The homes and yards are well maintained, especially on the north side of East Gorham Street which helps to create a feeling of pride and stability to the neighborhood. This attractive setting provides an ideal approach zone to the site for the motorist moving westerly along Gorham Street past the site. As we have previously discussed, the impact of student housing in this area is significantly less than that of locations as close as three blocks east of the site (see Exhibit 12), damping any impression of transciency in the area.

A major shortcoming of the site is its northwesterly orientation. Prevailing northwesterly winter winds average approximately 15 mph with storm weather gusts reaching as high as 50 to 60 mph. As homeowners become more energy conscious, the adverse effects of northwesterly orientations must be mitigated through site layout and building design.

ECONOMIC BASE ANALYSIS

Introduction

Madison, Wisconsin serves a dual role as the capital of Wisconsin and as a regional distribution center of agricultural and manufactured products heading for Minneapolis, Milwaukee, or Chicago. As such its growth is dependent on the growth and strength of the Midwest economy as a whole.

In Regional Diversity: Growth in the United States 1960 to 1990, the Joint Center for Urban Studies of MIT and Harvard University predict that the East North Central region (consisting of Wisconsin, Illinois, Michigan, Indiana, and Ohio) will experience negligible growth, if not slight declines, in population and economic activity through 1990. The reasons for this are a high average labor wage relative to other areas of the nation (notably the Sunbelt), an excess of emigration over immigration from retirees and a substantial portion of families of childbearing age, and high unionization activity. The Joint Center predicts this region will lose 168,000 residents in the 1980's, an average decline of 0.04% per year. At the same time, employment is predicted to increase 1.5% per year, and earnings increase 3.0% per year.

Because Madison is the state capital, and is the distribution center for the surrounding wine county area's agricultural production, and is not heavily dependent on manufacturing industries, the relative economic stagnation of the Midwest will not have either a significant positive or negative impact on Madison's growth.

The household growth of a region depends principally on population growth, economic development, and income growth. The trends of these variables for Madison over the last ten years will be analyzed individually and used to make projections to 1985 and 1990. These projections will then be used in the fourth section to forecast the level of new household demand for the Madison market to 1985 and 1990.

Population

During the 1960's, the population of the Madison metropolitan area (including all of Dane County) increased 30.7%, or by 68,177 people, while it grew by only 11.5%, or another 33,273 people during the 1970's. (See Exhibit 20.)

EXHIBIT 20

MADISON AREA POPULATION TRENDS

1960-1980

	1960		1970			1980			Avg. Annual Compound Change 1960-1980
	#	% of SMSA	#	% of SMSA	% Change	#	% of SMSA	% Change	
Madison City	126,706	57.1%	171,809	59.2%	35.6%	170,616	52.7%	-0.7%	1.5%
Madison Urbanized Area	157,814	71.1%	205,457	70.8%	30.2%	232,945	72.0%	13.4%	2.0%
Madison SMSA	222,095	100.0%	290,272	100.0%	30.7%	323,545	100.0%	11.5%	1.9%

Source: U.S. Census, Census of Population and Housing, 1960, 1970, 1980.

The 1960's was a period of centralization as the city of Madison grew faster than either the Madison urbanized area* or the outlying Dane County area (35.6% vs. 30.2% and 30.7%, respectively). Perhaps responding to the higher taxes, the limited-growth policies of local government, and the tighter regulation of land development within the City of Madison, population in the city declined 0.7% in the 1970's while the urban fringe suburbs grew by 30.9% and the outlying county areas grew by 27.9%. The disparity in growth rates, particularly the high growth rate of the urban fringe suburbs, suggest that the Madison area is still attracting population but that the new residents are choosing to live outside of the jurisdiction of the city. This phenomenon is shown more clearly in Exhibit 21 which shows population growth for Madison, the urban fringe suburbs and the outlying county areas for 1974 through 1980 using 1970 as a base. Madison's growth is highly variable, losing as much as 3,188 people in 1974 and gaining as much as 3,544 people in 1976. The net effect is stagnant population growth. The urban fringe and outlying county areas, though, have shown steady consistent increases in the range of 2.5%/year. The urban fringe has grown at a faster rate than either the outlying county areas or the

*1970 Census. The Madison urbanized area in 1970 included the City of Madison and its urban fringe suburbs. These suburbs include the towns of Blooming Grove, Burke, Cottage Grove, Fitchburg, Madison Town, Middleton Town, and Westport; the villages of Maple Bluff, McFarland, and Shorewood Hills; and the 4th class cities of Middleton, Monona, and Verona.

EXHIBIT 21

YEARLY POPULATION CHANGES FOR MADISON, URBAN FRINGE SUBURBS, AND REST OF DANE CO.: 1974-1980

Year	Madison	Urban Fringe Suburbs	Rest of Dane County
1970 Total	171,809	47,623	70,840
1974	(3,188)	5,331	8,466
1975	(102)	1,392	3,361
1976	3,544	2,192	1,204
1977	(1,825)	1,503	1,906
1978	875	1,235	2,939
1979	1,938	329	2,127
1980	(2,435)	2,724	(243)
1980 Total	170,616	62,329	90,600
Total Growth	(1,193)	14,706	19,760
Total % Change	-0.7%	30.9%	27.9%
Average Annual Compound % Change	-0.07%	2.73%	2.49%

Source: Dane Co. Regional Planning Commission, Regional Trends, 1981.

City of Madison, 2.73%/year vs. 2.49%/year and -0.07%/year. (See Economic Base section for a further discussion of this topic.)

Against this background, population has been forecast for Madison and Dane County in terms of a range of potentials. (See Exhibit 22.) The high range for Madison assumes a re-centralization of population caused by rising energy prices, increasing employment by government, and the successful location of a proposed high-tech research park within the city. The high range for Dane County represents a growth rate that exceeds the substantial experience of the 1970's and an expansion of the region's economic base into light manufacturing and research. The low range forecasts assumes a low level of growth for Madison and a rate of growth for Dane County consistent with recent trends.

Under the low range projections, Madison's population will grow by 18,711 people and Dane County's by 33,675 people by 1985. The high range assumptions produce growth of 31,435 people in Madison and 51,532 people in Dane County over the same period. The spatial distribution of growth will occur predominantly in the urban fringe suburbs with a small but significant portion occurring on bypassed, undeveloped inner-city lots or in well-located, rehabilitated old buildings. The reasons for this are discussed in more depth in the Economic Base section of this report.

Economic Base

An essential part of the background of a market area is an analysis of data related to the economic base as it directly affects the housing market under consideration. The subject site is located in the center of the Madison metropolitan area and is affected directly by the unique characteristics of Madison's economic base.

Madison has a unique economic base characterized by a low level of dependence on manufacturing industries and an unusually high concentration in the service and government sectors. While manufacturing accounts for 28.7% of total employment in the nation as a whole, it accounts for only 10.8% in the Madison area. Service and government sectors function as "basic" industries and combine to account for 46.8% of Madison area employment.

The Madison area employment base registered significant growth between 1970 and 1980. Total non-farm employment increased by 49,300 jobs during this period--a level equivalent to over 4,900 jobs on an average

EXHIBIT 22

PROJECTED TOTAL POPULATION FOR MADISON AND DANE COUNTY

1985 AND 1990

Population Projection

Year	Madison		Dane County	
	Low	High	Low	High
1980	170,616	---	323,545	---
1985	189,327	202,051	357,220	375,077
1990	209,032	265,238	394,400	434,817

Population Growth-Amount and Growth Rates

Period	Madison				Dane County			
	Low		High		Low		High	
	#	%	#	%	#	%	#	%
1980-1985	18,711	11.0%	31,435	18.4%	33,675	10.4%	51,532	15.9%
1985-1990	19,705	10.4%	36,441	15.9%	37,180	10.4%	59,740	15.9%
Total	38,416	22.5%	67,876	39.8%	70,855	21.9%	111,272	34.4%
Avg. Annual Growth	3,842	2.1%	6,788	4.5%	7,086	2.0%	11,127	3.0%

Assumptions: Dane County - Low Growth: based on the historic 20 year average growth rate of 2% per year.
High Growth: based on a growth rate of 3% per year.
Madison - Low Growth: based on 53% of Dane County population.
High Growth: based on 61% of Dane County population.

Source: DCRPC, Regional Trends, 1981; authors.

annual basis. Principal growth sectors were government, services, F.I.R.E., and retail trade, accounting for 42,100 of the new jobs. However as Exhibit 23 indicates, the rate of growth may be slowing down. Between 1980 and 1981 employment grew by only 800 jobs. Of particular significance is the lack of growth in the government sector which actually lost 2,500 jobs. Somewhat offsetting this is continued strong growth in the service sector which employed 1,400 more people in 1981 than in 1980.

Government employment has traditionally been a basic industry for Madison and in the past has insulated the local economy from cyclical swings in the economy. The conditions of the recession (depression?) of 1980-1982 are different than in the past, though, with the Reagan Administration at the Federal level and Dreyfuss Administration at the State level, both pursuing policies to limit and cut back the size of government. Federal employment cutbacks have not occurred in Madison yet, but State employment and local employment have been decreased by 300 jobs each in the last year. The implications for the future are unclear. Federal employment will likely decrease as social programs are cut back or eliminated but State employment may increase as programs currently under Federal jurisdiction are transferred to the State. With Madison being the state capital, a large share of any new employment thus created would be centered here.

The service and F.I.R.E. sectors deserve special comment also. Service employment increased by 13,500 jobs in the 1970's and another 1,400 in 1981. This sector includes business services, repair services, private household and other personal services, entertainment and recreation services, health services, and legal, engineering, and other professional services. The service industry is based on specialization of activity made possible by advances in computer technology, the emergence of national markets, and the high growth of real income in the 1960's and 1970's. Because of the rapidly changing state of the art in computer technology and the continuing development of national consumer markets, the service sector will continue to grow in the 1990's. A key sector of the service industry is high technology research parks in communities with large universities. The research facilities of the university and the presence of a highly trained labor market (professors, researchers, and students) provide the basic services that the emerging high technology companies require. The University of Wisconsin makes

EXHIBIT 23

EMPLOYMENT DISTRIBUTION IN MADISON

Madison Area

ESTIMATED CIVILIAN LABOR FORCE

	December 1981	NET CHANGE Nov. 1981 TO Dec. 1981	NET CHANGE Dec. 1980 TO Dec. 1981
PLACE OF RESIDENCE DATA			
Civilian Labor Force	188,900	- 800	3,700
Unemployment	11,500	1,300	2,900
Percent of Civilian Labor Force	6.1	XXX	XXX
Employment	177,400	-2,100	800
PLACE OF WORK DATA			
Nonfarm Wage and Salary	173,400	-1,200	- 300
Manufacturing	20,300	- 200	700
Durable Goods	9,600	- 100	100
Stone, Clay & Glass Products	770	0	- 90
Primary Metal Industries	600	- 20	0
Fabricated Metal Products	1,150	- 130	- 70
Nonelectrical Machinery	2,100	0	0
Electrical Machinery, Equip, & Sup.	1,510	20	150
All Other Durable Goods	3,500	100	100
Nondurable Goods	10,700	- 100	600
Food & Kindred Products	5,900	- 200	600
Printing, Publishing, etc.	2,300	0	0
Chemical & Allied Products	670	- 30	10
All Other Nondurable Goods	1,810	130	- 20
Contract Construction	6,300	- 700	- 300
Trans., Comm., Elec., Gas & San. Serv.	6,600	100	100
Trade	38,900	0	400
Wholesale	6,900	0	200
Retail Trade	32,000	0	200
Finance, Insurance & Real Estate	13,000	0	100
Services & Miscellaneous	32,900	- 100	1,400
Government	55,500	- 300	-2,500
Federal	3,800	0	0
State	37,900	- 300	-1,300
Local	13,800	0	-1,300
Persons Involved in L-M Disputes	0	0	0

Preliminary Estimates

OTE: Totals may not add due to rounding.

SEASONALLY ADJUSTED LABOR FORCE ESTIMATES

ITEM	DEC. 81	NOV. 81	DEC. 80
CIVILIAN LABOR FORCE (1)	187,500	186,800	183,900
UNEMPLOYMENT	11,200	10,600	8,400
PERCENT OF LABOR FORCE	6.0	5.7	4.6
EMPLOYMENT (1)	176,300	176,200	175,500

1/ Includes L-M Disputes

Source: Wisconsin Department of Industry, Labor, and Human Relations, Employment Review, 1/82.

Madison a prime candidate to become a major research center. The Finance, Insurance, and Real Estate sector grew the fastest in percentage terms, 104.8%, in the 1970's. This sector is becoming less and less dependent on locating home offices in their major sales markets as changing technology and growth of national markets allows these institutions to separate data processing and corporate management functions from the sales function. Madison is the home of six insurance companies, which are attracted by close access to the seat of State government and the large, relatively cheap labor supply. As Madison becomes less reliant on manufacturing, it will become more reliant on the service and F.I.R.E. sectors.

Historically, economic development and population growth in Dane County has centered around Madison, and, within Madison around the Capital Square. As a result, Dane County's housing has also been concentrated around Madison. The economic and population growth in Madison during the 1960's occurred mostly within the city limits. (See Population Trends and Forecasts section.) This pattern gradually changed in the 1970's as Madison residents and businesses mirrored national trends by locating predominantly in suburban locations served by good transportation networks. The west side and south side of Madison benefited most from this trend; they grew 3.5% compared to a decline of 16.7% in the Capital Square area, and a decline of 5.1% on the east side. The primary reasons for this are the location of the UW campus drawing students, faculty, and researchers, to the west side, large tracts of relatively cheap land being available, and the excellent transportation network linking the west side to the rest of the city. Another major factor was the implementation of restrictive land use controls by the City of Madison that drove much development outside the city's three mile extraterritorial zoning jurisdiction.

Although growth in the 1970's occurred predominantly in Madison's suburbs, it was still centered around Madison and occurred primarily because of increased government and service sector employment. These industries are concentrated around the Capital Square area and their drawing power will serve to limit the further geographic dispersion of the population. New housing will still be attracted to the urban fringe, but a portion of the population tied to government and University employment desiring an urban lifestyle will increase the demand for housing in the Isthmus areas.

Employment projections are made under two sets of assumptions. Under the low growth assumptions, the rate of increase in government employment will fall from the 2.58% growth rate of the 1970's to 1% growth through the 1980's. This rate assumes that the growth of all levels of government will decline as government relinquishes responsibility for major social programs. Additionally, this scenario assumes that Madison is unsuccessful in developing a major high tech research park and the growth of the service sector falls from the 5.86% annual rate of the 1970's to a 4% rate in the 1980's. The high growth scenario treats the 1979 to 1981 decrease in government employment as a temporary phenomenon brought about by the recession and the transfer of responsibility for social programs from the Federal level to the State's. Accordingly, government employment is forecast to increase at 3%/year, a rate higher than the 1970's rate of 2.25%/year. This scenario also assumes that the growth of the service sector in Madison will boom due to the successful development of a high tech research park. Service sector growth is assumed to be at a 7% annual rate.

The employment projections are made using Export Base analysis. Export Base analysis assumes that an area's employment base is composed of two sectors: a basic sector called the "Export Base" that provides goods and services to consumers outside of the region and a non-basic sector that provides goods and services only to consumers within the region. The Export Base industries import income which is recycled in the local economy and supports the non-basic industries. Basic industries can be identified by using a concept economists call the Location Quotient. The Location Quotient compares the proportion of total region employment in a given industry to the proportion of national employment in the industry.

$$\frac{\%\text{ employed in industry x in region}}{\%\text{ employed in industry x in nation}} = \text{L.Q.}$$

Industries with L.Q.'s greater than one are considered basic industries, based on the assumption that the local demand for the industry's output would just be satisfied if local employment in the industry was the same as the national average. Any employment over the average produces excess product that will be exported to other areas. Appendix C shows the methodology used and calculates the employment projections for 1985 and

1990 using the above assumptions. Exhibit 24 summarizes the results.

EXHIBIT 24

PROJECTED EMPLOYMENT GROWTH FOR DANE COUNTY:
1985 AND 1990

		1985	1990
Low:	Basic Employment	41,853	43,077
	Non-Basic Employment	151,908	156,351
	Total Employment	193,761	199,428
High:	Basic Employment	43,162	46,225
	Non-Basic Employment	156,659	167,776
	Total Employment	199,821	214,001

Source: DILHR, Employment Review
Creative Consultants, Inc.

The Low Growth Scenario predicts an employment increase in Dane County of 4,861 jobs by 1985 and 10,528 jobs by 1990. The High Growth Scenario predicts an increase of 10,921 jobs by 1985 and 25,101 jobs by 1990. Comparing these projections with the population forecasts, Exhibit 25, it can be seen that under both scenarios, a single job would have to support a larger number of residents under the high population forecast than is supported presently.

EXHIBIT 25

RATIO OF POPULATION TO EMPLOYMENT
FOR 1985 AND 1990

	1980	1985		1990	
	Population/ Employment	Low Population Projection/ Employment	High Population Projection/ Employment	Low Population Projection/ Employment	High Population Projection/ Employment
Low Economic Growth	1.71	1.85	1.94	2.00	2.18
High Economic Growth	1.71	1.79	1.88	1.85	2.03

The low population forecast also indicates an increase in the amount of population that must be supported but the increase is much smaller keeping the ratio more in line with historic rates. This analysis indicates that future economic growth can best support the population projected under the low growth assumptions. The high population growth assumptions would require a greater increase in productivity and real disposable incomes than the low growth assumptions. The implication for housing is that future demand will be constrained by the relatively slower increase in employment than the increase in population. This lower demand will be reflected in larger household sizes as individuals and families "double-up" to increase total income and to meet the rising living costs. The decrease in demand is not in absolute terms; it is, rather, a slowing of the rate of increase that would be otherwise experienced if population growth was unconstrained by slower economic growth.

A word of caution is necessary for proper use of the foregoing economic analysis. Every method presently used to predict local economic activity is highly subjective and open to various interpretations from the same data base. All are limited to lesser or greater degrees by the assumptions made in defining and measuring basic industries, employment levels, and non-basic industries as well as by the assumptions regarding the spatial distribution of consumption, demand, and supply. Although the Export Base Method use here predicts a lower level of economic growth than population growth, other methods such as Shift-Share Analysis or Input-Output may indicate the reverse. Therefore, the results determined in the foregoing analysis should only be used in a "best-guess, ball-park" descriptive sense rather than in a statistically reliable predictive sense.

There are four conclusions to be drawn from this analysis.

1) Employment is expected to increase by between 10,500 and 25,000 jobs by 1990 providing incomes and population to support a growing housing market.
2) Employment in the manufacturing sector will decrease as a percent of total employment, while employment in the government, F.I.R.E., and service sectors will continue to increase their percentage of total employment. This will cause a net increase in average incomes and because

of the location of large service sector employment centers, lead to an increase in demand for well-located, inner-city housing.

3) The lower growth rate of employment, relative to that of population, may serve to temper the increase in housing demand that may otherwise be expected.

4) Most growth will continue to occur in the urban fringe suburbs, particularly on the south and west sides, constrained by the local economy's dependence on government and service sector employment and the tight land use regulations on development.

Incomes

The distribution and level of incomes in an area are important factors that help determine that area's purchasing power for housing. Changes in the distribution of incomes over time give indications of the area's ability to pay for various priced housing in the future.

The most reliable income data is collected by the U.S. Census Bureau in the decennial census. Unfortunately, income distributions from the 1980 Census are not available and estimates made from the 1970 Census are based on data that is at least eleven years old. Income distributions for Madison for 1976 through 1979 are available, though, through the Wisconsin Department of Revenue Division of Research and Analysis. This information is based on Wisconsin State Income Tax Returns and is collected according to Wisconsin Adjusted Gross Incomes which are not directly comparable to the Federal Adjusted Gross Incomes used by the Census Bureau. Recognizing that substantial bias probably exists in the data because of various classes of people that don't file Wisconsin income tax returns and distortions caused by the different definition of income, it was still felt that this data more accurately reflected the true distribution of incomes in Madison than a projection based on eleven year old data. Exhibit 26 provides a distribution of actual incomes adjusted for inflation (1982 constant dollars) for 1976 and 1979 and an estimate of the 1982 distribution.

EXHIBIT 26

1982 HOUSEHOLD INCOME DISTRIBUTION--MADISON

	1976		1979		1982	
WAGI Class[a]	#[b]	%	#	%	#	%[c]
<4,000	25,574	39.5%	17,812	25.9%	14,764	21.5%
4,000- 4,999	5,128	7.9%	4,925	7.2%	4,670	6.8%
5,000- 7,999	8,116	12.5%	8,503	12.4%	8,584	12.5%
8,000- 9,999	5,205	8.0%	5,716	8.3%	5,494	8.0%
10,000-11,999	3,862	6.0%	4,677	6.8%	4,807	7.0%
12,000-14,999	3,963	6.1%	5,089	7.4%	5,631	8.2%
15,000-24,999	8,008	12.4%)	11,291	16.4%	12,361	18.0%)
25,000-49,999	4,251	6.6%) 20%	9,083	13.2%	10,301	15.0%) 36%
50,000-99,999	602	0.9%)	1,337	1.9%	1,648	2.4%)
Over 100,000	45	0.1%)	240	0.3%	412	0.6%)
	64,685	100.0%	68,671	100.0%	71,512	100.0%
Mean	9,469		14,215		15,216	
Median	5,633		8,544		10,274	

a) Wisconsin Adjusted Gross Income in constant 1982 dollars.

b) Households. The Wisconsin Department of Revenue data was based on combined husband and wife individual returns and was assumed to accurately reflect the distribution of household income.

c) 1982 distribution estimated. The change in distribution from 1979 reflects the impact of increased service sector, government, and university employment between 1979 and 1982.

Source: Wisconsin Department of Revenue, 1976 and 1979 Income Tax Statistics. DCRPC, 1980 Regional Trends.

Federal Reserve Bank of St. Louis National Economic Trends, 2/26/82.

Madison real incomes have increased in the last six years from a median income of $5,633 in 1976 to a median income of $10,274 in 1982. The distribution of incomes has correspondingly shifted into the higher brackets. In 1976 67.9% of households had incomes less than $10,000 per year and 20.0% had incomes over $15,000 per year while in 1982 only 48.8% had incomes less than $10,000 and more than 35% had incomes over $15,000 per year.

The major shifts occurred in the lowest and highest income brackets. Households earning less than $4,000 per year declined in these six years from 39.5% of all households to 21.5%. The middle income brackets of $4,000 to $15,000 changed very little. The brackets which grew the most were $15,000-$25,000 and $25,000-$50,000, growing from 12.4% to 18.0% and 6.6% to 15.0%, respectively. These two brackets alone increased by 10,403 households in six years.

These income trends indicate a significant improvement in real incomes suggesting that there is better support for more expensive housing purchases today than six years ago. These real income gains are not expected to be eroded very much by the present recession because of Madison's government-dominated economy. The future should show a continuation of this trend although at a slower rate than in the past. This indicates that there should be continued support for more expensive housing in the future.

Household Trends and Projections

Over the last decade, the Madison area witnessed a greater rate of growth in households than in population, reflecting declining average household sizes seen throughout the nation. Total households in Madison increased by 12,910 units, or 22.7%, between 1970 and 1980 while total households in Dane County increased by 33,392 units, or 36.3%.[1]

Declining average household size accounted for all of Madison's household growth, while Dane County's growth was fueled by both declining household size and population growth. Exhibit 27 shows that during the 1970's, average household size decreased steadily in both Madison and Dane County: from 3.03 persons/dwelling unit to 2.45 persons/dwelling unit for the city and from 3.16 persons/dwelling unit to 2.58 persons/dwelling unit for the county. This trend of smaller families is caused

by lower birthrates, higher divorce rates, and changing living patterns that stress independence and personal freedom, and privacy.

EXHIBIT 27

PERSONS PER DWELLING UNIT FOR MADISON AND DANE COUNTY

	1970			1976	1977	1978	1979	1980		
	Population	# Dwelling Units	Persons/ D.U.	Persons/ D.U.	Persons/ D.U.	Persons/ D.U.	Persons/ D.U.	Population	# Dwelling Units	Persons/ D.U.
Madison	171,809	56,760	3.03	2.66	2.58	2.54	2.52	170,616	69,670	2.45
Dane County	290,272	91,930	3.16	2.79	2.72	2.67	2.64	323,545	125,322	2.58

Source: DCRPC, Regional Trends

Future household growth will be determined more by population gains than by further decreases in household size. The 1980-1982 recession, coupled with high housing costs and prohibitive financing terms, have already slowed the decline of household size as students and young couples who can't afford downpayments or high rents are staying at home longer. Another factor affecting household size is the birthrate of the population. Nationwide, the birthrate dropped from 3.65 births per woman in 1960 to a low of 1.74 births per woman in 1976.[2] The birthrate has fluctuated slightly since then, indicating that the decline may be ending. The 1980's will see the bulge of the baby-boom generation pass through their middle and late 20's which indicates that a rise in the birthrate is likely, although the rise will probably not be on the same scale as occurred in the early 1950's. The implication for household growth is obvious: household size will become larger, decreasing the demand caused by the "uncoupling" of young people from their parents and divorces. Being a university town, though, the household size of Madison will remain small.

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[1]Dane County Regional Planning Commission, Regional Trends, May, 1981, p. 44.

[2]The Joint Center for Urban Studies of MIT and Harvard University, (Auburn House Publishing Co., Boston, Mass., 1981), p. 73.

With these trends in mind, high and low forecasts of household growth were made. The low forecast assumes that uncertain economic conditions, a rising birthrate, a slowing of the rate of "uncoupling", and continued high interest rates, will cause the average household size in Madison to remain at 2.45 persons/dwelling unit until 1985 and to increase to 2.6 persons/dwelling unit by 1990. The high forecast assumes that economic conditions improve, people continue to live independent, low-density lifestyles, and a rising birthrate in Madison is offset by the high proportion of college students demanding individual living units. These assumptions will be reflected in a gradual decrease in average household size to 2.35 persons/dwelling unit in 1985 and 2.30 persons/dwelling unit in 1990 for Madison. Dane County will experience a similar decrease only at a slightly higher magnitude.

The resulting growth of households for Madison and Dane County under the two scenarios is presented in Exhibit 28. The Low Growth Scenario produces an increase of 7,749 units by 1990 for an average of 775 units per year. This is the lowest level of household growth that has occurred in the last ten years. The main cause of this is, and will be, persistently high interest rates that are pricing new housing units out of the reach of all but the highest income groups.

EXHIBIT 28

PROJECTED TOTAL HOUSEHOLDS FOR MADISON AND DANE COUNTY:

1985 AND 1990

		1980			1985			1990		
		Population	Persons Per Hshld.	# of Hshlds.	Population	Persons Per Hshld.	# of Hshlds.	Population	Persons Per Hshld.	# of Hshlds.
Low:	Madison	170,616	2.45	69,670	178,407	2.45	72,819	209,032	2.6	77,419
	Dane Co.	323,545	2.58	125,322	357,220	2.58	138,457	394,400	2.65	144,469
High:	Madison	---	---	---	178,407	2.35	75,918	209,032	2.30	90,883
	Dane Co.	---	---	---	357,220	2.44	146,402	394,400	2.37	166,414

HOUSEHOLD GROWTH: AMOUNT AND GROWTH RATE

		1980-1985		1985-1990		1980-1990		Average Annual:	
		#	%	#	%	#	%	#	%
Low:	Madison	3,149	4.5%	4,600	6.3%	7,749	11.1%	775	1.06%
	Dane Co.	13,135	10.5%	6,012	4.3%	19,147	15.3%	1,915	1.43%
High:	Madison	6,248	9.0%	14,965	20.6%	21,213	30.4%	2.121	2.69%
	Dane Co.	21,080	16.8%	20,012	14.5%	41,092	32.8%	4,109	2.88%

Source: DCRPC, Regional Trends.

IDENTIFICATION AND DESCRIPTION OF BUYER GROUPS

Introduction

The ultimate consumer is the final determiner of project success. His need for housing services and his budget available to pay for them constrains and shapes the housing product that will be purchased. The housing market consists of many segmented groups of purchasers and each group is surprisingly predictable in terms of housing needs, budgets, and style preferences.[1] The purpose of this section is to identify the housing submarket that would likely be interested in purchasing condominiums on the subject property. The submarket is described by three attributes--location, buyer type, and unsatisfied housing needs. Location refers to the market area within which the ultimate consumers will be found. The market area consists of three levels depending on the likelihood of ultimate consumers living there. The primary trade area is the geographic core from which the project would draw most of its buyers. The secondary trade area is the area immediately adjoining the primary trade area which would contribute the next largest group of buyers, and the tertiary trade area consists of the rest of the world.[2] Buyer type is a description of those groups that would be likely to purchase housing on the subject site. They would be described according to socio-economic characteristics such as income, age, occupation, and marital status as well as by attitudes and preferences for housing types and urban locations. Unsatisfied housing needs describes the housing preferences and product features of the buyer groups that are not being supplied by their present housing. This section will give an indication of what unmet needs exist that could provide the basis for a competitive edge.

Methodology

To describe the location, buyer type, and unmet housing needs of the submarket, we conducted primary research on condominium and apartment residents in downtown Madison, and reviewed a number of market studies of

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[1] Graaskamp, Fundamentals of Real Estate Development, 1980, p. 28.

[2] Edwin M. Rams, Analysis and Valuation of Retail Locations, 1976, p. 81.

housing characteristics and preferences in Madison.

The primary research conducted was a telephone survey done on Saturday, April 3, 1982. The population surveyed was apartment and condominium residents in projects having locational attributes similar to the Lincoln School site. The attributes that were most important were access to either Lake Mendota or Lake Monona, a location in the Isthmus with convenient access to the Capital Square, and a site that permitted a degree of separateness from the surrounding neighbors. The primary purpose of the survey was to identify a target market within the entire market. Because of time and budget constraints we first assumed that residents in condominiums and apartments having the above locational attributes will be most reflective of the true submarket. The condominium and apartment projects surveyed were subjectively chosen based on these criteria, as well as on discussions with local real estate experts, a visual inspection of most multi-family housing projects in the Isthmus area, and the researcher's judgment. To the extent that there are buyers that were excluded by these assumptions, the survey results are biased.

The sample of respondents used for the condominium survey differed from that used for the apartment survey. For the condominium survey, six projects were selected. These projects are contained in Exhibit 29. Using Dane County Register of Deeds' records, the Address Telephone Directory, and the telephone book, a list of current residents in each of the condominiums was compiled and an effort was made to call each of them. The results from this survey are used to determine the primary, secondary, and tertiary trade areas of our project and to describe potential buyer profiles. Of all the condominiums surveyed, the Fauerbach on Lake Monona is most comparable to our site and its trade area and resident profile are especially relevant to the analysis of our submarket. This is because the factors that contributed to the success of the Fauerbach are very similar to the environmental and locational attributes of the Lincoln School site. These factors included lake frontage, spacious site to permit a design that would give a feeling of exclusivity and separateness from the immediate neighborhood, a downtown location close to the Capital Square employment area, and good views. All of the condominiums had some of these attributes; the Fauerbach was the only one that had all of them. Tulric Condominium, Shoreline Condominium, and Rutledge Bay

EXHIBIT 29

CONDOMINIUMS AND APARTMENTS SURVEYED

Name/Address	No. of Units	New or Converted	Year Built	Date of Condo Declaration	Comments
Fauerbach 404 S. Blount	37	new	1980	5/80	Best
Maple Woods Condo 10 Maplewood Lane	19	new	1981	9/81	Away from
Franklin House Condo 141 N. Franklin	9	new	1981	7/81	Unoccupied
Tulric Condo 1505 Morrison St.	3	new	1973	1/73	Lake Monona
Shoreline Condo 711 S. Few St.	4	conv.	1965	6/74	Lake Monona
Rutledge Bay Condo 1211 Rutledge St.	5	conv.	1958	4/81	Lake Monona
Apartments					
Kennedy Manor Apts. 1 Langdon St.					
Shorecrest East Apts. 1029 Spaight St.					
Riviera Apts. 3825 Monona Drive					
Townhouse Apts. 111 W. Wilson					
Nob Hill Apts. 1108 Moorland Road					

Condominium are small, older, converted apartment buildings that are crowded between other residential structures in the Marquette neighborhood. Maple Woods Condominium is located just east of the Maple Bluff Country Club and is spacious, but is not on the lake. The Franklin House Condominium is on the Isthmus but is three blocks away from Lake Mendota, wedged in between small, inner-city apartments.

Five apartments were selected for the apartment survey. These are also listed in Exhibit 29. All of the apartments had access to a lake but they differed significantly in terms of tenant profiles. One of the main purposes of this survey was to identify tenants who would be likely to consider a lakefront condominium in the event that they moved to new housing. This was based on the hypothesis that one important submarket for downtown condominiums would be downtown lakefront apartment residents. (The student market was explicitly excepted.) Of the five apartments chosen to be surveyed, an attempt was made to call all of the residents in the Kennedy Manor Apartment and a random sample of 20% of the residents in the other apartments. When five consecutive respondents in a building lived in their unit five or more years and had no plans to move in the future, no further calls were made at that building. The Kennedy Apartment was the most important because its locational attributes were most similar to the Lincoln School site and its tenant mix had the income needed to purchase a new condominium.

The apartment survey results are biased to the extent that: 1) the list of apartments chosen to be surveyed did not contain the population that was meant to be surveyed (apartment residents who would consider buying a downtown, lakeshore condominium), 2) the method of selecting respondents was somewhat arbitrary, and 3) significant concentrations of the target survey population lived outside the Isthmus and, therefore, had no opportunity to be surveyed.

Recognizing the limitations of this methodology, a review of other studies of the Madison housing market was conducted to substantiate the survey results. Three studies with results pertaining to this subject were found. Two were conducted by a local development company and the third was commissioned by the City of Madison. This latter study, The Isthmus Area Housing Study conducted by Raymond, Parish, Pine, and Weiner, Inc. of New York in 1978, was the most relevant and pertinent results of it, and the other studies will be incorporated in the

analysis where appropriate.

With an understanding of the data sources used and how they were derived, we can now proceed to discuss the results as they describe the location, buyer types, and unmet housing needs of the submarket.

Market Area of Buyer Groups

The housing market area consists of the regions from which the ultimate consumers will be drawn. Madison's housing growth in the last ten years has not been caused by immigration from other parts of the nation but by decreases in household size within the Madison area. (See Section II, Household Trends.) Future household growth is projected to be a continuation of these trends coupled with a slight increase in immigration. Therefore, the primary source of customers will be households changing locations within the Madison area. As a result, the primary, secondary, and tertiary trade areas will exist within Madison.

The Condominium and Apartment Survey was the major tool used to delineate these areas and a few words concerning the analysis of this data must be said first. For the trade area delineation, the condominium data was segregated in to two groups; Fauerbach responses and all of the other condominium responses. The apartments were assumed to be in the primary market area and the only conclusions that are to be drawn from their data is either "yes," the resident profile supports this assumption, or "no," the resident profile doesn't support this assumption (i.e., the residents are, or are not, in the primary market). The results of the survey are contained in Appendix D.

The conclusions of this analysis are: 1) the primary trade area consists of lakeshore property in the Isthmus area providing 40% of the purchasers, 2) the secondary trade area is the remaining Isthmus area plus other lakeshore residential areas in Madison accounting for 30% of the purchasers, and 3) the tertiary trade area includes the remaining Madison metropolitan area plus any immigration from other parts of the nation. The Kennedy Apartments can be considered a prime market source as 25% of the respondents desired to live in a condominium in the Isthmus area upon their next move. Exhibit 30 shows these areas. The basis for these conclusions are presented in the following section.

The condominium survey revealed that the vast majority of all respondents, 77.8%, previously lived in the Madison area. (See Exhibit 31.)

resident. Based on the evidence in the survey, we conclude that the primary trade area from which we would expect to draw the highest proportion of buyers is lakeshore neighborhoods in the Isthmus area. We can expect roughly 40% of our buyers to come from this area.

The secondary trade area consists of the remaining Isthmus area plus other lakeshore residential areas. This area is chosen based on the lake effect previously discussed and on the special attitudes and lifestyles of Isthmus area residents. We can expect this secondary market to contribute as much as 30% of the buyers. The tertiary trade area consists of the rest of Madison plus any immigration. Based on the Fauerbach's experience, immigration purchasers may account for as much as 22% of the market. The low level of support from non-Isthmus areas that are removed from lakeshores (8%) is supported by the Isthmus Area Housing Study conducted for the City of Madison in 1978. In this study an opinion survey was conducted of Isthmus and non-Isthmus area residents on attitudes towards Madison and the Isthmus area. It was found that, for the most part, non-Isthmus residents viewed the downtown area more negatively than Isthmus residents and have an unfavorable opinion of it as a place for people to make a home.[1]

Buyer Profiles

The Condominium and Apartment Survey and the studies uncovered in the literature review were used to profile the consumer groups. The condominium survey results are most relevant here because they are current and cover only people living in lakeshore condominiums. The Fauerbach responses are relied on principally to describe the sort of buyer that would most likely purchase housing on the lakeshore site. The results were described and analyzed statistically using a computerized statistical analysis program developed by Biomed. The programs used and the results of the analysis are described in detail in Appendix D. Valuable supporting evidence and insights are provided from the apartment survey and from the secondary sources. The buyer groups are described in terms of demographic characteristics (income, age, household size, and marital status) and lifestyle characteristics (occupation, type of

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[1] Raymond, Parish, Pine, & Weiner, Inc. Consultants, Tarrytown, New York (1978), Isthmus Area Housing Study, Opinion Survey, p. 58.

previous residence, and reasons for moving and choosing present housing type).

Buyer Profile Descriptions

Three distinct buyer profiles emerged from this analysis. As a matter of convenience we will call them Group 1, Group 2, and Group 3. A summary of their demographic and lifestyle characteristics is contained in Exhibit 31A.

EXHIBIT 31A
BUYER PROFILES

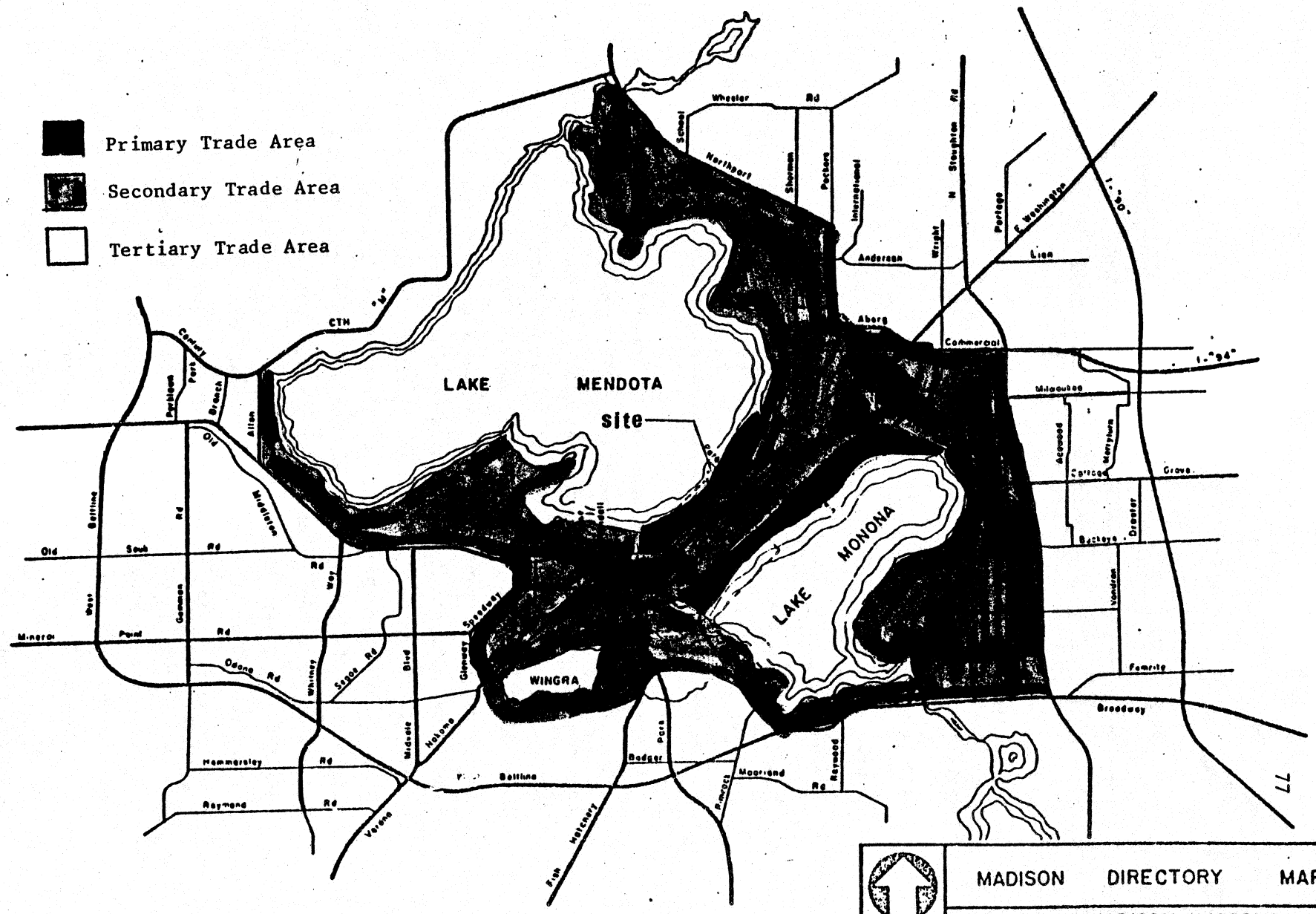
	Group 1	Group 2	Group 3
Income: Median	$40,000	$52,500	$30,000
Mean	$28,333	$42,143	$26,667
Marital status	Single	Married	Most single; some married
Age	18-44	45-55	45 to over 65
Occupation	Professional	Professional; some office	Either professional or office
Education	MS or PhD	High School or some college	All BS; some MS
Type of current residence	Apartment	Either apt. or single family	Mostly S.F., some apt.
Location of current residence	Predominantly Isthmus on a lake	Isthmus or west side on a lake	Isthmus or east side not on a lake

A. Group 1

Group 1 consists of highly educated singles with incomes ranging from $20,000 to $45,000. The median income was $40,000. These people are young, 18-44, and are employed in professional occupations such as government administration or education. All have extensive college education; 67% of them had either a Masters degree or a PhD. Perhaps

EXHIBIT 30

PRIMARY, SECONDARY, AND TERTIARY TRADE AREAS



	MADISON DIRECTORY MAP
SCALE NONE	CITY OF MADISON, WISCONSIN DEPARTMENT OF TRANSPORTATION DIVISION OF TRAFFIC ENGINEERING

EXHIBIT 31

PREVIOUS HOME LOCATIONS OF CONDOMINIUM RESPONDENTS

	Fauerbach		All Others		Total	
	#	%	#	%	#	%
Outside of Madison	4	22.2	2	22.2	6	22.2
West side	4	22.2	2	22.2	6	22.2
East side	4	22.2	2	22.2	6	22.2
Isthmus	6	33.3	3	33.3	9	33.3
Madison total	14	77.8	7	77.8	21	77.8
Total	18	100.0	9	100.0	27	100.0
On Lakefront	10	55.6	4	44.4	14	51.9

There was no difference between the Fauerbach residents and the other condominium residents on this point. Within Madison, 42.8% of the condominium owners previously lived within the Isthmus area. What is interesting is that all but one of the Isthmus respondents lived within sight of either Lake Mendota or Lake Monona. The east side and west side of Madison accounted for the remaining 57.2% of the respondents previously living in Madison with each area accounting for 28.6% Those previously living near a lake were 51.9% of all respondents, and 55.6% of the Fauerbach respondents. This fact is one indication of the unique effect that lakefrontage has on a condominium site. (The lake's attraction and effect on the housing market will be discussed in greater detail in the Buyer Profile Section.) In terms of market delineation, the difference in the Fauerbach percentage from the others indicates that lakeshore living is more of a lifestyle than merely a "least-cost housing" choice. The Fauerbach residents are relatively more affluent than the other respondents (72.3% of Fauerbach residents had incomes over $25,000 versus 44.4% of the other respondents) which gives them a wider choice of housing locations. In spite of alternative locations that could have provided similar housing at the same or less cost, former lakeshore residents chose another lakeshore residence. In general, once a person becomes a lakeshore resident, he tends to remain a lakeshore

due to their occupations, personalities, and lifestyles, all are unmarried and previously lived in an apartment. Surprisingly enough, there were as many single women as single men.

This group's lifestyle is active, people-oriented, and urban. All of them previously lived in an apartment; 78% lived in or close to the Isthmus. Living on the lakeshore was very important to them as it was a means of expressing their high status as well as separating them from the surrounding neighborhood. All of them had previously lived close to a lake before moving to their present residence. Equally important as being on the lake, was being "close to where the action is." (See Exhibit 32. Exhibit 32 summarizes the responses of all three groups to Question 14 which attempted to determine the importance of various locational attributes to the respondents when they made their housing purchase decision.) Being close to cultural and entertainment activities were important factors to 78% in choosing their present residence. The cultural and entertainment activities centered around the Capital Square and the UW are important in the lives of these people. The IAHS Study supports this finding. They found that Isthmus residents as a whole lived there because of its strategic location relative to lakes and cultural and entertainment activities. To a lesser, but still significant extent, they were drawn by the type of people living there. It is interesting that this group did not consider living close to work (Line D) or on a busline (Line C) as being very important in their decision to live where they do. This is a testament to their higher incomes and greater mobility that allows them to live further from their place of work.

Location is important to this group and it can be seen in their responses to "Good Neighborhood" (Line E) and "Diversity of Social Groups" (Line J). Most of the near east side is shabby and run down so the high scores on "Good Neighborhood" are surprising. The neighborhood surrounding these condominiums is aging and somewhat rundown. Regardless of this, 89% of this group still considered the neighborhood they moved to as good. This is a reflection of the success of the condominiums, especially the Fauerbach, segregating their occupants away from the immediate surroundings and orienting them inward and towards the lake. This group also desires to live near others like themselves; over half said that living

EXHIBIT 32

IMPORTANCE OF LOCATIONAL ATTRIBUTES: QUESTION 14[a]

Attribute	Group 1			Group 2			Group 3			Total[b]		
	Very Imp.	Imp.	Not Imp.	Very Imp.	Imp.	Not Imp.	Very Imp.	Imp.	Not Imp.	Very Imp.	Imp.	Not Imp.
A. Walking distance to downtown	5/.556[c]	1/.111	3/.333	5/.714	1/.141	1/.143	3/.500	1/.167	2/.333	16/.593	4/.148	7/.259
B. On the lake	8/.889	-/.000	1/.111	7/1.00	-/.000	-/.000	5/.833	-/.000	1/.167	24/.889	-/.000	3/.111
C. On a busline	3/.333	2/.222	4/.444	3/.429	1/.143	3/.429	3/.400	2/.333	1/.167	11/.407	7/.259	9/.333
D. Close to work	3/.333	1/.111	5/.556	7/1.00	-/.000	-/.000	5/.833	1/.167	-/.000	19/.704	2/.074	6/.222
E. Good neighborhood	4/.444	4/.444	1/.111	3/.129	2/.286	2/.286	1/.167	-/.000	5/.833	9/.333	7/.259	11/.407
F. Close to parks and recreation	3/.333	4/.444	2/.222	3/.429	2/.286	2/.286	3/.506	-/.000	3/.500	9/.333	8/.296	10/.370
G. Close to cultural and entertainment activities	5/.556	2/.222	2/.222	6/.857	-/.000	1/.143	4/.667	-/.000	2/.333	16/.593	4/.148	7/.259
H. Access to educational activities	5/.556	1/.111	3/.333	3/.429	1/.143	3/.429	3/.500	1/.167	2/.333	12/.444	4/.148	11/.407
I. Access to downtown shopping	2/.222	4/.444	3/.333	5/.714	-/.000	2/.286	2/.333	2/.333	2/.333	11/.407	9/.333	7/.259
J. Diversity of social groups	4/.444	1/.111	4/.444	5/.714	1/.143	1/.143	2/.333	1/.167	3/.500	12/.444	3/.111	12/.444

[a]Question 14: How important were the following characteristics for the location of your present home?

[b]Includes five respondents who did not fit into either Group 1, Group 2, or Group 3

[c]The results are tabulated by number of responses and percentages. For example, 5/.556 means 5 responses/55.6% of the responses to that line from Group 1.

in an area that has a diversity of social groups was unimportant in their housing decision.

B. Group 2

Group 2 consists of older, high income, married couples. Their incomes range from $35,000 to over $75,000 with a median income of $52,500. These people are older; their ages range from 45-55. The occupation of the head of the household is usually professional, more often with a corporation or self-owned business than with a public institution.

The family size is small as only one respondent had children living in the household. All are married usually with both the husband and wife working. The educational level tends to be low as 57% did not have a college degree. Significantly, this group was evenly split according to type and location of their previous residence. Approximately half lived in an apartment in the Isthmus while the rest lived in single family homes in either the east or west sides.

The lifestyle of this group reflects a change in family circumstances. Those formerly living in single family, detached houses accounted for 57%. Their housing needs changed so that their need for large living spaces decreased drastically and their new needs could be better satisfied with a smaller, lower maintenance condominium. Exhibit 33 summarizes the responses to the question, "What was your reason for moving?" The predominant response of Group 2 was a "lifestyle/employment change." The change was usually due to a job transfer or children leaving home. Group 2 differs from Group 1 in that living close to work and within walking distance of downtown are more important. This group is older and, in spite of their relatively high incomes, depend on close and convenient access to their everyday shopping and work needs. Every one of this group said that living close to their place of work was very important and 71% said that being within walking distance of the downtown shopping district was very important.

This group is the most "urban" of the three. Almost unanimously the respondents considered being close to the cultural and entertainment activities of the Isthmus to be very important. They also required a location that had a diversity of social groups as is characteristic of the Isthmus area. Their high incomes and long residence in Madison

EXHIBIT 33

RESPONSES TO QUESTIONS 3, 5, 8, AND 9[a]

	Group 1	Group 2	Group 3	Total
3. Reason for moving:				
Dissatisfied w/old home	2/.222	1/.143	2/.333	5/.185
Lifestyle/empl. change	3/.333	4/.571	3/.500	12/.444
Wanted to own	3/.333	1/.143	1/.167	6/.222
Location	1/.111	1/.143	-/.000	4/.148
5. Reason for choosing housing type				
Right location	4/.308	7/.583	3/.429	15/.395
Fit lifestyle	3/.231	1/.077	2/.286	6/.158
Convenience/low maintenance	2/.154	5/.417	2/.286	12/.316
Right price/value	1/.077	-/.000	-	2/.053
Investment	3/.231	-/.000	-	3/.079
8. Like most about present home				
Location	2/.154	5/.455	2/.167	11/.239
Good design/construction	2/.154	3/.273	4/.333	10/.217
Lakeshore/view of the lake	7/.538	1/.091	4/.333	16/.348
Conveience/security	2/.154	2/.182	1/.083	6/.130
Heated garage	-	-/.000	1/.083	3/.065
9. Like least about present home				
Poor construction	1/.111	1/.143	2/.333	5/.185
Poor neighborhood	-/.000	-/.000	2/.333	3/.111
Lack of privacy	2/.222	1/.143	-/.000	4/.148
Too much maintenance	1/.111	-/.000	-/.000	2/.074
No complaints	5/.556	5/.714	2/.333	13/.481

[a]Questions 3, 5, 8, and 9 were open-ended questions and all responses were used in the table. Most respondents provided more than one answer to the questions; therefore, the total number of responses is different for each question.

account for this. By living on the lakefront, they can make a statement about their status and prestige while still being close to the people, parties, and events that fill their social calendars.

C. Group 3

Group 3 is composed of elderly households with incomes ranging from $20,000 to over $50,000 with a median income of $30,000. For the households with incomes less than $35,000 (67% of this group) a primary form of wealth is the equity built up in their former home (now invested in their condominium). Most of them are still employed although nearing retirement. Their occupations range from self-employed business owner to office worker to professional. All have graduated from high school and most have at least a bachelor's degree. Most of them (67%) were single females that used to live in single family homes. None of them formerly lived by a lake; we surmise the reason they moved is because of a change in their lifestyle and that a condominium provided a low maintenance housing type located close to the shopping and recreational activities that fits their new situation.

The lifestyle of this group reflects their age and impending retirement. Every respondent said that being close to work (Line D, Question 14) was an important consideration when they chose their present residence. Much of their wealth is invested in this home and they still depend on their job for their primary source of income. To help stretch their budgets, they use the bus system extensively. Being on the busline was important to 83%. Also, the quality of the neighborhood was unimportant to them (Line E). These three facts are a result of this group's past period of residency close to the Isthmus and the necessity of finding daily shopping and consumer needs close to their home. The retirement needs of this group were expressed strongly in their response to Questions 3, 5, 8, and 9, summarized in Exhibit 33. These people moved because they were dissatisfied with their old home (33%) or had a lifestyle or employment change (50%). They chose a condominium as their new residence mostly because it was in the right location (43%) and also because it had low maintenance (29%). These people are more home-oriented than the other two groups: being close to the cultural and entertainment activities of the Capital Square (Line G) and being close to park and recreation areas (Line F) were of less importance to their housing

location decision than for the other two groups. The entertainment facilities around the Square are geared for a younger crowd than this group. They probably depend more on in-home entertaining with close friends, relatives, and associates than social mingling in the Square's night spots. Their relative lack of interest in parks and recreation areas deserves further comment. It might be expected that older, semi-retired people would enjoy the peace and serenity of a quiet stroll through a park, and this is probably true under certain conditions. But inner-city parks are not necessarily peaceful; they may be viewed by these people as dark, lonely, dangerous places where they would be exposed to attacks and assaults by strangers. Unless an atmosphere of security and safety is guaranteed, an inner-city park or recreation area is probably not a powerful drawing feature for this group.

Unsatisfied Housing Needs

Unsatisfied Housing Needs is a term used to describe those housing preferences of buyer submarkets that are not being satisfied at their present housing. These unmet needs will be the basis for designing our project with attributes and features that will meet these unsatisfied needs and therefore create an instant monopoly in the minds of our target market for our units. The housing needs for each group will be discussed in turn.

A. Group 1

The housing unit offered to this group should be designed to take maximum advantage of the subject property's location relative to Lake Mendota, the Capital Square, and the UW. It must be designed to fit into the lifestyle of young, professional singles with relatively high incomes. The survey revealed that on the whole this group was very satisfied with their present home. This was especially true of those respondents who lived in the Fauerbach Condominium. If there was any complaint that was notable from this group, it was that they felt a lack of privacy in their present residence. Each of the condominiums surveyed was in a very dense neighborhood and 22% of this group felt that they would like more privacy in their home. To a certain extent, this could be provided with a careful interior design to minimize the interaction of the residents with one another or with thick walls that limited the

sound that traveled from one unit to the next. A careful layout of window space and views could also provide a greater feeling of privacy.

Another important need of this group is to be able to express their prestige and status to their peers and the world. The principal means by which their prestige and status is expressed is by simply buying a housing unit in an exclusive development on the lake. The Fauerbach has capitalized on this need better than any of the others because of its direct access to Lake Monona. Our site is also in an excellent position to fulfill this need. Not only is it on Lake Mendota, but it is on a hill which would permit terracing to give lakefront exposure to more units. Also, a study conducted by Landmark Research, Inc. concluded that Lake Mendota was considered a more prestigious lake than Lake Monona.

It is interesting to compare some responses of non-Fauerbach residents to those of Fauerbach residents for Question 10: "Is there any particular item or feature missing in your house that you would like to have included?" The Fauerbach respondents were satisfied with virtually everything in their unit and couldn't think of anything else to be included. From the non-Fauerbach respondents, however, two of them would have liked a fireplace, one wanted a porch, another wanted more storage space, and another would have liked to have a garage. Each of these features are provided by the Fauerbach. The satisfaction of the Fauerbach residents with their units coupled with the mention of these missing features in the other condominiums indicates that these items (fireplace, storage space, patio, and garages) are features that the market expects in high quality condominiums.

B. Group 2

The housing unit for this group should be designed to take advantage of the site's location relative to the Isthmus area and to provide a high service, low maintenance, convenient housing unit. This group was least impressed by the lakeshore; only one respondent said that being on the lakeshore was what they liked most about their present home (Exhibit 33, Question 8). What impressed them most was the home's location, construction, and low maintenance. Six of the seven respondents lived in the Fauerbach; this is reflected in the lack of complaints about their present home. Those that could think of nothing they didn't like about it accounted for 71%.

An important need of this group relates to its age and impending retirement. These people no longer wish to handle the maintenance requirements of a single family home and have chosen a condominium because it is smaller and requires lower maintenance. Almost 42% of the responses to the question, "What was the reason for choosing your present housing type?", related to the convenience and low maintenance of a condominium relative to other housing types. This group has the highest income level of the three groups which provides them with the means to purchase the maid service, gardeners, and maintenance services that they require. One respondent was unpleasantly surprised at the amount of maintenance that is required in a condominium, even though it was significantly less than in his previous home. One solution to meet this need is to have a professional building management company hired by the condominium association. The costs would have to be included in the monthly common area charges, but if this group is the target market, they should be willing to pay for it.

Another need of this group that relates to their desire for low maintenance is their desire for quality construction. Quality construction is reflected in lower maintenance requirements and less worry.

The lifestyle of this group is active and urban. They use the cultural facilities in downtown Madison frequently and are generally active in civic affairs. Such a lifestyle implies a high degree of socializing with other people of similar lifestyle and hence a housing unit that can be used for dinners, parties, and social events as well as for everyday living needs. The interior should be designed so that the kitchen and dining areas are accessible to the living area and that the porch opens off of the living area giving a good view of Lake Mendota.

C. Group 3

The housing unit offered to this group should be designed with their impending retirement needs in mind. Security, convenience, and low maintenance should be stressed. Fully 83% of the respondents in this group moved because they were "dissatisfied with their old home" or because of a "lifestyle/employment" change. This group is in their prime earning years of 45 to 54. Their children have already left home

or are only a few years away from leaving. They are now faced with a situation where they have more free time available for themselves coupled with their highest level of lifetime income. The move to a condominium in the Isthmus reflects these expanded opportunities as well as the desire to reduce their caretaking responsibilities of their previous home.

Location relative to their place of work is more important than being in a good neighborhood, or being close to parks and recreation activities. This means that the design of our project would not have to be as sensitive to providing activities and views of the open parkland on our site as much as if one of the other two groups were the target market. More than any other group, this group was impressed with good design and quality construction. Being older and more established than the other groups means that recreational type amenities such as tennis courts or pools are not as important as socializing amenities like clubhouses or picnic areas. Because two-thirds of this group is single, socializing facilities and a condo-association sponsored activity program might be amenities that would attract this group.

MADISON CONDOMINIUM ANALYSIS

This report will deal exclusively with the condominium market located within the City of Madison. Having previously delineated a primary and secondary market within the city limits, we now turn our efforts to identifying the supply side of this market. Specifically, we will attempt to identify the existing and potential condominium supply in terms of product characteristics, absorption, and market capture rates.

Through this supply side analysis a better understanding of the types of units being accepted by the market and some idea of why that type of unit is being accepted will become evident. In addition, we will be in a better position to identify the competitive standards existing in the market.

Background

The condominium concept is fairly new in the Madison area. The first recorded condominium plat was the 176-unit East Bluff Condominiums in November 1971. Since that time, 1,775 units have been added to the supply. Of this number, 1,064 units represent new construction while 711 units are of the converted apartment type. Exhibit 34 shows the year-by-year history of condominium development in the City of Madison. An examination of the chart reveals some of the salient characteristics of the condominium market. These include:

- 67% of all condominium units constructed in Madison were put on the market in the last three years (1979-1981). Over this time period the annual number of condominium units increased from 75 in 1976 to 695 in 1981. This general growth in condominium development can be expected to continue.
- 68% of all condominium units are located on the west side of Madison, 28% in the central area, and only 4% on the east side. The high concentration of condominiums on the west side is consistent with the general growth of the city in this area over the past ten years.
- Condominium conversions outpaced new condominium development in both 1979 and 1981. This trend can be expected to continue as landlords seek to extricate themselves from the rental market where increases in operating expenses have outpaced increases in gross revenues. Second, the accelerating costs of land and construction, coupled with the high costs of financing, have forced many home builders out of business or at least forced them to scale down their projects. Moreover, conversion of apartment to condominiums does not require any municipal approval; the converter merely has to apply for a building permit.

EXHIBIT 34

MADISON CONDOMINIUM SURVEY

Year	Total Units	% Change	Projects New	Projects Conv.	Total Units New	Total Units Conv.	% Units New	% Units Conv.	East Side New	East Side Conv.	Central[a] New	Central[a] Conv.	West Side New	West Side Conv.
1971	176		1	0	176	0	1.00	0	0	0	176	0	0	0
		-388												
1972	36		2	0	36	0	1.00	0	0	0	0	0	36	0
		-157												
1973	14		1	0	14	0	1.00	0	0	0	14	0	14	0
		20												
1974	43		1	0	43	0	1.00	0	0	0	0	0	43	0
		-38												
1975	31		1	0	31	0	1.00	0	0	0	31	0	31	0
		261												
1976	112		2	1	96	16	.86	.14	0	0	0	0	96	16
		-6												
1977	106		2	0	106	0	1.00	0	0	0	32	0	74	0
		-41												
1978	75		1	0	75	0	1.00	0	0	0	0	0	75	0
		205												
1979	229		2	8	46	183	18.7	81.2	0	0	32	11	14	172
		13												
1980	258		8	12	178	80	68.2	31.7	0	2	76	19	102	59
		169												
1981	695		14	21	263	432	37.8	62.2	0	102	98	16	165	314
Total	1,775		35	42	1064	711	.60	.40	0	104	459	46	650	561

[a]For purposes of this study, the central area is defined as the land area bounded by Hilldale to the west and Commercial Rd. and Stoughton Rd. to the east.

Over the past two years 953 condominium units were added to the Madison housing supply. The location of these units is shown in Exhibit 35. This compares with 362 single-family units over the same time period, a difference of 591 units. This suggests that the Madison market is now readily accepting condominiums as a viable and affordable alternative to the single-family home. Given the facts previously presented, we conclude that the Madison housing market is currently undergoing a significant shift in its housing ownership pattern. This shift is away from single-family home ownership to condominiums with a higher percentage of sales represented by the converted variety. It is believed that the purchase price spread between single-family homes and condominium development will continue to grow larger in the future as the costs associated with a single-family, detached unit continue to limit the market segment of qualified buyers, as suggested in Exhibit 36.

General Characteristics of the Condominium Market

In order to gain a better understanding of the Madison condominium market, we reviewed a number of condominium market studies for the Madison area.[1] These studies provided information pertaining to the type of product being offered and the types of financing currently available. The information gleaned from these reports is presented below.

- For better quality developments, the most common unit type is the two-bedroom. Over 54% of all condominium units in Madison are of the two-bedroom variety as shown in Exhibit 37. This contrasts with 15% for one-bedroom units and 17% for three-bedroom units.
- The best-selling unit is also the two-bedroom unit (for better quality condominiums). Sales data from 1973 through March 1979 reveal that two-bedroom condominiums represented 69% of all sales during this period, as shown in Exhibit 38.
- As might be expected, the price range for condominiums in Madison varies greatly depending on the location of the unit, the construction quality, the unit size, and the amenities offered. Generally, one-bedroom condominiums are selling in the range of $54-83 per square foot, two-bedroom units at $43-85 per square foot, and three-bedroom units between $39-68 per square foot.

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[1] The studies reviewed include (a) Melaniphy & Assoc., Housing Feasibility Analysis, Vacant Bus Barn Site (December 1981); (b) Madsen Corp., Condominium Sales Analysis (1981); (c) Madsen Corp., Apartment and Condominium Study (1981).

EXHIBIT 35

LOCATION OF NEW AND CONVERTED CONDOMINIUM PROJECTS, 1980-81

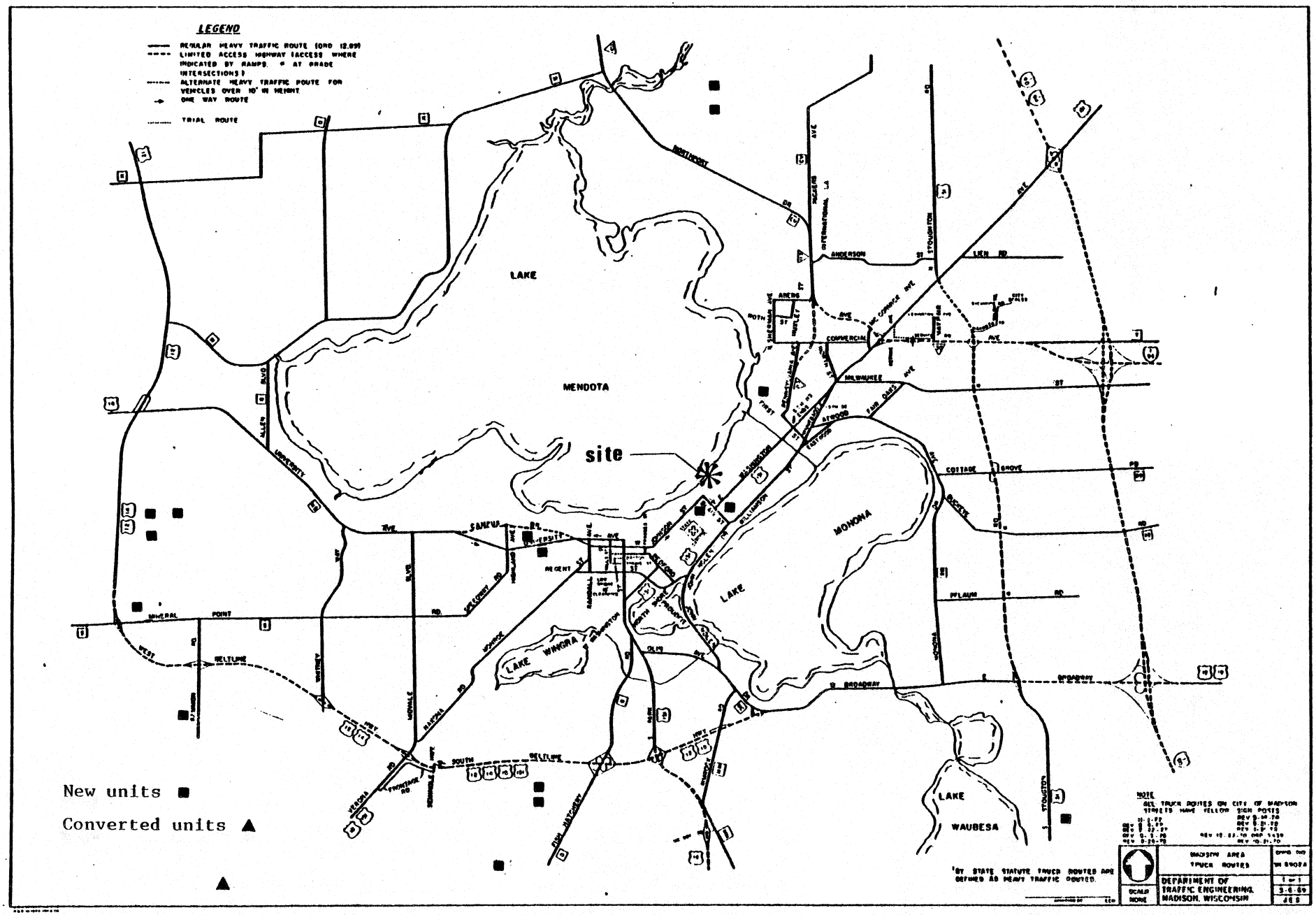

EXHIBIT 36

CONDOMINIUM vs. SINGLE FAMILY DEVELOPMENT[a]

Year	Condominiums	Single Family Homes
1971	176	304
1972	36	326
1973	14	310
1974	43	222
1975	31	354
1976	112	539
1977	106	700
1978	75	591
1979	229	460
1980	258	209
1981	695	153

[a] Source: City of Madison Tax Assessor's Office, Dane County Regional Planning Commission.

EXHIBIT 37

COMPOSITE SUMMARY OF UNIT MIX AND SIZE[a]

Unit Type	Percent	Range (sq.ft.)
1 br, 1 bath	13.5	825-900
1 br, 1 bath, den	7.5	1,257-1,344
2 br, 1 bath	18.1	1,130-1,320
2 br, 1.5-2 baths	36.1	1,250-1,450
2 br, 1.5-2 baths, den	15.8	1,350-1,600
3 br, 1.75-2 baths	9.0	1,500-1,700

[a]Source: Madsen Corporation, "Apartment and Condominium Study, 1981" (this summary is based on a sample size of 226 better quality units).

EXHIBIT 38

ABSORPTION STUDY OF SELECTED BETTER QUALITY CONDOMINIUMS

	Total Sales						Through March	
	1973	1974	1975	1976	1977	1978	1979	Total
1 bedroom	6	8	3	1	7	18	0	43
1 bedroom + den	-	-	6	3	2	13	1	25
2 bedroom	26	20	20	28	24	50	13	181
2 bedroom + den	2	-	2	3	3	32	1	43
3 bedroom	12	5	2	7	2	3	0	31
	46	33	33	42	38	116	15	323

Source: Madsen Corp., "Apartment and Condominium Study, 1981."

- As a minimum, condominiums in Madison offer a number of standard items in each unit. These include: central air conditioning, carpeting, dishwashers, range, refrigerators, garbage disposals, laundry facilities, and on-site parking.
- Location is a key factor to the success of a condominium project. In Madison condominium developments located on the waterfront, very close to downtown, or in or near affluent communities are capturing a large percentage of the condominium market.
- The high cost of financing has caused many developers and lenders to create various alternative financing schemes that aid in reducing the carrying costs of a condominium, if only for the first few years. Some of the more popular financing arrangements being used in Madison are shown in Appendix E.

Generally, mortgage financing is available only to a select group of buyers. The best terms include either a 17.5%, 30-year, fixed rate mortgage with 2 points at closing (First Wisconsin), or a 14.25%, 6 points, 30-year, fixed rate mortgage (Banco). Under these conditions, monthly payments plus tax and insurance escrows for a $70,000 mortgage would be approximately $1,250. Given the current income multiple of 2.5 times the annual income of the mortgagee that many banks in Madison use, a qualified mortgagee would have to be earning over $30,000 per year.

Condominium Absorption Rates

Earlier in this report we indicated that between January 1979 and December 1981, 1,182 condominium units were added to the housing supply. This figure represents approximately 67% of the total supply of condominiums in the City of Madison. Given this fact, we concluded that in order to get a good indication of condominium absorption in Madison, our efforts should be focused on estimating the number of unit sales in projects that were put on the market during 1979-1981.[1] This would give us one-, two-, and three-year absorption rates for new versus converted units.

The methodology developed for the absorption study is best explained by the use of an illustration:

- Marbella Condominiums. This converted 99-unit project on Mineral Point Road was placed on the assessor's rolls in May 1979. From examination of the January 1982 tax roll,

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[1]For the purposes of this study we concluded that a condominium project was added to the market supply the day the final plat was recorded or the converted units were placed on the tax assessor's roll.

we determined that 60 of the 99 taxpayers listed were persons other than the developer. On this basis, it was concluded that 60 of the 99 units had been sold over this time period indicating a 61% absorption rate for the project over a three-year period.

The results of the absorption study are shown in Exhibit 39. An examination of the chart reveals that the three-year absorption rate for condominiums in Madison is 75%, the two-year absorption rate is 72%, while the one-year or less absorption figure is a mere 20.7%. Overall, only 44.5%, or 526 units (out of 1,182 units available), have been absorbed into the Madison condominium market over this time period. Furthermore, the three-year absorption rate for new condominium projects was 57.3%, while that for converted units was 35.5%. Generally, these figures indicate a relatively weak condominium market in Madison, especially for the converted type. However, condominium buyers are very product-specific and, as we will show, condominium capture rates vary greatly depending on the product being offered, location, price, and amenities offered.

Condominium Sales--By Price

Exhibit 40 shows the condominium sales in Madison by price from January 1979 through January 1982.[1] The information was collected from two sources. The sales data from January 1979 through October 1981 were provided by the Madison based construction firm of Orville E. Madsen & Son Inc. in a study entitled "Condominium Sales Analysis." The raw data for this study were collected at the Dane County Register of Deeds office in Madison. Using the Madsen data base, we updated the study to include sales through January 1982.

The total sales shown in Exhibit 40 also include resales. Madsen estimates that approximately 20% of all recorded sales are resales. To verify this figure, we took a random sample of 136 condominium sales from January to April 1980 in six different projects. To identify resales, the names of the owners (grantees) were cross-referenced with the name that appeared on the 1981 tax assessor's roll. Since the owner of a

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[1] Sales data for February and March 1982 were not yet compiled in an index that identified each sale according to its associated plat. This made identification of condominium sales after January 1982 nearly impossible to track.

EXHIBIT 39

CONDOMINIUM ABSORPTION IN MADISON, 1979-1981

Year Units Put on Market	No. of Projects	Total Units	Total Units Available New	Total Units Available Conv.	Units Sold by 1/1982 New	Units Sold by 1/1982 Conv.	Percent Absorption New	Percent Absorption Conv.	Percent Absorption Total
1979	10	229	46	183	37	134	80%	73%	75%
1980	20	258	178	80	122	65	69	81	72
1981[a]	24	461	216	245	107	39	49	16	32
1981[b]	11	234	47	187	13	9	27	5	9.4
Total	65	1182	487	695	279	247	57.3%	35.5%	44.5%

[a]These units were recorded on the Assessor's roll between January and May 1981.

[b]These units have been placed on the Assessor's roll between June and December 1981. Many of these units are presales.

EXHIBIT 40

MADISON CONDOMINIUM SALES: JANUARY 1979-JANUARY 1982

Price	1979 Jan-Dec Sales	1979 Jan-Dec Percent	1980 Jan-Dec Sales	1980 Jan-Dec Percent	1981 Jan-Dec Sales	1981 Jan-Dec Percent	1982 January Sales	1982 January Percent	Total Sales	Total Percent
$ 25,000	1	.002	3	.011	11	.029	0	-	14	.014
30,000	4	.010	11	.042	4	.011	0	-	19	.018
35,000	7	.018	18	.068	15	.040	0	-	40	.039
40,000	38	.10	17	.065	17	.045	1	.125	73	.072
45,000	30	.079	29	.111	27	.072	0	-	86	.084
50,000	50	.133	28	.107	33	.088	0	-	111	.109
55,000	53	.141	32	.122	50	.133	0	-	135	.132
60,000	54	.144	19	.073	29	.077	0	-	102	.100
65,000	26	.069	29	.111	55	.146	4	.050	114	.112
70,000	14	.037	10	.038	40	.106	0	-	64	.062
75,000	22	.059	11	.042	19	.050	0	-	52	.050
80,000	30	.079	11	.042	18	.048	1	.125	60	.059
85,000	11	.029	7	.028	9	.024	1	.125	28	.027
90,000	15	.039	17	.065	11	.029	0	-	43	.042
95,000	15	.039	3	.011	8	.021	0	-	25	.024
100,000	10	.026	0	-	6	.016	0	-	16	.015
105,000	2	.005	2	.007	1	.002	0	-	5	.005
110,000	2	.005	1	.003	1	.002	0	-	4	.004
115,000	1	.002	2	.007	0	-	0	-	3	.003
120,000	2	.005	3	.011	3	.008	0	-	8	.008
125,000	3	.007	0	-	6	.016	1	.125	10	.010
130,000	0	-	4	.015	3	.008	0	-	7	.007
135,000	1	.002	1	.003	2	.005	0	-	4	.004
140,000	2	-	0	-	2	.005	0	-	4	.004
145,000	0	-	0	-	0	-	0	-	0	-
150,000	0	-	1	.003	1	.002	0	-	2	.002
160,000	0	-	0	-	0	-	0	-	0	-
>160,000	3	.007	2	.007	3	.008	0	-	8	.008
Total	376	1.00	261	1.00	375	1.00	8	1.00	1020	1.00
Mean price	$62,546		$59,712		$61,750		$87,600			
Median price	60,000		55,000		65,000		65,000			

condominium is responsible for the real estate taxes, we concluded that if the name on the tax assessor's roll was different (for a particular address) from the name of the 1980 grantee, then a sale had most likely occurred. The results of this survey are shown in Exhibit 41.

EXHIBIT 41

ANNUAL TURNOVER OF CONDOMINIUMS

Name of Complex/Location	Number in Sample	Percent of Turnover	Average Sales Price of Units
Fauerbach/central	28	7%	$ 89,500
Tamarack Trails/west	20	4	96,000
The Cove/central	30	25	88,000
Cherokee Gardens/west	15	15	55,000
Marbella/west	23	25	72,000
Sherman Terrace/central	20	35	43,000
Average annual turnover = 18%			

Source: Dane County Register of Deeds and City of Madison Tax Assessor's Office.

Our survey indicated that the annual turnover of condominiums in Madison averages approximately 18%. From Exhibit 41 it can be seen that turnover percentages varies significantly from one project to another. In an interview with some of those people who had moved out of projects with high turnovers (i.e., Sherman Terrace, Marbella), some of the major reasons for moving (other than relocation of job or more space desired) included: poor management, poor design and layout, and dissatisfaction with the social makeup of the complex.

Returning to Exhibit 39, it is shown that over the past three years 1,020 units have been absorbed by the Madison condominium market. Adjusted for resales, the number of new units absorbed over this time period is estimated at 836. The mean sales price over the period ranges from a low of $59,712 in 1980 to a high of $62,546 in 1979. The lower mean prices in 1980 and 1981 is indicative of the large percentage of converted units added to the supply which generally sell at prices 20% to 45% below that

of a new unit of approximately the same size. The median sales price has also held relatively constant over time, ranging from $60,000 in 1979 to $65,000 in 1981. When the 1981 median sales price is adjusted for inflation (using the Federal Reserve Deflator), the 1981 median price is lowered to $59,400, indicating a percentage decrease in the real median price of a unit.[1] This may indicate that on an aggregate basis condominium buyers are not experiencing any real appreciation in their unit. A major cause of this phenomenon is the high cost of financing which tends to lower sales prices.

Capture Rates of Various Condominium Projects

Previously we had mentioned that condominium sales in Madison vary greatly depending on a number of project characteristics including price, amenities, location, management, and construction quality. To get an idea of what types of units are selling and their associated capture rates, we conducted a survey of the best selling, better quality condominium projects in Madison. Capture rates were estimated by first identifying the sales price range of the units and then associating that price range to the sales price range in Exhibit 40. For example, if 25 units from a particular project had sales prices ranging from $60,000 to $75,000 in 1980, we would refer to this range in Exhibit 40. (If this number of resales was unknown, an 18% correction factor was used to adjust the gross sales figure.) In this case, 69 total units were sold in this price range ($60,000-$75,000) in Madison, indicating a 36% capture rate for that project in that particular year. The results of this survey are shown in Exhibit 42 and descriptions of each project are provided in Appendix F.

An examination of Exhibit 42 and Appendix F indicates a number of salient characteristics of the better quality condominium market. These are listed below.

1. Capture rates are largely a function of the sales price ranges of the units. Overall, middle-priced condominiums ($50,000-$75,000) have capture rates ranging from 7% to 20%. On the other hand, high end condominiums ($75,000-$120,000) have capture rates of 40% to 70%. This is typical given the fact

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[1]Source: The Federal Reserve Bank of St. Louis, National Economic Trends, March 1982.

EXHIBIT 42

CAPTURE RATES ON BEST SELLING CONDOMINIUMS

Project	Units Sold	Adjusted Units Sold[a]	Sales Price Range	Capture Rate
1980				
Tamarack Trails[b]	32	30	$77,000-120,000	52%
Fauerbach	23	21	85,000-115,000	65
Rolling Hills	17	14*	45,000- 60,000	13
Cherokee Gardens[b]	15	13	65,000- 85,000	19
1981				
Tamarack Trails	42	35*	77,000-120,000	43
Parkwood Village[b]	21	17*	65,000- 75,000	15
Oakbridge	23	19*	61,000- 70,000	15
Post Road Condominiums[b]	13	11	52,000- 67,000	7

[a]The gross sales prices were adjusted for resales by a factor of 18% only if specific turnover numbers were not available. The 18% figure was used in those cases where an asterisk (*) is shown.

[b]The information for these projects was provided by the Madsen Corp.

that in 1981 60% of all units sold fell in the $50,000-$75,000 range, while only 21% of all units sold fell into the $75,000 to $120,000 range.

2. Successful higher priced condominiums contain a number of features as standard. These include: (1) a garage, (2) air conditioning, and (3) a fireplace.

3. Successful higher priced condominiums have a number of locational attributes including: (1) located on or near a major arterial, (2) located within a ten minute driving distance of major employment centers, (3) within a five-to-ten minute drive to a major shopping mall (i.e., East Towne, West Towne, Hilldale, or Westgate).

4. From 60% to 100% of the units in these condominiums are of the two-bedroom variety. The square footage for two-bedroom units ranges from 1,100 to 1,600 while the sales price per square foot ranges from $65 to $78.

Present Competition

This section of the report deals with the identification of condominium projects that we believe would be directly competitive with a project on our site. A project was believed to be directly competitive if it contained all of the following (or nearly all) attributes:

1) Located in the Isthmus area.
2) Have a lakeshore view, be located on the lake shore, or in a stable neighborhood.
3) located on or near a major arterial.
4) Of better than average quality (i.e., sale per square foot of greater than $65).

The characteristics of each comparable complex is shown in Exhibit 43. The location of each complex is shown in Exhibit 44. All three of the comparables are located on the east side of the Capitol and within a two-mile radius of it. In addition the three projects were placed on the market in 1981.

As we previously mentioned, the Fauerbach site is the most comparable to the East Gorham site under study, given the fact that it is the only site in the Isthmus (in the past five years) to be developed into doncominiums that has lake frontage. In this regard, we are particularly interested in the overall market acceptability of the product being offered. Exhibit 45 shows the absorption and market capture rates for the three comparable projects. This exhibit shows that the Fauerbach Condominium has achieved a 89% absorption rate in a 12-month period compared to 37% and 44% for Maplewood and Franklin House, respectively. Of particular interest is the fact that two-bedroom unit sales accounted for a 59% market capture rate, suggesting a strong market preference for this type of unit. In contrast, the Maplewood and the Franklin House Condominiums have been moving slowly. Some of the major reasons cited by salespersons and prospective buyers include:

- No lake access.
- Units are relatively smaller than those offered at the Fauerbach.
- Franklin House: neighborhood stability questionable; little parking space, no garage.
- Maplewood: architectural layout is awkward.

EXHIBIT 43

COMPARABLE CONDOMINIUM PROJECTS IN THE ISTHMUS AREA

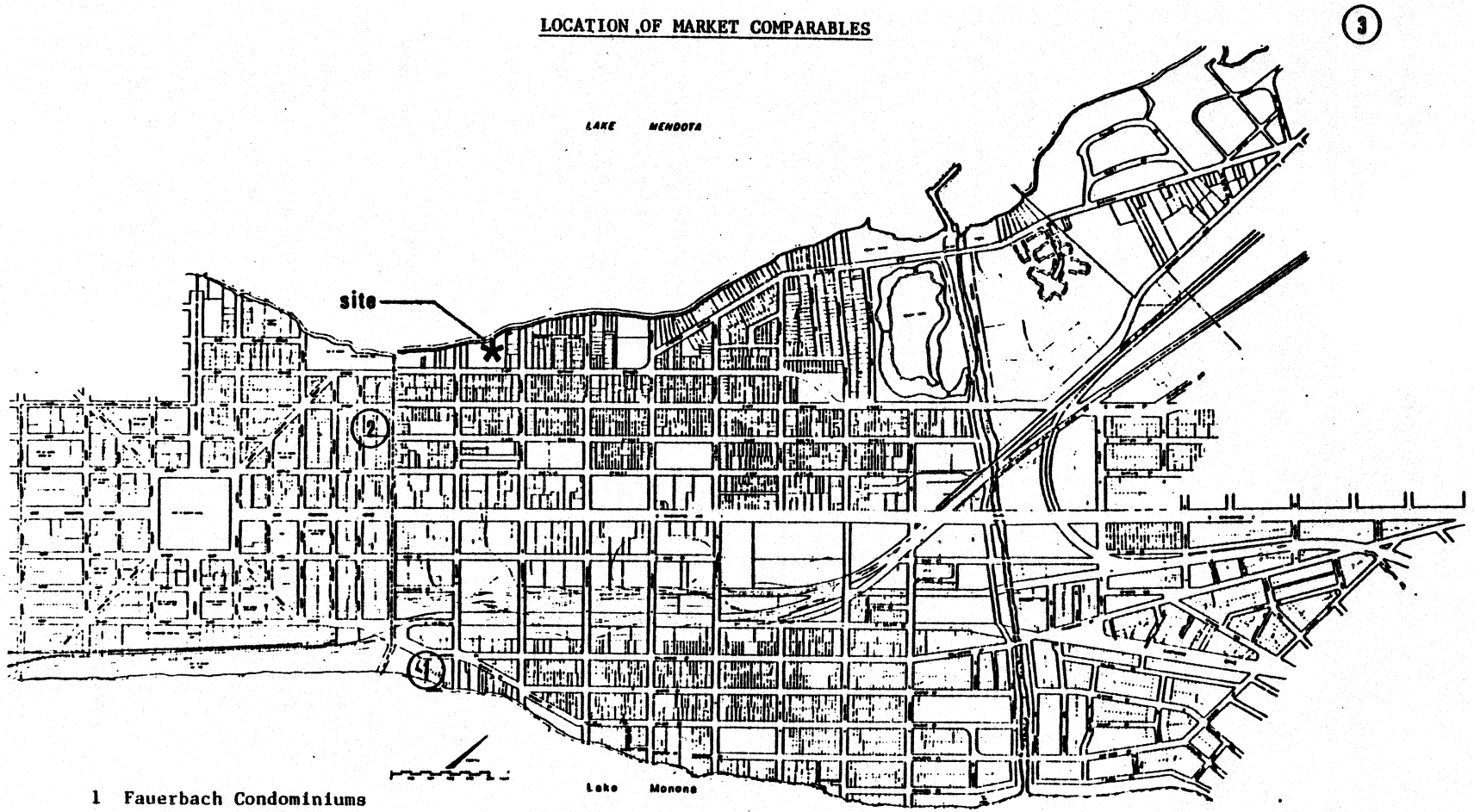
Project	Type of Units	Year(s) Opened	Total Units	Unit Mix	Unit Description	Unit Size	Price	Amenities	Cost Sq.Ft.	Financing Available	Comments
Fauerbach (Williamson & Blount Streets)	Townhouse Flats	1981	37	8-1 bed 21-2 bed 8-3 bed	1 bd, 1 bath 2 bd,1.5-2 bath 3 bd, 2 bath	830-900 1130-1600 1800-2100	$65-68,000 87-97,600 98-129,000	A,C,DW,F, GD,G(U),LR, R,S,SEC,B	$75-87 61-77 65-68	Land contract, 2 year term, amortized on 30-year basis, 12.5 to 14% interest; monthly fee not available	Located on Lake Monona
Maplewood (Sherman & Aberg Avenues)	Flats	1981	19	4-1 bed 16-2 bed	1 bd, 1 bath 2 bd, 2 bath	475-588 03-1455	$59,900-70M 79,900-86.4M	A,C,DW, GD,G(U), SEC,B	$46 35-40	Land contract, terms 1/3 down, no interest, 60 month amortization period; monthly fee $50-60	A total of 237 units slated for development over next 6 years in 14 phases
Franklin House (141 No. Franklin Street)	Townhouse	1981	9	4-1 bed 5-2 bed	1 bd, 1 bath 2 bd,1.5-2 bath	900 1200-1500	$59-64,900 74-79,000	A,DW,OPK, LR, SEC, B	$72 52-62	Land contract, 10% down, 11.75-13.75% interest, 1-3 year term, 30-year amortization; monthly fee not available	

Legend:

A = air conditioning
B = balcony or patio
DW= dishwasher
F = fireplace
GD= garbage disposal
G = garage
G(U) = underground parking
LR= laundry room
OPK = outdoor parking
SEC = security system
E = elevator

EXHIBIT 44

LOCATION OF MARKET COMPARABLES



1 Fauerbach Condominiums

2 Franklin House Condominiums

3 Maplewood Condominiums

EXHIBIT 45

ABSORPTION AND CAPTURE RATES FOR MARKET COMPARABLES

Project	Available	Units Sold 1981[a]	Absorption Rate[b]	Price Range	Market Capture[c]
Fauerbach	1 br-8	8		$65-68,000	13%
	2 br-21	20	89%	87-96,00	59
	3 br-8	5		98-129,000	20
Maplewood	1 br-4	3	37	59-70,000	2
	2 br-16	4		75-86,000	9
Franklin House	1 br-4	2	44	59-64,000	2.3
	2 br-5	2		74-79,000	2.5

[a]This number has been adjusted for resales.

[b]Absorption rate = units sold ÷ units available.

[c]Market capture rate = units sold in a price range as a percentage of the entire market share for a particular price range (refer to Exhibit 40).

Another major reason for the relative success of the Fauerbach Condominiums is the fact that the buyer group is less price-sensitive than those generally associated with Maplewood and Franklin House and therefore increasing costs of financing has had less of a bearing on the purchase decision.

Future Competition

It is important to examine both the amount and type of future condominium development given the fact that the proposed project will not be put on the market for one to four years. An identification of the future competition will give us an indication of the number of units we may expect to be added to the Isthmus condominium supply that are likely to be competitive with the project under study.

The first step in this analysis involved developing a scoring system to help identify those properties that could be developed and/or converted that would be competitive with the subject property. In

particular, five elements of comparability were selected as being most important to the comparability and success of a condominium development development in the Isthmus area. The description and weighting of each element is shown in Exhibit 46.

EXHIBIT 46

SCALE FOR SCORING POTENTIAL COMPARABLE PROPERTIES
ON DEVELOPMENT POTENTIAL CONSIDERATIONS

Lake effect (30%)	5 = Located on the lake front 3 = Lake view 1 = No lake view
Neighborhood characteristics (15%)	5 = Located in a prestigious neighborhood 3 = Associated with prestigious neighborhood and/or in stable condition 1 = Neighborhood in decline, a large percentage of transient residents
Proximity to residential support systems[a] (20%)	5 = Within a one-mile radius of major support systems 3 = Within a two-mile radius of major support systems 1 = Greater than two miles from major support systems
Vehicular accessibility (15%)	5 = On a residential street or cul-de-sac and within two blocks of major two-way arterial[b] 3 = On a major two-way arterial 1 = On a major one-way arterial and/or street
Availability of public financial assistance (20%)	5 = Located in a TIF district and/or proposed TIF district 3 = Located in area targeted for public improvements (new sewer, sidewalks, etc.) 1 = No assistance programs expected in the area

[a]Residential support systems include shopping centers, educational centers, employment centers, churches, hospitals, and recreational facilities.

[b]For this discussion a major arterial is defined as a street that has a 24 hour count of 18,000 or more. In the Isthmus this includes University Avenue, Johnson St., Gorham St., John Nolen Drive, East and West Washington.

The most important attribute identified was lake access, because of the willingness of buyers to pay a premium for this amenity as well as the superior performance of sales along the lakeshore. The second most important attribute was availability of public finance because of the increasing need for developers to reduce their going in costs. Currently, public assistance in the form of Tax Incremental Financing (TIF) Districts and/or Federal Grants (block grants, UDAG) are available in Madison, particularly in the downtown (Isthmus) area.

The next step involved identifying those property in the Isthmus area that contained either of the following attributes:

1) New condominium projects that are in the planning stages which will offer a higher quality project and some degree of lake access.
2) Higher quality apartment buildings that have some degree of lake view or access.

These properties were identified and scored according to the attribute criteria shown in Exhibit 46. The weighted point score of each comparable is shown in Exhibit 47, while the location of each comparable in shown in Exhibit 48. A brief description of each comparable property is provided in Appendix G.

The weighted score for each comparable was then measured against the weighted score for the subject property. This provided us with an indication of the relative comparability of each of the selected projects with respect to the subject property. In this regard, we concluded that any property with a weighted score of at least 3.0 (see Exhibit 47) contained the attributes to make that property competitive with the project under study.

The next step involved an attempt to gauge the number of comparable units that could be expected to appear on the market within the next three years. To do this we estimated the probable number of units that could be added based on the stages of development of each of the comparable properties. These probability rankings are shown in Exhibit 49.

The probability ranking for each of the comparable properties was then multiplied by the number of potential units to get an approximation of the effective potential condominium units that could be added to the Isthmus lakeshore condominium submarket within the next ten years. It is

EXHIBIT 47

POTENTIAL CONDOMINIUM DEVELOPMENT/CONVERSION IN THE ISTHMUS

Project	Potential Number of Units (A)	Lake Access (30%) (B)	Neighborhood Character (15%) (C)	Availability of Public Finance (20%) (D)	Proximity to Support Systems (20%) (E)	Vehicular Access (15%) (F)	Total Weighted Points (G)	Probability Rank (H)	Effective Potential Units (I)
New Condominiums									
Emporium	40	3/.90	3/.45	5/1.0	5/1.0	1/.15	3.50	.50	20
Nichols Station	40	5/1.5	3/.45	5/1.0	3/.60	1/.15	3.70	.70	28
Lincoln School	20	5/1.5	3/.45	5/1.0	3/.60	1/.15	3.70	.70	14
Canal Place	30	1/.30	3/.45	1/.20	3/.60	1/.15	1.70	NA	--
Maplewood	84	1/.30	5/.45	1/.20	5/1.0	5/.75	3.00	1.00	84
Apartment Conversions[a]									
Belleview Apartments	36	3/.90	5/.75	1/.20	3/.60	3/.45	2.90	.20	8
Kennedy Manor Apartments	64	3/.90	1/.15	1/.20	3/.60	3/.45	2.30	NA	--
Shorecrest Apartments	27	5/1.5	3/.45	1/.20	3/.60	3/.45	3.20	.20	6
Diplomat Apartments	50	3/.90	1/.15	1/.20	3/.60	5/.75	2.60	NA	--
Doty School	15	3/.90	1/.15	5/1.0	3/.60	5/.75	3.40	.90	13
Total	406								173
Subject property		5/1.5	3/.45	1/.20	5/1.0	3/.45	3.60		

[a]A description of each comparable is provided in Appendix G.

EXHIBIT 48

LOCATION OF POTENTIAL FUTURE COMPETITION

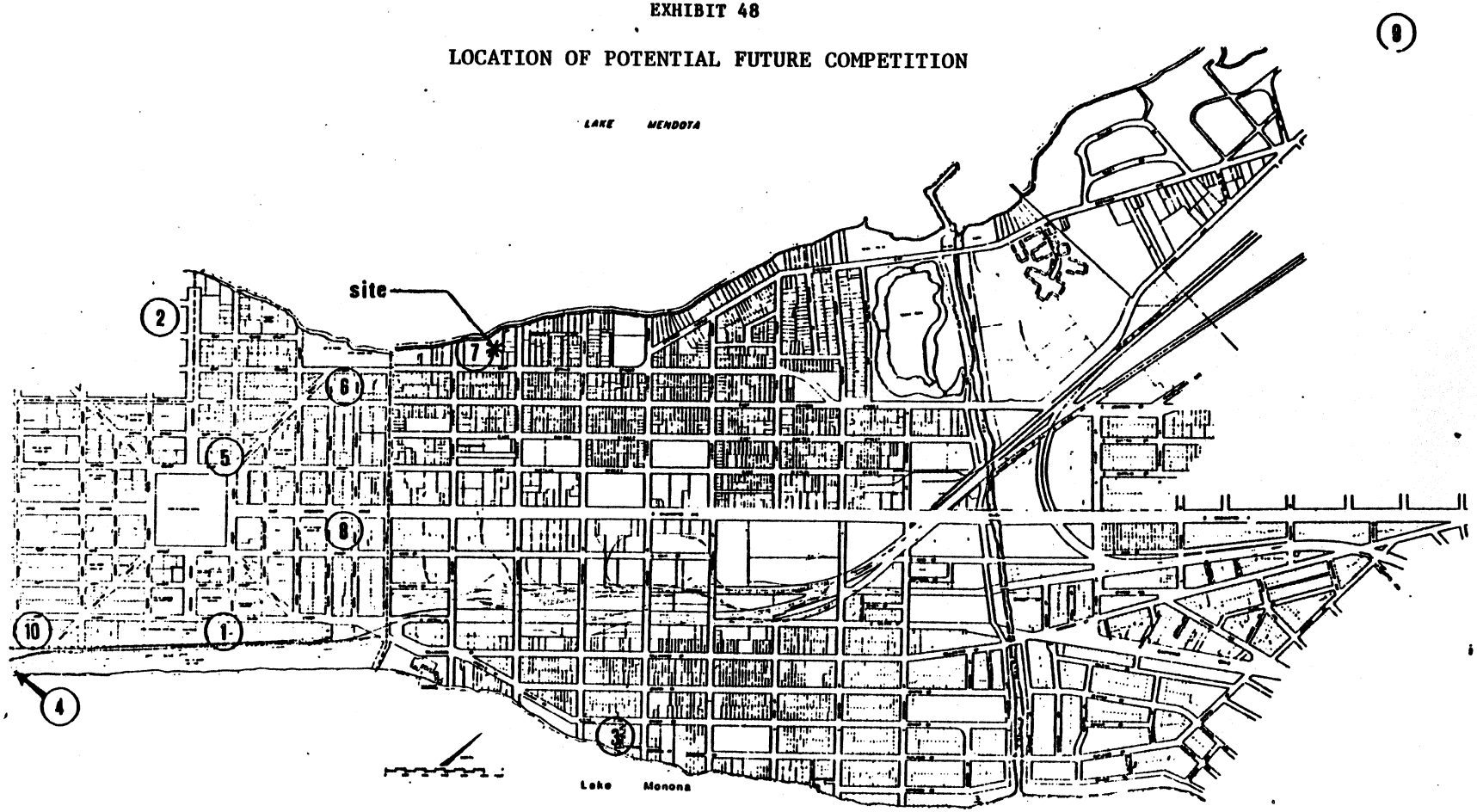


EXHIBIT 48 (continued)

Key:

1. Belleview Apartments-29 East Wilson Street
2. Kennedy Manor-1 Langdon Street
3. Shorecrest East Apartments-1029 Spaight Street
4. Diplomat Apartments-507 West Wilson Street
5. The Emporium-50 East Mifflin Street
6. Nichols Station-Franklin and East Gorham Streets
7. Lincoln School-720A East Gorham Street
8. Canal Place-40 South Franklin Street
9. Maplewood Condominiums-10 Maplewood Avenue
10. Doty School-Broom and West Wilson Streets

EXHIBIT 49

PROBABILITY RANKING FOR COMPARABLE PROPERTIES

1.00	Project has all necessary approvals and construction has begun.
.90	All necessary city approvals intact, no major obstacles to development apparent or (for converted units) a building permit has been granted and adequate financing has been acquired.
.70	Currently petitioning for city approval and/or building permit, no major public objection has been raised, financing currently being negotiated.
.50	Project is in the planning process; however, lack of support (financial or public) and/or moderately strong public opposition must be overcome.
.20	Project either not currently petitioning for city approval (or building permits) or during the preliminary approval process strong public opposition has been raised.

likely that these units would be relatively competitive with any units constructed on the subject property. The results of this analysis is provided in Column I of Exhibit 47. As shown in Exhibit 47, we have projected 173 units to be constructed out of a possible 406. Those projects with the greatest probability of being carried through (within the next few years) include: Nichols Station, Lincoln School,Maplewood, and the Doty School. All of these projects (except Maplewood) are receiving some type of public aid or support through either TIF, an

investment tax credit, or an unopposed PUD approval. This suggests the increasing need for municipal support in the development of downtown housing.

It should be noted that this analysis provides us with only a ballpark figure as to the number of competitive units that can be expected in the near future. Through this inventory of projects we have merely attempted to analyze the type and number of competitive projects that are likely to be placed on the market. Furthermore, the effective potential units shown in Exhibit 47 for each project are rather meaningless by themselves (i.e., it makes no intuitive sense to calculate a percentage of units that may constructed per project). The critical number was the 173 total effective potential units. These 173 units are what we expect this market to produce over the next two to three years.

Condition of Condominium Market in Isthmus

This section summarizes the supply and demand conditions presented in previous sections. The Isthmus condominium market is extremely soft. There are 3.75 years' worth of units available to supply the anticipated demand for the next three years. The expected future supply was forecast in the section of Madison Condominium Analysis, and the expected household demand for forecast in General Economic Conditions. The appropriate results are summarized here.

1. Expected Future Supply

The expected future supply is made up of the total number of condominium units that will likely be offered in the next three years. There are three sources of this supply: (1) current vacancies--condominiums that are currently unoccupied or being rented until the market firms up, (2) resales of units currently owned, and (3) new construction or conversions. We have estimated each of these amounts previously and will briefly summarize the methods used to calculate them and the results.

a. Current vacancies: A three-step process was used to estimate current vacancies in the Isthmus. First, the percentage of vacant condo units in the Isthmus was estimated using the data gathered for Exhibit 39, Condominium Absorption in Madison, 1979-1981. A sample of 18 Isthmus condominiums containing 255 units was surveyed and the vacancy rate was calculated, which was 34.1%. The number of condominium units in the

Isthmus was then determined from Exhibit 34, Madison Condominium Survey. The vacancy rate of 34.1% was then applied against this number:

1. Vacancy rate in Isthmus:

$$\frac{\text{Vacant Units}}{\text{Total Units Available}} = \frac{87}{255} = 34.1\%$$

2. Isthmus market size (Exhibit 1) = 505 units

3. Vacant units in the Isthmus = 505 × .341 = 172 units

b. Resales: the annual turnover of condominiums (resales) was discussed and presented in Exhibit 41, Annual Turnover of Condominiums. A random sample of 136 condominium sales over a three-year period showed that 18% of them were resales. To account for future resales we assumed that 18% of currently occupied Isthmus condominiums would be resold by 1985.

Currently occupied Isthmus condos × 18% = 225 × .18 = 41

c. New construction of conversion: supply from new construction or conversions was estimated in Exhibit 47, Potential Condominium Development/Conversion in the Isthmus. A review of projects in various stages of development and apartments susceptible to conversion, along with an estimate of their probability of being completed, resulted in our estimating that 173 units will be supplied from this source.

Therefore, the total expected future supply is 386 units made up of 172 units from current vacancies, 41 units from resales, and 173 units from new construction or conversions.

2. Expected Future Demand

The expected future demand for condominiums in the Isthmus is estimated using household growth rates calculated in Exhibit 28, Projected Total Households for Madison and Dane County: 1985 and 1990, the Isthmus condominium market share determined in Exhibit 34, Madison Condominium Study, and an estimate of the proportion of total housing units that will be condominiums.

The pessimistic household growth assumptions resulted in a total household growth of 3,150 units. We assumed that over this period condominiums would capture an average of 35% of the new demand so that total expected condominium demand in Madison would be 1,100 units. We further assumed that the Isthmus will maintain its share of the condominium market at 28%. This would mean that we expect about 1,100 × .28 = 309 condominium units to be demanded in the Isthmus over the next three years.

3. Conclusions

The condominium market in Madison as a whole is extremely soft. The Isthmus is a stronger market than the west or east side but it still suffers from the same problems as the others: overcapacity and a lack of demand. We estimate that 386 units will be supplied in the Isthmus to satisfy a projected demand of 308 units. Of these two numbers, the supply estimate is more certain. It is based on today's vacancies and projects already started and has been adjusted for the uncertain future. The demand figure is almost totally hypothetical. It is based on projections of past growth trends and assumptions of population growth, economic activity, and income growth over which we have little control. In light of the actual experience of the winter of 1981 and spring of 1982, the demand estimates are probably overstated. This means that the market is probably softer than even our dismal projections make it appear.

There are some bright spots, however. New units meet with greater market acceptance than converted units. Exhibit 38, Condominium Absorption in Madison, 1979-1981, shows that 49% of new units offered between January and May 1981 were absorbed versus 16% for converted units and that 27% of the new units offered between June and December 1981 were absorbed versus 5% for converted units. Second, well-located, higher quality projects sell best. The Fauerbach sold 89% of its units in 12 months, while Maplewood which is not as well located and is not as well designed only sold out 37% of its units. The strength of the high quality projects is also shown in the turnover statistics (see Exhibit 41). From 1979 to 1981 the Fauerbach and Tamarack Trails experienced a 7% and a 4% turnover rate, respectively, while The Cove and Marbella experienced a 25% rate. This indicates that condominium buyers in Madison are very site-specific and follows from the buyer profiles and housing preferences of the residents in the successful developments. These residents are generally more well off than the average Madisonian. Fauerbach residents (72%) had incomes greater than $25,000 while only 32% of all Madison resident did so. Their affluence makes the effects of the recession and high financing costs easier to bear and allows them to continue to purchase housing when others cannot. Their housing standards, however, are high. They will pay premium prices for prestigious location, quality construction, and amenities like porches, fireplaces, and security systems. Otherwise they won't buy at all.

The Lincoln School site is one of the few well-located lots in Madison capable of offering the locational attributes needed for this buyer group. It is on Lake Mendota in a stable residential neighborhood. The lot is on a hill that would permit terracing of the building structures to give each unit a stunning view of the lake. It is close to the cultural and employment centers of the Capitol Square. The success of the Fauerbach, which has similar locational attributes, indicates that a residential project on our site would meet with good market acceptance.

PRODUCT RECOMMENDATIONS

Introduction

Up to this point in our analysis we have been able to identify a target market for our project as well as the type of product currently being offered that has been successful in reaching this market. In this section of the report we will begin to make recommendations about the type of product that should be constructed on the site. This product should, at a minimum, meet the competitive standards demanded by this market in terms of unit quality and price. In addition, the product should offer some unique attributes that will create a competitive edge to separate the project from comparable products current being offered.

This section of the report will be divided into four subsections. The first section includes a recap of the target market profile. The second section consists of identification of the types of product and amenities that should be offered to ensure that we have met the requirements of the competitive standards for this market. The third section will deal with an analysis of the target market and situs characteristics of our site in an attempt to identify some unmet market need or opportunity that could provide a competitive edge. The final section will be concerned with analyzing the density requirements under both R-5 zoning and a Planned Unit Development (PUD), which will give us some indication about the number of units we may have constructed on this site.

Recap of Target Market Profiles

We previously identified three distinct buyer groups and discussed their demographic characteristics, lifestyles, and housing preferences. These groups are not the only groups that would be interested in condominiums on our site; they are merely those that would most likely be interested. As such, the groups constitute submarkets for whose needs and preferences we can design our product, with a reasonable expectation that by so doing we will create a monopoly for those submarkets. The three groups are briefly described below:

Group 1: Young, single, professionals

Median income:	$40,000
Marital status:	Single
Sex:	Male or female
Age:	18-44

Occupation:	Professional
Education:	Master's or Ph.D.
Lifestyle:	Active, people-oriented, and urban location; close to lakes and Isthmus area; cultural and entertainment activities important
Housing needs:	Privacy, express status and prestige, intensive use of housing services and amenities; storage, entertaining, covered garage, fireplace, patio.

Group 2: Older, wealthy couples

Median income:	$52,500
Marital status:	Married
Age:	45-55
Occupation:	Professional, some office
Education:	High school and some college
Lifestyle:	Urban socialites reflecting changing family circumstances; enjoy being on the lakefront in area with a diversity of social groups. Sophisticated and "other" oriented.
Housing needs:	Low maintenance; lakefront location close to central city. Quality construction as a means of expressing prestige and status. Housing unit designed for entertaining.

Group 3: Older, semiretired, singles or couples

Median income:	$30,000
Marital status:	Most single, some married
Sex (if single):	Female
Age:	45 to over 65
Occupation:	Either professional or office
Education:	Bachelor's degree, some Master's
Lifestyle:	Work and family oriented; concerned about impending retirement. Activities "inward" directed; less social than Groups 1 or 2.
Housing needs:	Low maintenance, good security, quality construction. Location convenient to work. Socializing amenities such as clubhouse, picnic area, and activity program.

The Product Standard

A review of the successful better quality condominium projects in Madison in general and in the Isthmus in particular provides us with a base from which we can identify the competitive standard demanded by this market. Particular attention was given to the Fauerbach Condominiums which have been far and away the most successful condominium project in the Isthmus area. Through an analysis of selected project characteristics we have assembled a list of product recommendations that we believe our target market considers standard and necessary. These recommendations

will serve as a guide to the type of product that should be offered on the site under study. These product characteristics are summarized in Exhibit 50.

EXHIBIT 50

PRODUCT RECOMMENDATIONS

Unit Mix and Size

% Units	Unit Type	Unit Size
15%	1 br, 1 bath	850-900 sq.ft.
10	1 br, 1 bath, den	900-950 sq.ft.
65	2 br, 1.5 bath	1,120-1,160 sq.ft.
	2 br, 2 bath	1,200-1,455 sq.ft.
10	3 br, 2 bath	1,500-1,700 sq.ft.

Amenities

1. Undergraound parking (heated)
2. Fireplace
3. Patio and/or deck
4. Laundry room
5. Security system
6. Central air conditioning
7. Dishwasher
8. Range
9. Refrigerator
10. Garbage disposal
11. Wall-to-wall carpeting
12. Double pane glass
13. Professional management

Type of Unit

The units should be of townhouse design, 2-3 floors, with clusters of four to seven units.

Construction should be of high quality, wood frame, with either brick or clapboard facades.

Unit Costs per Square Foot (comparable units)

Unit Type	Cost per Square Foot
1 br, 1 bath	$60-$75
1 br, 1 bath, den	65- 80
2 br, 1.5 bath	65- 75
2 br, 2 baths	65- 75
3 br, 2 baths	65- 73

Financing Alternatives

Two to three year land contracts, 12-13% interest, based on 25-year amortization schedule, 20% down.

10% down, 30 year, 14.5-15.5, 5-7 points at closing (Banco).

17.5%, 30-year term, 2 points, 20% down (First Wisconsin).

Competitive Edge Opportunities

A project obtains a competitive edge in the marketplace when it can identify and satisfy a true unmet need of a particular consumer group. The The competitive edge can be created by enhancing user self-esteem, reducing the cost of friction, of anxiety, or of inefficient layouts housing the user's activity, shifting the balance of who pays and who benefits in the market place, or by shifting or reducing the risks of change.[1] The situs attributes of our project provide us with a unique opportunity to satisfy the special housing needs of our target markets. The dominant characteristic of all three buyer groups is their relatively high incomes and the need to express their prestige and status that this income creates. It was shown earlier that the lakefront is a powerful attraction for these people as are locations close to the activity and employment centers on Capitol Square. The Lincoln School site is within ten minutes of the Square and on the shores of Lake Mendota. In addition, the site is on a hill which would permit all of the housing units to have a view of Lake Mendota. The location and physical attributes of the site can therefore be used to enhance the buyer's self-esteem by selling him on the prestige and exclusiveness that will be transferred to him by living there. By locating close to the Isthmus the costs of friction of going to and from work, the Capitol Square, and State Street are reduced. The subject property further benefits from being part of James Madison Park. Although the residents will pay for their land as part of their base payments, the full cost does not cover the benefits they receive by having unlimited access and enjoyment of the park. Other Madison residents have to make a special trip to use the park while the subject property residents have the use of it around the clock.

The city provides a competitive edge by subsidizing the land acquisition costs by leasing the land to the developer instead of selling it. The developer benefits two ways. First, his up front costs are decreased approximately $160,000 by using the lease. Second, the city values this prime lakefront land at $6.50/square foot whereas one study concluded that residentially zoned land in the downtown area sells for an average of $8-$10/square foot.[2] Because the lease payments will be made in lieu

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[1] Graaskamp, Fundamentals of Real Estate Development, p. 27.

[2] IAHS, p. 47.

of real estate taxes, the residents of the project will enjoy a below-market property tax rate until the property value is readjusted. These benefits will allow the developer to provide either a less expensive housing unit or a higher quality project with a better amenity package than other similar downtown projects can.

Each of the three groups has special needs and housing preferences (summarized in Exhibit 51) that can provide the subject project with a competitive edge. Group 1, the young, single, professionals, offers the greatest opportunities. When asked what features in their homes were missing, 20% mentioned that more storage area would be desirable. This group is in their prime, durable goods purchasing years and tend to accumulate many items quickly. Large closet space and extra storage space in the underground garage would probably be an appreciated amenity. This group is also active and industrious and this lifestyle trait can be capitalized on with a clubhouse designed around an exercise/recreation motif. Tennis or racquetball courts would be a relatively inexpensive amenity around which a socializing, "singles" complex could be designed. Other developments in the Isthmus have not been able to afford to provide such an environment because, primarily, land costs are so high that the land must be developed as intensively as possible to provide an adequate return. A solution to this problem was proposed by the Carley Capital Group in their reply to the city's original Request for Proposals for the Development of Lincoln School. They proposed that the city construct a public tennis court on the existing parking lot on the lower level of the site. In this way the developer would get tennis courts for the benefits of his buyers with the city footing the bill. Although it is an original and highly effective method of gaining a competitive edge in the marketplace, it is extremely doubtful whether the city would agree to such a proposal. The other major complaint from this group was that there was a lack of privacy in their present condominium. This is a natural result of attached housing, but a careful design can create a sense of privacy by staggering dwelling units and terracing buildings. The subject property lends itself ideally to such designs with its hill providing room for terracing and the broad vistas of the lake allowing staggered units to still obtain good views. Exhibit 51 summarizes the product features and amenities that should be stressed for Group 1.

EXHIBIT 51

COMPETITIVE EDGE OPPORTUNITIES

Group 1

Stress location
Extra storage space
Health spa clubhouse
Staggered, terraced design

Group 2

Stress prestigious location
Highest quality construction
Large, labor-saving appliances: microwave, range, built-in vacuum system, dishwasher, etc.
Low maintenance; professional management
Clubhouse for meetings and socializing

Group 3

Emphasize security
Layout building with inward orientation
Focus inside circulation on clubhouse/picnic area
Realize low maintenance with quality construction of roofing, electrical and plumbing systems
Community workshop area

The needs of Group 2 are slightly different, requiring a different design approach and amenity package. They have the highest income of any of the three groups, are married, and older. The design must create a feeling of exclusivity and prestige. Not only must it appear exclusive, it must be exclusive. Construction must be of the highest quality. Currently, only the Fauerbach has produced the combination of design, construction, and location that will attract this group to the Isthmus. Group 2's need to express their status and prestige is what has largely been unmet with other Isthmus housing projects and what must be met by the subject property to successfully market it to that group. The survey responses of this group indicate that they put a premium on the quality of the appliances in the dwelling unit and would like space for a den or office. A more detailed survey would have to be taken to determine what other space they would be willing to give up for a den/office, but we hypothesize that bedrooms, the bathroom, and living rooms could be reduced. Currently, many of the residents in two-bedroom units use the second bedroom as a combination guest room, office, and storage area. This group

also showed a strong desire for low maintenance. A professional building management company should be retained by the condominium association and be responsible for landscaping, window washing, daily emergency repairs, and other maintenance activities that are usually the responsibility of the tenant. The costs would be borne by the residents as part of the monthly condominium association fee. The clubhouse should be designed to meet the business and socializing needs of this group. Both members of the household are usually employed in professional jobs and much of their time is devoted to work and associations with fellow workers. The clubhouse should be designed for parties, meetings, and social gatherings, rather than for athletics as specified for Group 1.

Group 3's dominant need is for security. Most of them are single, widowed females who are still working but have just experienced a major change in their lifestyle. The design must deemphasize the openness of the surrounding parkland while still providing for an attractive circulation pattern between the buildings. These people must be shielded from the appearance of being exposed to a physically threatening situation from which they are no longer capable of fleeing. They must also be provided with socializing opportunities with their neighbors. The clubhouse can be used as the focal point for social interaction with the design and layout of the project focusing inward and directing attention away from the openness of the parkland. In addition to a well-planned design, security amenities like bolted, double-locked doors, TV-monitored main entrances, and intercom systems should be included. Low maintenance should also be provided, but this group's income is probably not great enough to support the type of maintenance services proposed for Group 2. Another amenity that may provide a competitive edge for this market is a craft or hobby workshop. Surprisingly, two of the respondents said that some sort of community workshop would be nice to have. Most of this group moved from single-family homes where they had the room to store tools, materials, and unfinished projects and would probably appreciate an area in their new residence in which to continue their hobbies.

Density Restrictions

The number of units that can be placed on the site is controlled by the zoning codes. The property under study is currently zoned Parkland. However, in discussions with the City of Madison Zoning and Planning

Departments, we were informed that if the zoning on this site where changed an R-5 district would most likely be established. The R-5 district is defined as a medium-density residential area normally located in the in-lying parks of the city. R-5 zoning permits almost any type of residential development including apartment, hotel, and multifamily dwelling units (see Exhibit 6).

Using the R-5 codes we determined how many dwelling units would be allowed on the site, given the density requirement of this district. To do this, we constructed a building envelope for the site. The building envelope is a land allocation procedure that calculates the net square footage (or number of buildable units) of land that will be buildable after the land area requirements of the code have been met. The R-5 building envelope for this site is provided in Exhibit 51A which shows the total number of units that could be constructed on this 33,300 square foot site (given a market mix of 1, 2, and 3 bedroom units) under the code is 20. This number could be slightly increased if some of the land area requirements such as the setback and/or lot area requirements were eased through the approval of a variance.

A zoning alternative available under the R-5 code is a Planned Unit Development (PUD). The purpose of a PUD is stated in Sec. 28.07(6) of the Madison Zoning Code:

> A Planned Unit Development District is established to provide a voluntary framework designed to encourage and promote improved environmental and aesthetic design in the City of Madison by allowing for greater freedom, imagination and flexibility in the development of land while insuring substantial compliance to the basic intent of the zoning code and the general plan for community development. . . .

In essence, under a PUD the developer would be writing his own zoning code. The greater adherence the PUD has to the intent of the underlying zoning district and the Madison Land Use Plan, the greater the probability that the PUD will be approved.

The major advantage of a PUD is that the developer is often able to increase the unit density on a site. In a conversation with City of Madison Planner William Roberts, we were informed that it is not uncommon to find the density under a PUD increased by 15%-30% over what would have been allowed by the underlying zoning district. In exchange for a higher density, the developer usually provides either a superior design and/or

EXHIBIT 51A

BUILDING ENVELOPE / R-5 ZONING

1. Lot Size

33,300 square feet (.63 acres)

2. Area Lost to Setbacks

Front 5 feet	750'
Side yard 15 feet	2,870'
Rear yard 30 feet	4,800'
Total	8,420 square feet

3. Buildable Area

33,300 - 8,420 = 24,880 square feet

4. Maximum Allowable Floor Area

Floor area ratio (R-5) = 3.0
3 × 33,300 = 99,900 square feet

5. Maximum Number of Units

Unit Mix (Unit Type)	Square Feet	R-5 Lot Area Requirements
25% 1 br	900	1 br, 1,000 sq.ft. of lot area
65% 2 br	1,300	2 br, 1,300 sq.ft. of lot area
10% 3 br	1,500	3 br, 1,600 sq.ft. of lot area

Maximum Units

1 br	8,325/1,000 =	8.32
2 br	21,645/1,300 =	16.65
3 br	3,300/1,600 =	2.08
		27.05 ≈ 27 units

6. Land Area Calculation--Standard Allocation Units

Assume a two-story building
Underground parking
160 sq. ft. of open space must be provided for each unit. However, up to 50% of this requirement can be satisfied by roof and balcony space.

1 br SAU		2 br SAU		3 br SAU	
2-1 br units	1,800	2-2 br units	2,600	2-3 br units	3,000
open space	160	open space	160	open space	160
SAU	1,960		2,760		3,160

7. Total SAU--Total Units Allowed under R-5

1 br	6,220/1,960 =	3.17 × 2 =	6.0	
2 br	16,172/2,760 =	5.8 × 2 ≈	12.0	
3 br	2,488/3,160 =	.78 × 2 ≈	2.0	
Total units			20.0	(since #7 is less than #5, it applies)

site plan, increased landscaping, or some type of amenity that would be available to the public. Given this background, we believe that under a PUD we would be able to increase the density by 25% or five units. In exchange for the higher density, the developer could:

- Produce a high quality, low silhouette development
- Provide more intensive landscaping on the site
- Donate the land along the lakeshore to the city
- Control storm water runoff into the lake by retaining as much as possible on site.

Under a PUD we believe a total of 25 units could be constructed. We feel that a 25-unit development on this site could still substantially conform to the R-5 district. Furthermore, according to the City of Madison Land Use Plan, the area surrounding the site is designated as a RMH-X Residential District. The purpose of the RMH-X district is to encourage medium- to high-density residential developments of between 26 to 40 units per acre. Under our PUD assumption we are suggesting 25 units be constructed in a .63 acre lot. This suggested density conforms well to the density guidelines of the RMH-X district.

FINANCIAL ANALYSIS

Introduction

This section of the report will be devoted to the estimation of cost, solvency, and yield characteristics of two alternative design scenarios. The first scenario proposed will be a 20-unit townhouse development that would be allowed under the R-5 code. The second scenario involves the development of a 25-unit townhouse development under a PUD. Each design scenario will be discussed in terms of its unit mix and size, amenities offered, associated costs, terminal financing, and yield characteristics. Through this analysis we will begin to get an idea of costs needed to support each scenario that implies something about the revenue that will be required to justify the investment. The cost and revenue figures that will be required will be related to the cost and revenue figures (sales/sq.ft.) currently found in the market for comparable properties. Similarly, the associated market absorption rates and project capture rates required will be related to those rates in the market. Through this analysis we will begin to formulate what the probability of success will be for the project under study.

This section first describes the financial structure and other financing assumptions that we will use. We recommend that a general partnership be formed to finance the project. Next, the design scenarios are introduced and the cost estimates are developed for each scenario. The developer's return requirements are incorporated into sales prices and return projections in the third section. The fourth section makes detailed cash flow assumptions and analyzes the projected cash flow streams over a 12-month development period and a measure of yield is calculated. The fifth and final section draws conclusions from the analysis and relates the project's absorption rate, capture rate, and development risks to the market.

General Partnership Framework

Initially we evaluated three possible construction financing alternatives for this project. The first is conventional construction financing from a lending institution, the second is Tax Incremental Financing (TIF), and last is all equity financing through the formation of a general partnership. Through our analysis we concluded that the

the only viable financing alternative available was the all equity, general partnership format. Below is a discussion and evaluation of each alternative considered.

A. Construction Financing Through Institutional Lenders

Given today's high interest rates, coupled with the tight capital market situation and the overall weakness of the Madison condominium market, it is highly unlikely Creative Homes will be able to obtain construction financing from a lending institution. In a telephone interview with loan officers at First Wisconsin, Anchor Savings and Loan, and First Federal, we were informed that no construction funds would be available for a condominium development built on a speculative basis. However, Jan Pfaff of First Wisconsin stated that if the developer could achieve an 80% presale and a takeout commitment after the construction loan period, financing would be a possibility at a minimum rate of 2-3 points above prime, with the rate adjusted periodically by any changes in prime rate.[1] In addition, any partners to the deal would be personally liable for any default.

In the history of condominium development in Madison, no project has ever come close to achieving an 80% presale. Given today's market conditions, the possibility of achieving any presales is slim to none. When we asked First Wisconsin if it was possible to have a general partnership with five to six equity investors providing a takeout, we were told that it would depend on the financial strength of the partnership, of which each partner would have to sign personally. In addition, the bank would charge a higher interest rate on the loan because of the uncertainty (risk) associated with such a takeout. In light of this information, we do not regard institutional lending as a viable financing alternative.

B. Tax Incremental Financing (TIF)

TIF is a mechanism whereby the city gets involved in the financing of a residential development. The basic idea behind TIF is to reduce the development costs of the project by either providing a writedown on the land costs or providing below market rate financing through the issuance of General Obligation Bonds (GOB). The extent of the TIF financing depends

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[1] As of May 26, 1982, Chemical Bank lowered its prime rate from 17% to 16.5%.

on the city's interest in the success of the project. The city first designates the area as a TIF district and freezes the assessed values of all property within the district, before construction, for up to 20 years. The incremental real estate tax revenues resulting from development in the TIF are used solely to pay off the bond. The desired result is a favorable development in the district that, the city hopes, will spur other development or upgrading in the surrounding area. The city as a whole benefits from a long-term increased tax base and community growth.

The added subsidy of TIF financing can often turn a seemingly infeasible project into a profitable venture. As a result, developers interested in the development of areas designated as blighted often attempt to acquire TIF financing. As we have mentioned in the first section of this report, the site is currently within TIF District 9. This district was established primarily to aid in the development of the Lincoln School property, Nichols Station, and the Market Place, but the actual boundaries of the district include the open space to the east of the school which include our site. However, in an interview with TIF Coordinator Jerry Tucker, we were informed that there was little chance that any TIF would be available for development of this site. He added that there were a number of other projects in TIF District 9 the city was considering for TIF aid because of the city's ownership position of those improved properties (these include Lincoln School, the Market Place, and Nichols Station). In such a situation we regard TIF as an unlikely financing alternative for any part of this development.

C. General Partnership

With today's high interest rates and the depressed state of the capital markets, we believe the most viable financing mechanism available to Creative Homes would be through the formation of a general partnership. Under such an arrangement, Creative Homes would raise the needed capital for the project by establishing a general partnership among themselves as managing partners and five or six equity partners. Each equity partner would be a participant in the profits of the project based on a pro rata share of their equity contribution. Creative Homes would contribute 10% of the projected construction budget and its development expertise for a 20% share in all profits. All partners would be jointly and separately

liable for any additional equity contributions due to construction cost overruns. An outline of the essential elements of the partnership agreement is provided in Exhibit 52.

EXHIBIT 52

ESSENTIAL ELEMENTS OF THE PARTNERSHIP AGREEMENT[a]

I. Identification of the partnership
   - A. Formation
   - B. Purpose and scope of venture
   - C. Assumed name
   - D. Scope of Venture Authority

II. Management
   - A. Management of venture
   - B. Appointment and replacements of managing partner
   - C. Duties of the manager
   - D. Compensation of venturers
   - E. Contracts with related parties

III. Insurance
   - A. Minimum insurance requirements

IV. Accounting and distribution
   - A. Interest, income, and profits
   - B. Tax status, allocations, and reports
   - C. Distribution to venturers (definition of net cash flow)
   - D. Accounting

V. Term and termination of the partnership
   - A. Term of partnership
   - B. Automatic termination
   - C. Termination for default
   - D. Continuity of interest
   - E. Remedies of nonwithdrawing venturer
   - F. Buy-sell procedures
   - G. Appraisal procedures
   - H. Liquidation procedures

VI. Sale, assignment, transfer, or other disposition
   - A. Prohibited transfers
   - B. Fees and commissions
   - C. Indemnity of company
   - D. Binding agreement
   - E. Labor
   - F. Equitable remedies

[a]Source: Frank E. Roegge, General Partnership Agreement Used by Institutional Investors (New York: Metropolitan Life Insurance Co.).

Land Lease

Currently the subject property is owned by the City of Madison Parks Department. In a memorandum from the City of Madison Department of Planning and Development entitled "Development Prospectus Lincoln School Property," the city stated that it would lease the land under and adjacent to the building to a successful bidder for 49 years. The terms and conditions of the land lease are shown in Exhibit 53.

EXHIBIT 53

TERMS AND CONDITIONS OF LAND LEASE[a]

1) The 1981 rent is to be determined by multiplying the agreed-upon square footage area by $0.065/sq. ft. per month. This figure was based on an initial land value of $6.50/sq. ft. and a 12% rate of return.

2) Each succeeding year the rent would be adjusted in two ways:
   a) The value of the land would be adjusted by half of the change in the Consumer Price Index.
   b) The rate of return would be 6/10th of the prime rate in effect at the beginning of the year, except there were built-in limitations on the amount of increase or decrease from the previous year's rate of return.

3) Periodically, the land value would be reappraised to correct any errors caused by continued adjustment using the Consumer Price Index.

MODIFICATION

The lase provided that all actions relating to policy determination, modification of this lease, subsequent permissive authorization under this lease, termination of this contract, and any similar matters affecting the terms of this lease shall emanate from the Landmarks Commission, Board of Park Commissioners and Lessor's Common Council, or their successors or assigns.

[a]Source: City of Madison Department of Planning and Development.

According to the lease terms, the subject property could be leased for approximately $26,000 (.065 × 12 × 33,300 sq. ft.). According to the terms of this agreement, the lease payments will be used to replace any real estate taxes due on the property. If this lease could be negotiated with the city, it would have the same effect as a donation of the land to the developer since the lease payments would be passed on to the condominium purchasers. Such a situation would make this site an extremely attractive investment.

Design Scenarios and Cost Estimates

We investigated two design scenarios--a 20-unit townhouse development and a 25-unit townhouse development. The unit sizes, amenity packages, product features, and construction quality were chosen to fit the needs of our target market and the physical features of the site. Unit sizes ranged from 850 square feet for a 1-bedroom, 1 bath unit to 1,500 square feet for a 3-bedroom, 2 bath, luxury unit. These were the most popular sizes of condominium units built in Madison in the last two years. The Madison condominium market overwhelmingly favors 2-bedroom units over other sized units and accordingly our unit mix features 65% 2-bedroom units. The amenity package, product features, and construction quality are all chosen to create an exclusive project meant to appeal to a wealthy, discriminating buyer. Amenities include fireplaces, underground parking, lake view for all units, radio intercom security systems, and a full array of built-in appliances. Construction quality is very good and incorporates such features as sound control between floors, wood shake roofing, large closets, and wall and ceiling insulation. A summary of the scenarios is provided in Exhibit 54.

We developed cost estimates for the three basic elements of each scenario: building construction, site preparation, and landscaping. The Marshall & Swift Computerized Residential Cost Program RE2 was used to estimate the costs. This program estimates costs based on raw square footage as modified by a number of adjustments. The costs are updated monthly. The unit sizes, amenity packages, construction quality, and construction materials were the same for both scenarios. Both scenarios fit their allotted number of units into three buildings.

The costs included in the program for building construction, site preparation, and landscaping are discussed next. The actual costs calculated are also included. Appendix H contains the Marshall & Swift cost reports generated by the program and a description of the construction quality and materials that were assumed to be used in the building.

- Building Construction Costs

  Among the costs included in the M&S RE2 program are:

  1. Plans, specifications, survey, and building permits.
  2. Cost on interim money during normal construction period.
  3. Cost of labor and materials.
  4. Sales taxes on materials.

EXHIBIT 54

DEVELOPMENT SCENARIOS

Scenario 1

Size: 20 units in 3 buildings, 2 stories
Building 1: 7 units
Building 2: 7 units
Building 3: 6 units

Unit Distribution:

Type	% of Total	No.	Sq.Ft. Per Unit	Total Net Sq. Ft.
A. 1 br, 1 bath	15	3	850	2,700
B. 1 br, 1 bath, den	10	2	950	1,900
C. 2 br, 1.5 baths	35	7	1,140	7,980
D. 2 br, 2 baths	30	6	1,300	7,800
E. 3 br, 2 baths	10	2	1,500	3,000
				23,380

Gross building area: 23,380 ÷ .85 efficiency ratio = 27,506 sq.ft.

Parking: 30 car underground garage; 15 car surface parking.

Major amenities: 24 sq.ft. patio or deck, fireplace, security intercom system, others (see Appendix H).

Scenario 2

Size: 25 units in 3 buildings, 3 stories
Building 1: 8 units
Building 2: 8 units
Building 3: 9 units

Unit Distribution:

Type	% of Total	No.	Sq.Ft. Per Unit	Total Net Sq. Ft.
A. 1 br, 1 bath	16	4	850	3,400
B. 1 br, 1 bath, den	8	2	950	1,900
C. 2 br, 1.5 baths	36	9	1,140	10,260
D. 2 br, 2 baths	28	7	1,300	9,100
E. 3 br, 2 baths	12	3	1,500	4,500
				29,160

Gross building area: 29,160 ÷ .85 efficiency ratio = 34,306 sq.ft.

Parking: 38 car underground garage; 12 car surface parking.

Major amenities: 24 sq.ft. patio or deck, fireplace, microwave oven, security intercome system, others (see Appendix H).

5. Utilities from house to lot line figures on normal setback.
6. Normal site preparation, including trenching, excavating for concrete, backfill, and finish grading.
7. Prorated amount of real estate commission in tract construction.
8. Contractor's overhead and profit.

Not included in these costs and added separately are:

1. Land costs including purchase, property taxes, and legal fees.
2. Feasibility studies and developer's profit.
3. Points for financing.
4. Street improvement.
5. Landscaping.
6. Marketing costs such as advertising and model.
7. Contingency reserves.

Since we are financing the entire project through cash raised by a general partnership, we will not have any interest expense during the construction period. We deducted $78,000 from the final M&S construction costs to reflect this nonexpense. The $78,000 reflects the interest that would be charged on a $650,000 average outstanding construction loan at 20% interest with 2 points charged for processing over a six month construction period ($650,000×.20×6/12)+(650,000×.02) = $78,000. The final hard construction costs are summarized in Exhibit 55.

EXHIBIT 55

CONSTRUCTION COSTS[a]

	Scenario 1: 20 Units		Scenario 2: 25 Units	
	Per Sq.Ft.	Amount	Per Sq.Ft.	Amount
Building costs	46.80	$1,094,237	45.89	$1,338,270
Garage	2.86	66,900	2.83	82,536
Site improvements	2.99	70,000	2.40	70,000
Landscaping	.55	12,900	.44	12,900
Gross construction costs	53.21	$1,244,037	51.56	$1,503,706
Less construction interest		78,000		78,000
Total hard costs	49.87	$1,166,037	48.89	$1,425,706

[a]Source: Marshall & Swift Cost Service; authors.

- Landscaping Costs

  Landscaping is estimated at $2.15 per square foot of landscaped area. The estimated landscaped area is 6,000 square feet.

  $2.15/sq.ft. × 6,000 sq.ft. = $12,900

- Site Preparation Costs

  Site preparation costs not included in the basic cost consist of street improvements and extraordinary expenses created by working on a hillside. The street and driveway are estimated to be 300 lineal feet.

Street Improvements	Cost per Lineal Foot on Typical Street	Total Cost
Grading	$ 9.00	$2,700
4" rock base	11.20	3,360
Paving, 4" asphaltic concrete	27.20	8,160
Concrete curb 6", 1' gutter	12.90	3,870
Concrete cross gutter	1.20	360
Concrete sidewalk, 3" thick	10.00	3,000
Concrete aprons, 6" thick	3.95	1,184
Sewer main, 9' avg. depth	.46	138
Sewer lateral, 5' avg. depth	7.65	2,295
Sewer cleanouts, 60' o.c.	7.50	2,250
Sewer manholes, 400' o.c.	2.63	789
Water main, 6" ductile iron	12.40	3,720
Water lateral, 1"	3.30	990
Water meters, 60' o.c.	3.33	999
Fire hydrants, 300' o.c.	4.50	1,350
Gas main	5.90	1,770
Gas lateral	2.70	810
Electricity	8.20	2,460
Streetlight, 2s0' o.c.	6.50	1,950
	$140.52	$42,156
Times adjustment factor for hill	1.25	1.25
	$175.65	$52,695
Extraordinary site improvement costs:		
Clearing @ $500/acre for .68 acres		340
Hillside foundations		16,965
Total site preparation costs		$70,000

The Marshall & Swift Computerized Residential Cost Program was used to estimate the costs of the buildings on a total square foot basis, and the basic cost included an amount for normal site preparation. The above costs were not included and were added at the end.

Revenues

Revenues are generated by sales of completed condominium units. (In the event that sales are slower than predicted, the unsold units could be offered for rent to cover fixed holding costs.) The sales prices are determined by assuming a standard margin for 41.8% over total hard construction costs. This margin will cover developers' profit, sales commissions and marketing costs, and other predevelopment costs. We propose to assist the financing of the sales by buying down the interest rate for our buyers. As will be shown, our cost structure is such that the sales prices can be considerably less than those at competitive developments. This will allow us to buy down the interest rate for our buyer's financing needs without passing the full cost through. This should help overcome the biggest problem in the condominium market today: expensive and scarce financing. The sales prices of our unit mix is shown in Exhibit 56.

EXHIBIT 56

SALES PRICES OF UNITS

Sales price per square foot = hard costs/sq.ft. × 1.418
= $53.21 × 1.418 = 75.43

Unit	Size in Sq.Ft.	× Sales Price/Sq.Ft.	= Sales Price
A. 1 br, 1 bath	850	$75.43	$64,117
B. 1 br, 1.5 baths	950	75.43	71,660
C. 2 br, 2 baths	1,140	75.43	85,992
D. 2 br, 2 baths	1,300	75.43	98,061
E. 3 br, 2 baths	1,500	75.43	113,147

These proposed sales prices and the related cost structure are compared to the sales prices and costs of competitive developments in Exhibit 57. The subject property's costs are much lower because we are not buying the land. Another reason for the large gap between our project and the others is that our costs are based on hard construction costs only, while the others may be based on total costs, including developer fees and soft costs. However, this point could not be verified.

EXHIBIT 57

COMPARABLE SALES PRICES AND COSTS

Project	Average Sales Price/Sq.Ft.[a]	Average Cost/Sq.Ft.[b]
Fauerbach	75.21	68.54
Maplewood	75.44	70.89
Franklin House	70.56	72.11
Subject property	75.43	63.97[c] (73.22)[d]

[a]Capital City Consultants.

[b]Melaniphy & Associates.

[c]All costs excluding buydown fees.

[d]Including land costs based on a land value of $6.50/sq.ft.

These sales prices produced revenues of $1,752,275 from Scenario 1 and $2,199,584 from Scenario 2. These are summarized in Exhibit 58 below.

EXHIBIT 58

GROSS REVENUES

Size of Unit (sq.ft.)	Scenario 1			Scenario 2		
	Price	No.	Revenue	Price	No.	Revenue
A. 850	$64,117	3	$192,351	$64,117	4	$256,468
B. 950	71,660	2	143,320	71,660	2	143,320
C. 1,140	85,992	7	601,944	85,992	9	773,928
D. 1,300	98,061	6	588,366	98,061	7	686,427
E. 1,500	113,147	2	226,294	113,147	3	339,441
Total revenue			$1,752,275			$2,199,584

Cash Flow Analysis

The revenue and cost estimates from the two previous sections were combined into a cash flow statement to determine investment requirements and timing of cash payments and receipts and to gauge the risk and return characteristics of the underlying assumptions. Both scenarios anticipate a stronger housing market in the summer of 1983 than in this summer and propose to come on line at that time. The construction period is assumed to last from March through August which, because of Madison's harsh winters, is the period of greatest construction activity citywide. Although the analysis is centered around 1983, it could apply equally well to any future year.

The following pages contain the specific assumptions underlying the analysis. The cash flow statement and yield calculations for Scenario 1 are contained in Exhibit 59. The cash flow analysis and return calculations for Scenario 2 are provided in Appendix I. An important item in both scenarios is the provision of a buydown of the takeout mortgage interest rates for the condominium buyer. The rates were bought down 2.25% from an assumed market rate of 17%. The calculations for the cost of the buydowns is also provided in Appendix I. The buydown is made possible because the land is being leased from the city and not purchased.

Scenario 1 Assumptions

1. Inflation rate = 9% or .0075 per month.
2. Reinvestment rate = 11%.
3. Opportunity cost of capital = 16%.
4. Sales commissions = 5.5% of sales. The project is too small to justify hiring and training an in-house sales staff.
5. Marketing costs = 1% of sales. These funds are used to promote the development through the media and to create a specific image that will be identified with the project. They also cover the costs of open houses and furnishing a model unit.
6. Staging: construction will occur over a six-month period starting in March 1983. Presales for 60% of the units, 12 units, are assumed to occur during the last three months of construction. The remaining eight units are assumed to be sold in the three months following the completion of construction. Predevelopment costs of general partnership organization, feasibility and market studies, and legal fees occur in January 1983.

EXHIBIT 59

CASH FLOW ANALYSIS/SCENARIO 1--20 UNITS

	1983										
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Raw land	0										
+Site preparation			46,500	23,500							
Total land costs			46,500	23,500							
+Construction costs			193,523	193,523	193,523	193,523	193,523	193,523			
+Landscaping								12,900			
Total capital costs			240,023	217,023	193,523	193,523	193,523	205,423			
×Inflation factor @ .75%/month	1.000	1.0075	1.0150	1.0225	1.0300	1.0375	1.0450	1.0525			
Total adjusted capital costs	0	0	243,623	221,906	199,329	200,780	202,231	217,260			
Revenue from sales						334,162	341,705	356,231	275,325	243,644	211,208
×Inflation factor @ .75%/month						1.0375	1.0450	1.0525	1.0600	1.0675	1.0750
Adjusted revenue						346,693	357,082	364,408	291,845	260,090	227,049
-Sales commissions @5.5%						(19,068)	(19,640)	(20,042)	(16,051)	(14,305)	(12,489)
-Marketing costs @1%						(3,467)	(3,571)	(3,644)	(2,919)	(2,601)	(2,271)
-Buydown payment					(33,249)	(15,248)	(15,705)	(16,027)	(12,836)	(11,429)	(9,986)
Net cash from sales					(33,249)	308,910	318,166	324,695	260,039	231,745	202,304
-Admin. & overhead	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)
-Property taxes						(5,551)	(5,717)	(4,955)	(4,673)	(4,164)	(3,635)
-Feasibility study	(2,000)										
-Legal fees	(10,000)										
-GP organiz. costs	(5,000)										
-GP adminis. costs	(598)	(598)	(598)	(598)	(598)	(598)	(598)	(598)	(598)	(598)	(598)
+GP mgmt. fee	897	897	897	897	897	897	897	897	897	897	897
-Contingency reserve			(24,362)	(22,191)	(19,933)	(20,078)	(20,223)	(21,726)			
Before-tax cash flow	(19,201)	(2,201)	(26,563)	(24,392)	(55,383)	281,080	290,025	295,813	253,165	225,380	196,468
-Total capital costs	0	0	(243,623)	(221,906)	(199,329)	(200,780)	(202,231)	(217,260)			
Amount to be (funded) received	(19,201)	(2,201)	(270,186)	(246,298)	(254,712)	80,300	87,794	78,553	253,165	225,380	196,468
Equity contributions	19,201	2,201	270,186	246,298	254,712	0	0	0	0	0	0
Cash for distribution	0	0	0	0	0	80,300	87,794	78,553	253,165	225,380	196,468

Estimated gross funding needs:

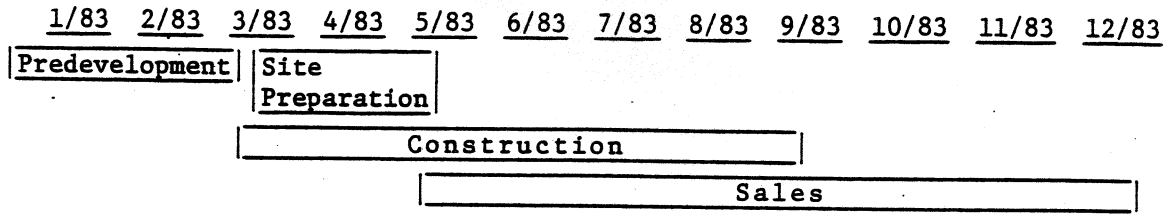
	1/1	2/1	3/1	4/1	5/1	6/1
Net cash from sales	0	0	0	0	-33,249	308,910
-Contingency reserve	0	0	24,362	22,191	19,933	20,078
-Adjusted capital costs	19,500	0	243,623	221,906	199,329	200,780
Monthly funding needs	$19,500	0	$267,985	$244,097	$186,013	$ 88,052

Estimated gross funding needs = $717,595

Conclusions

With our cost and revenue assumptions, Scenario 1 produces an estimated before tax return of 22.7% annually, created with a high amenity, high service package residential unit. The market prices of the units are competitive with other comparable developments but our costs are lower. Because we do not have to pay for the land, we are able to provide our customers with a better housing unit containing more desired attributes and at the same time provide below-market rate financing. Given our competitive edge with lower land costs, we could either have provided a cheaper unit that would be affordable by a broader range of buyers or provide a better unit containing more amenities that would be more desirable than other similarly priced units. We recommend the latter route as the better decision because of the type of buyers who would be attracted to the site. They are wealthier than the average home buyer and are more product- and location-sensitive than price-sensitive. This is a primary risk management tool. Even these people are having trouble purchasing in today's market and to assist their financing we provided a low downpayment (10%), below market rate mortgage. We do not assist their purchase by lowering our price. In today's market, to attempt to attract a lower-income buyer would be extremely risky.

Absorption. Scenarios 1 and 2 estimate an absorption rate of 100% in one year. This is optimistic with respect to the recent experience in the market. Although the best located and constructed developments sell the quickest, not even the Fauerbach was able to sell out their entire project in one year. However, since our project is entirely financed through a general partnership, there is no 20%+ construction, or gap loan outstanding, draining the project's revenues. The ongoing expenses that



7. Sales schedule: The following is an assumption of when individual unit sales will occur. It is weighted more to the summer months because that is Madison's primary sales season.

Unit Type	6/83	7/83	8/83	9/83	10/83	11/83
A	1 64,117		1 64,117	1 64,117		
B		1 71,660			1 71,660	
C	2 171,984	2 171,984	1 85,992		2 171,984	
D	1 98,061	1 98,061	2 196,122	1 98,061		1 98,051
E				1 113,147		1 113,147
Total	334,162	341,705	346,231	275,325	243,644	211,208

8. Site preparation: site preparation costs are incurred 2/3 in March and 1/3 in April.

9. Landscaping: landscaping occurs in August.

10. Contingency reserve: the contingency account consists of 10% of construction costs. This account will be used to fund contingencies such as cost overruns, increases in materials costs, strikes, or other delays. This account is budgeted at $155,898 and will be refunded to the partnership if it is not used. For purposes of yield calculations, this account was assumed spent.

11. Buydown: the points for the buydown are paid in May. The interest rate payments occur in proportion to sales.

12. Property taxes: property taxes are assessed at the rate of 24.64 mills, which was the rate as of 1/1/82, unadjusted for the state credit. It is allocated to the project based on a total market value of $1,721,996 as of 1/1/84 and prorated to reflect the partnership's pro rata ownership during the year which was 65%. Although this amount isn't due to the city until the following spring, the sales contracts would contain a clause allocating 1983 property taxes proportionately between the buyers and the partnership and this amount would be deducted from the sales price.

$$\frac{(.65) \times (\$1,847,167)}{1000} = \$1,220.23 \times 24.64 = \$29,574.$$

13. General partnership administrative costs and management fees: these costs are based on estimated gross funding needs which consist of net cash from sales, less contingency reserves, less adjusted capital costs.

Administrative costs = 12% of estimated gross funding needs
= $7,176/year.
Management fee = 1.5% of estimated gross funding needs
= $10,764/year.

The lower the required capture rate in a market segment is, the greater will be the probability that all of the units offered in that segment will sell. It is easier to capture a small market share than a large market share. For a project to capture a large market share, it must have characteristics that give it a competitive edge over comparable projects. Scenario 1 requires a 29.5% capture rate in its primary market, $80,000 to $100,000. This is a large market share but not unobtainable. In 1980, the Fauerbach achieved a 59% capture rate in this market segment. The reasons it was able to achieve this share (and also why we should be able to achieve our 29.5% share) were excellent location, low development costs (TIF financing), and quality construction. Our units in the $100,000-$115,000 market are in a segment that is not finding strong consumer acceptance. It is too expensive for the people who are looking for a $90,000 unit, and isn't large enough or have enough amenities for the people who are looking for a $125-$150,000 unit. Exhibit 39 shows a definite jump in the condominium market between the $100,000 market and the $125,000 market. We recommend that the two $113,147 units be upgraded to be able to market them between $125,000 and $130,000, which should meet with greater market acceptance and move more rapidly in Madison.

Sensitivity to Changes in Assumptions. The most important factor that allows the proposed project to be constructed of such high quality and sell at a competitive market sales price is the lack of any land costs. If the land must be purchased at the city's assessed value of $6.50/square foot, costs would increase $192,535, bringing total costs for Scenario 1 to $73.22 per net square foot. To keep the sales prices in the $75/square foot range, construction costs must be decreased which would require giving up many of the features needed to create a competitive project.

The project is also sensitive to the financial structure chosen to finance the venture. A general partnership is used because conventional financing is too expensive and unavailable. The size of partnership interests and the lack of tax shelter benefits will probably restrict potential investors to indstitutions. In an economy characterized by short-term disinflation and in a market (Madison) with historically high levels of political involvement in the housing market, it will require a special institution, or group of investors, to agree to bankroll this venture.

must be covered are administrative and overhead, property taxes, general partnership administration costs, marketing expenses, and maintenance. These total approximately $11,000 per month, which is only 3.3% of the estimated monthly sales. However, there is an implied cost to the partners which is the opportunity cost to the investors of investing in this project rather than their next best investment. At an opportunity cost of 16%, each month with no sales is costing the general partnership $10,568 [(.16/12) × $792,598] in opportunity costs. Total monthly holding costs are, therefore, $21,658 ($11,000 + $10,658). If no sales occurred for an eight-month period, the entire profit of $179,920 would be used up. Although this seems like a long time, it must be remembered that each month that the general partners' returns are delayed, more pressure builds from the partners for return on their money and for actions that will correct the sales problems. These pressures are frequently to the detriment of the managing partner.

Capture Rates. Another measure of risk is the capture rate that is implicitly assumed in the sales schedule. Exhibit 60 shows what this project's capture rate would be if the units were offered on the market between now and 1985.

EXHIBIT 60

CAPTURE RATE OF SCENARIO 1

Price Range	No. of Units on Subject Property	Market Size[a]		Capture Rate
		Percent	Number	
$ 60,000- $70,000	3	25.2	124	2.4%
70,000- 80,000	2	9.8	48	4.2
80,000- 90,000	7	5.3	26	26.9
90,000- 100,000	6	3.7	18	33.3
100,000- 115,000	2	0.4	2	100.0
120,000- 140,000	0	4.2	21	0.0

[a]The market size consists of all vacant condominiums in the Isthmus as of 1/1/82, the potential future competition from Exhibit 47, and the subject property. Vacant condos=209; future competition=173; subject project=20; total market size=491. The distribution between price ranges is based on the distribution contained in Exhibit 40. Source: authors.

APPENDIX A

UTILITIES SERVING 720 EAST GORHAM STREET

Water[1]	A 6 inch main along East Gorham Street located approximately 27 feet from the property line.
Electric[2]	The site is serviced by a single phase transformer (above ground) located along East Gorham Street. This transformer can handle up to 600 amps.
Gas[2]	A 4 inch low pressure main passes the site along East Gorham Street. The approximate service capacity is 9 million BTU/hr.
Sanitary Sewer[3]	A 6 inch main along Gorham Street services the site with an estimated capacity of 450,000 gallons per day.

[1]Source: City of Madison Water Department.

[2]Source: Madison Gas and Electric Company.

[3]Source: City of Madison Engineering Department.

Local government and neighborhood politics will ultimately control the use of the site. The land lease on which the success of the two scenarios is predicated is entirely in the control of the city. The amount and conditions of the lease terms can be affected any time until the deal is signed, and then the land reverts back to the city after 49 years. The project is in TIF District 9 and, therefore, eligible for general TIF financing of certain development costs. Given the nature of the project and the income group that would benefit, it is doubtful that any such financing would be forthcoming. Regardless of these constraints, the project would accomplish two high priority city objectives. First, it would add approximately $2,300,000 of tax base in a previously exempt parcel of land, generating approximately $56,000 in property tax revenue. Second, it would be an important step in the campaign to revitalize the downtown residential/commercial district and would tend to attract people with the disposable income needed to stabilize the neighborhood and add to retail sales.

As evidenced by the buydown proposal, the project is sensitive to mortgage interest rates. A reduction in interest rates to 12%-13% would expand demand for housing in general by bringing the ownership costs within reach of more household budgets. This would tend to firm up the demand and make the probability of meeting sales schedules higher. Continued high interest rates and growing unemployment would have the opposite effect.

The Plan Commission and Urban Design Commission can require changes and modifications before granting their approval. A checklist of the steps to be completed and the documents filed for a GDP is included in Exhibit B1. Following the approval of the GDP, a Specific Implementation Plan (SIP) is submitted which consists of the final construction plans and will serve as the zoning code to control the use of the site from then on. The SIP must be approved by the same process as the GDP.

APPENDIX B

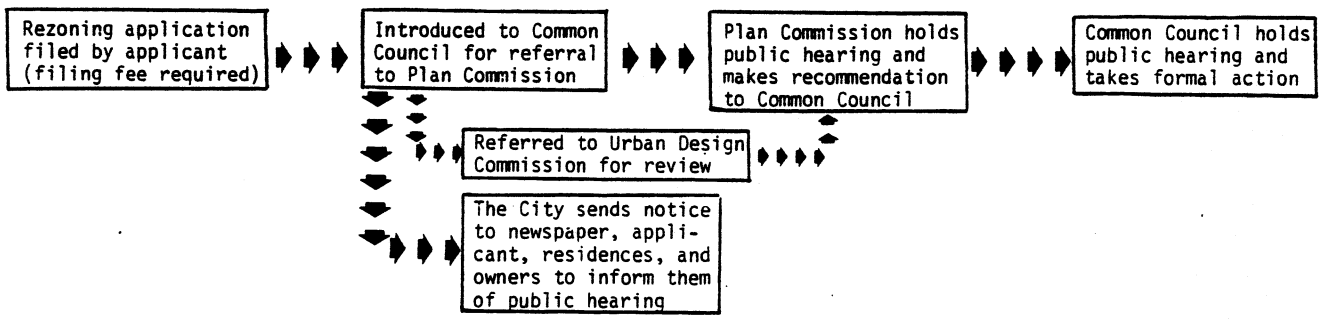
PLANNED UNIT DEVELOPMENT PROCESS

The purpose of a PUD as stated in the Madison Zoning Code (Sec. 23.07(6)) is to encourage and promote improved environmental and aesthetic design in the City of Madison by allowing for greater freedom, imagination, and flexibility in the development of land while ensuring substantial compliance to the basic intent of the zoning code and the general plan for community development. The following is the basis for determining the acceptability of a Planned Unit Development district. The criteria will be applied with specific consideration as to whether or not it is consistent with the spirit and intent of the ordinance and has the potential for producing significant community benefits in terms of environmental and aesthetic design. The criteria for approval are:

1) Character and intensity of land use: in a PUD, the uses and their intensity, appearance, and arrangements shall be of visual and operational character that (a) is compatible with the area, (b) would not adversely impact municipal services, and (c) would not create traffic or parking demands incompatible with existing facilities.
2) Economic impact: a PUD shall not adversely impact the economic prosperity of the city or the surrounding properties.
3) Preservation and maintenance of open space: a PUD shall provide adequate provisions for the improvement and preservation of open space.
4) Implementation schedule: a PUD shall include suitable assurances that each phase could be completed in a manner which would not result in an adverse efffect on the community as a result of termination at that point.

Procedure for Approval

A PUD goes through a two-step approval process. First, a General Development Plan (GDP) outlining the general development goals and project parameters must be submitted and approved. The GDP must be reviewed by the Urban Design Commission and the Plan Commission and be subject to two public hearings. The review process is shown below:



	Yes	No
2. Legal description of the project site.	—	—
3. The project name and address.	—	—
4. Space for signatures of the City Engineer, Water Utility Manager, Zoning Administrator, Fire Marshall and Planning Department Director.	—	—
5. Dwelling unit information: (for residential use)		
a. Total number of units in each building.	—	—
b. Distribution by number of bedrooms.	—	—
c. Total number of units for project by type and square footage.	—	—
6. Lot area information:		
a. Total lot area.	—	—
b. Density: units per acre.	—	—
7. Open space information:		
a. Total usable open space provided.	—	—
b. Usable open space per unit provided (by bedroom).	—	—
8. Parking		
a. Total number of parking stalls provided (by type).	—	—
b. Number of spaces per unit.		
B) Site plan		
1. An accurate map of the existing project area including its relationship to surrounding properties, existing topography, and key features.	—	—
2. The pattern of proposed land use (shape, size, density, environmental character); the pattern of recreational and open space areas, property lines and locations of all easements, existing or proposed.	—	—
3. Existing and proposed buildings, drive and parking location.	—	—
4. Existing and worksble proposed grades at two foot contour intervals.	—	—

EXHIBIT B1

Application Check List

GENERAL DEVELOPMENT PLAN FOR A DEVELOPMENT DISTRICT

NOTE: The following information and plans are to be included with an application for a rezoning for a Planned Development General Development Plan. The applicant is to fill in the check list below and submit the required information and plans. All "No" answers must be explained in the letter of intent. If in doubt as to whether information is required, consult with the Zoning Administrator at time of pre-application conference.

PROJECT NAME _____

ADDRESS _____

CONTACT PERSON _____

ADDRESS _____

PHONE _____

The preapplication conference was held with the Development Assistance Unit. Date held _____

The Alderperson was contacted. Date _____

The submittal shall include:	Yes	No
1) 2 completed application forms.	___	___
2) 1 copy of this check list completed and signed.	___	___
3) 7 copies of a letter of intent which includes the following information:	___	___
A) Owner's name and address and name of project.	___	___
B) A description of the proposed land use and the general character of the intended development.	___	___
C) General outline of intended organizational structure related to property owner's association, deed restrictions, general economic analysis of the development and expected staging. Also include private provision of common services such as collection of solid wastes, snow removal and maintenance, and estimated number of school children by project.	___	___
4) Seven sets of plans which includes:	___	___
A) Title sheet which includes all of the following information:	___	___
1. Location sketch,	___	___

	Yes	No
6) Urban Design Commission		
A) Provisions have been made for review by the Urban Design Commission.	___	___
B) Urban Design Commission meeting date.	_____	

The applicant understands that if any of the above required information is not submitted and an acceptable explanation is not given in the letter of intent as to why the required information is not submitted, the application and plans will be returned to the applicant for resubmittal.

_____

Applicant Date

	Yes	No
5. Indicate approximate number, arrangement and size of parking stalls and drive aisles.	—	—
6. Pedestrian walks. (Walks shall be kept separate from drive aisles and driveways.)	—	—
C) Utility plan - shall indicate all existing and proposed utilities, and proposed sewer grades.	—	—
D) General landscape plan: landscaping concept showing the location, plant size and material.	—	—
E) Architectural character and building functions		
1. A description of building type(s) to be used. (if known at this time)	—	—
2. Building design and floor plans. (if known at this time)	—	—
3. Define any specific architectural controls or provisions which would create a unifying theme throughout the project.	—	—
5) General zoning text	—	—
A) Applicant must submit three (3) copies of a proposed zoning text which includes and describes the following:		
1. Permitted uses.	—	—
2. Lot width.	—	—
3. Height.	—	—
4. Yard requirements.	—	—
5. Off-street parking.	—	—
6. Signs - temporary and permanent.	—	—
7. Density.	—	—
8. Family definition (residential uses).	—	—
B) Note any deed restrictions which you wish to place on the property.	—	—
C) Provide a general Economic Impact/Cost Benefit Schedule.	—	—
D) Provide any other written informaion pertinent to the project.	—	—

EXHIBIT C1

PROJECTED EMPLOYMENT GROWTH

		1985		1990	
Low:	1980 Export Base		40,803		40,803
	Service Sector Increase	$(32,900)\ (1.04)^{5} - 1 \times .102 =$	727	$(32,900)\ (1.04)^{10} - 1 \times .102 =$	1,612
	+Gov't Sector Increase	$(55,500)\ (1.01)^{5} - 1 \times .114 =$	323	$(55,500)\ (1.01)^{10} - 1 \times .114 +$	662
	Total Export Employment		41,853		43,077
	xExport Base Multiplier		4.63		4.63
	Total Projected Employment		193,761		199,428
High:	1980 Export Base		40,803		40,803
	Service Sector Increase	$(32,900)\ (1.07)^{5} - 1 \times .102 =$	1,351	$(32,900)\ (1.07)^{10} - 1 \times .102 =$	3,246
	+Gov't Sector Increase	$(55,500)\ (1.03)^{5} - 1 \times .114 =$	1,008	$(55,500)\ (1.03)^{10} - 1 \times .114 =$	2,176
	Total Export Employment		43,162		46,225
	xExport Base Multiplier		4.63		4.63
	Total Projected Employment		199,821		214,001

Source: DILHR, Employment Review
Creative Consultants, Inc.

APPENDIX C

PROJECTED EMPLOYMENT GROWTH FOR DANE COUNTY: 1985 AND 1990

Methodology:

1. Identify Export Industries in 1980 using Location Quotients.

Industry	% of Dane County Employment	÷	% of National Employment	=	L.Q.
Manufacturing	.108		.287		.376
Construction	.033		.060		.550
Transportation	.035		.060		.583
Wholesale	.037		.069		.536
Retail	.169		.203		.833
F.I.R.E.	.069		.069		1.000
Service/Other	.174		.072		2.417
Government	.294		.180		1.630

2. Calculate the % of Dane County employment used in producing export goods in 1980.

   Assuming that local demand would just be met if local employment in the export industry was exactly the national average, the amount of employment devoted to export activities would be calculated as follows:

   Export Employment in Industry i = (% of region's employment - % of national employment) x total region employment.

   Export Employment in Dane County =

   Service Sector Export = (.174 - .072) x 188,900 = 19,268
   +Gov't Sector Export = (.294 - .18) x 188,900 = 21,535
   Total Dane County Basic Employment = 40,803

   Ratio of Total Employment to Basic Employment =

$$\frac{188,900}{40,803} = 4.63$$

3. Based on the growth scenarios contained in the report, calculate the projected increase in basic employment over the study period. Using a constant ratio of Total Employment to Basic Employment, calculate Total Employment.

   The basic equation used to calculate the increase in employment in a basic industry is:

   (1980 employment level) x (1 + growth rate) - 1
   x (% of employment used for exports)

EXHIBIT D2

Condominium Survey

CONDOMINIUM SURVEY

Name of Complex _____

1. Which of the following best describes your previous residence? (Check one)
   1. ___ Apartment
   2. ___ Single family house which I/we rented
   3. ___ Single family house which I/we owned
   4. ___ Co-operative apartment
   5. ___ Other (please explain) _____
   6. ___ Condominium
2. Where was your previous residence located? (Address or neighborhood) _____
3. What was the primary reason for deciding to move from your previous residence? _____
4. What is the nature of the residence in which you presently live?
   1. ___ Single family house which I/we rent
   2. ___ Single family house which I/we own
   3. ___ Apartment
   4. ___ Co-operative
   5. ___ Other (please explain) _____
   6. ___ Condominium
5. Why did you decide upon your present housing type rather than other types you considered? _____
6. How much do you estimate your monthly housing expenditures are? Housing expenditures include taxes, insurance, utilities, and mortgage payment.
   1. Less than $250
   2. $250 to $325
   3. $325 to $400
   4. $400 to $550
   5. $550 to $700
   6. More than $700
7. How long have you lived in your present residence? ____ months
8. What do you like most about your present residence? _____
9. What do you like least about your present residence? _____
10. Is there any particular item or feature missing in your house that you would have liked included? _____
11. How long do you anticipate residing in your present residence?
12. How many bedrooms in your condominium? ____

APPENDIX D

CONDOMINIUM SURVEY ANALYSIS RESULTS

As discussed in the text, the condominium survey consisted of a telephone survey of 100% of the residents of six Isthmus area condominium projects. The project varied considerably in terms of size, age, price, vacancy, and tenant mix. The number of calls made and the response rates realized are shown in Exhibit D1.

EXHIBIT D1

CONDOMINIUM SURVEY RESPONSE RATES

Project	Number of Units	Number of Occupied Units	Number of Responses	Response Rate
Fauerbach	37	32	18	56.2%
Maplewood	19	7	3	42.9
Franklin House	9	3	0	00.0
Tulric Condominium	3	3	2	66.7
Shoreline Condominium	4	4	2	50.0
Rutledge Bay	5	5	2	40.0
Totals	77	54	27	50.0%

The condominium survey was analyzed to delineate the trade area, determine buyer group profiles, and uncover any unmet housing needs or other basis for creating a competitive edge. An example of the survey is provided in Exhibit D2. The trade area was determined from the responses to Question 2. The responses were aggregated into the table shown in Exhibit 31, the previous residence locations were mapped (Exhibit 30), and inferences about the market area were then made. The unmet housing needs were based largely on responses to Questions 3, 5, 8, 9, and 10, which were open-ended to solicit information about how satisfied the respondent is with his present residence and what reasons made him move and choose his present type of housing unit. These responses were aggregated into the table in Exhibit 31 and inferences were made from them. The buyer groups were determined on the basis of statistical analysis of Questions 16 through 24 and on a subjective analysis of Question 14. The statistical procedures and steps in the method used to describe the buyer profiles must be described in more detail.

The responses to Questions 1, 2, 6, 12, 13, 15, 16, 18, 19, 20, 21, 22, 23, 24, and 25 were coded and entered into a computer file for statistical manipulation. Questions 6, 12, 13, 20, 21, and 22 were subsequently removed from the analysis because of substantial bias or misunderstanding on the part of the respondent, redundancy with other questions, or irrelevancy to the analysis. Question 13, "How much did you pay for your condominium?", was dropped after considerable analysis because it was thought that its inclusion gave undue weight to the Fauerbach responses and tended to mask demographic and lifestyle differences between all of the respondents.

The primary purpose of the analysis was to determine which, if any, of the respondents could be grouped together based on a common set of demographic traits such that the characteristics of members of the group were similar to each other but different from the characteristics of respondents not in the group. A statistical computer program developed by Biomed, BMDP-Biomedical Computer Programs, P-Series, 1981, was used. The program used was P2M-Cluster Analysis of Cases. The purpose of cluster analysis is to identify sample objects that are similar with respect to the relationship of variables observed on each object.[1] Cluster analysis serves to group together into common clusters objects with similar characteristics. The BMDP Handbook, 1981, describes the statistical process used as follows:

> Initially each case is considered to be in a cluster of its own. At each step, the two clusters with the shortest distance between them are combined and treated as one cluster. This process continues until all the cases are combined into one cluster. This algorithm is called average distance or average linkage.

The P2M program was used to analyze the data using two different measures of statistical distance and two measures of cluster location. The measures of distance were Euclidean distance (the square root of the sum of squares of the differences between the values of the variables for two cases) and the chi-square statistic (the difference of frequencies in the two cases used when the data are counts). The measures of location were the linear center of each cluster and the center of the centroid of the cluster. Two sets of data were measured: the master file including condo price (Question 13) and the master file without condo price. The data were analyzed

---

[1] James E. Reinmuth, The Use of Multivariate Statistical Methods in Appraisal Analysis, p. 150.

13. How much did you pay for your condominium?

1. $60,000 to $70,000
2. $70,000 to $80,000
3. $80,000 to $90,000
4. $90,000 to $100,000
5. Over $100,000

14. How important were the following characteristics for the location of your present home?

	Important	Moderately Important	Not Important
A. Walking Distance to Downtown/State Street	___	___	___
B. On the Lakefront	___	___	___
C. On Busline	___	___	___
D. Close to Work	___	___	___
E. Good Neighborhood	___	___	___
F. On High Ground	___	___	___
G. Close to Parks and Recreation Areas	___	___	___
H. Close to Cultural and Entertainment Activities	___	___	___
I. Access to Educational Facilities	___	___	___
J. Access to Downtown Shopping	___	___	___
K. Diversity of Social Groups	___	___	___

15. What is your marital status?

1. ___ Single
2. ___ Couple

16. Who lives with you in your present residence?

1. ___ My spouse
2. ___ My spouse and children
3. ___ My children
4. ___ I live with ___ roommates
5. ___ I live alone

17. If you have children, please indicate their ages: _____

_____

18. Which of the following age groups do you and your spouse or roommate(s) fall into?

1. ___ 18-24 2. ___ 25-34 3. ___ 35-44
4. ___ 45-54 5. ___ 55-64 6. ___ 65-over

19. The person responding to this survey is: ___ Female ___ Male

20. Are you the head of the household? ___ Yes ___ No

21. How many members of your household are employed outside the home? ____

22. Where do they work?

1. ___ In the Isthmus area
2. ___ In the Madison area
3. ___ In Dane County

23. What is/are the occupations of the employed member(s) of your household?

___ Professional ___ Office worker ___ University employee
___ State employee ___ Tradesperson ___ Retired
___ Student ___ Other

EXHIBIT D3

DEMOGRAPHIC DATA FILE

Case #	Variable # 1	2	3	4	5	6	7	8	9
1	1	1	1	4	1	3	1	1	3
2	1	3	1	4	1	4	1	3	2
3	2	4	2	5	1	2	1	3	2
4	1	5	1	4	1	1	1	1	3
5	1	6	2	2	4	1	1	2	3
6	2	4	2	6	1	3	2	1	1
7	2	6	1	6	1	2	2	2	4
8	2	5	2	4	1	1	2	3	1
9	1	5	2	5	1	2	1	3	2
10	2	4	2	5	3	2	2	2	4
11	1	6	2	3	1	2	1	3	2
12	1	5	2	1	2	1	2	1	4
13	2	4	2	5	2	1	1	3	1
14	1	4	2	5	1	3	2	1	1
15	2	5	1	4	1	2	1	1	3
16	1	4	1	7	1	4	2	1	3
17	1	3	1	6	1	3	2	1	1
18	1	5	2	4	1	4	1	1	3
19	2	3	1	2	1	1	2	3	4
20	1	5	2	1	2	1	2	1	4
21	2	4	1	3	1	3	2	3	2
22	1	2	2	2	1	2	1	3	2
23	1	6	2	2	4	2	1	3	2
24	1	2	1	3	1	3	1	1	3
25	1	1	2	1	1	2	2	1	3
26	1	3	2	4	1	4	2	1	4
27	2	2	2	5	1	1	2	3	3

No.	Variable Name	Coding
1	Marital status	1=single 2=married
2	Age	1=18-24 2=25-34 3=35-44 4=45-54 5=55-64 6=>65
3	Sex of respondent	1=male 2=female
4	Income (in 000s)	1=<15 2=15-25 3=25-35 4=35-45 5=45-60 6=60-75 7=>75
5	Occupation	1=professional 2=office or trade 3=student 4=retired
6	Education	1=some college 2=bachelor's 3=Master's 4=Ph.D.
7	Lake	1=on lake 2=not on lake
8	Type of previous residence	1=apartment 2=condo 3=single-family home
9	Location of previous residence	1=west side 2=east side 3=isthmus 4=out of town

using the two distance and two location measurements to judge the stability of the clusters formed. The two sets of data were analyzed to judge the effect that condominium price had on the clusters. This analysis design resulted in a 2×2×2 matrix:

File with condo price--

	Linear Center	Center of Centroid
Euclidean distance		
Chi-square statistic		

File without condo price--

	Linear Center	Center of Centroid
Euclidean distance		
Chi-square statistic		

The groups from each of the eight runs were compared to determine which cases consistently fell within the same group. The groups were also inspected for what effect, if any, the variable condo price had on the groups. The runs with condo price consistently placed a disproportionate share of Fauerbach residents together. We felt that, because the pricing of condominiums tends to be similar within a given condominium project, this variable tended to distort the true demographic variation between respondents by giving too much weight to the price of their homes. The program would naturally find more similarity between two respondents from the same project because their condo prices would be more similar than between two respondents living in different condominiums, even though their demographic profiles were the same. The purpose of the analysis is to find groups of people with similar demographic characteristics regardless of how much they paid for their homes. We therefore dropped the variable Condo Price from the data file and concentrated our analysis on the rest of the data.

Exhibit D3 shows the final data file used, the variables measured, and how each respondent scored on each variable. Cases 1-18 represent Fauerbach residents, 19-21 were Maplewood residents, 22-23 were Shoreline Condo residents, 24-25 were from Rutledge Bay, and 26-27 were from Tulric Condominiums.

After all four runs were completed, three groups were identified. They consisted of nine, seven, and six cases, respectively. There were five residual cases that exhibited little, if any, relationship with any

group means are compared by two two-sample t-tests--with and without the assumption of equality of variances. The characteristics described by this program and the differences between groups it highlights were used as the basis for the description of the Buyer Profiles found in the body of the report. P3D compares all possible combinations of two groups if more than two groups are being analyzed. An example from the comparison of Group 1 with Group 2 along the variables Marital Status and Age is presented in Exhibit D6 to show how the results are presented and interpreted.

EXHIBIT D4

CLUSTER ANALYSIS

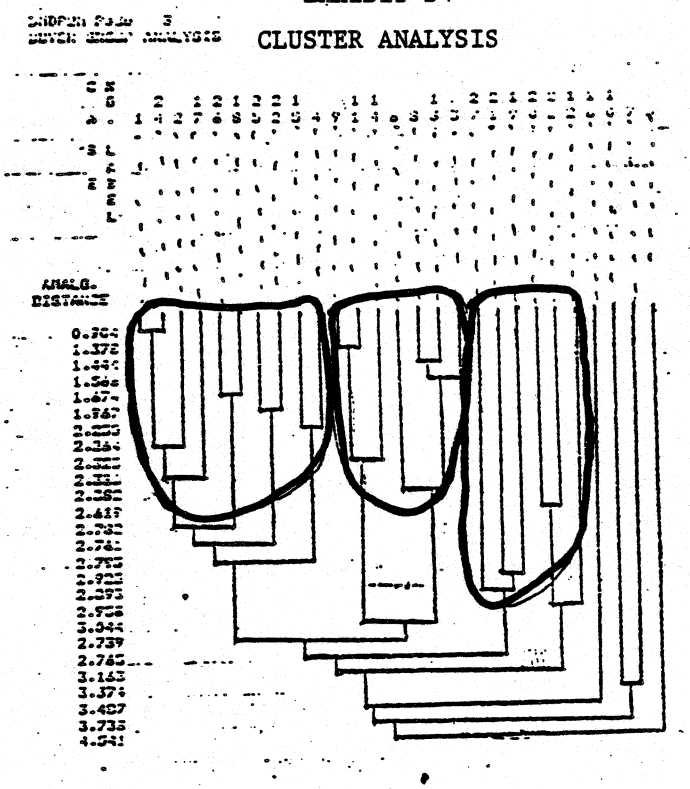


EXHIBIT D5

BUYER PROFILE GROUPS

Group 1	Group 2	Group 3
1	3	9
2	4	11
17	6	20
18	8	14
22	13	19
23	15	21
24	27	
25		
26		

other cluster or case and as a result were not included with any group. The groups were chosen based on the cases that most often were associated with the other cases in the group across the four runs. When a case could be grouped into more than one cluster using this procedure, we reviewed the characteristics of the case and used our judgment to place it in one group or another. Although four computer runs were made, we only show the results from one run here to illustrate on what we based our results. Exhibit D4 shows the results of the P2M run using the file with Condo Price deleted and using Euclidean Distance as the measure of statistical distance and the linear center of each cluster as the measure of location. The blue and red lines help interpret the graph. Blue horizontal lines show associations between clusters. The blue vertical lines show the strength of the association. The closer to the top of the graph the horizontal line occurs, the stronger is the association between cases or clusters. The red circles depict how we delineated three clusters on this run. In this particular run, Cases 1, 2, 17, 18, 22, 23, 24, 25, and 26 are members of Group 1; cases 3, 4, 6, 8, 13, 15, and 27 are members of Group 2; cases 12, 9, 11, 14, 19, and 21 are members of Group 3; and cases 5, 7, 10, 12, and 16 are residual and not similar to any group. Group 1 is the most homogeneous because the strength of similarity between the cases is stronger than the strength of similarity between the members of either of the other two groups. These three groups were surprisingly stable over the four runs. With the exception of case 20, Group 1's final membership is the same as shown above. The stability of Group 2 was not as strong as Group 1. This means that their characteristics will tend to be less similar making it more difficult to make valid inferences about characteristics that would apply to the whole group. The strength of similarity was weakest for Group 3 and its membership varied the most from one computer run to the next. Nevertheless, a weak third group was identified in each run. Inferences about this group's characteristics, needs, and preferences are the least valid of any of the three groups. The membership of the three groups used in the Buyer Profile section of this report is presented in Exhibit ~~D4~~ D5.

After identifying groups with similar characteristics, another Biomed program was used to describe and compare the groups. The program used was P3D-Comparison of Two Groups with t-Tests. Univariate statistics and histograms are computed and printed for each variable in each group and

APPENDIX E

CONDOMINIUM FINANCING ALTERNATIVES IN THE MADISON MARKET

Mortgagee	Financing Terms Available
First Federal-Madison	30 year, 80-90% L/V ratio, variable rate (tied to the FHLB rate), 16-17% mortgage, only on assumed mortgages
First Realty	2-3 year land contract, 11.5% with a 20% downpayment, 12.5% with a 10% downpayment, no refinancing plan available
Achor Savings & Loan	30 year, 80-95%, variable rate, 13.5-14.5% mortgage only on assumed loans; no new debt available
Banco	This is the only institution offering new debt; most common terms include 30 year, no prepayment, no escalator, fixed rate mortgage under the following terms: 13.5% and 11 points 14.5% and 8 points 15.5% and 3 points
Taff and Taff Builders (Maplewood Condominium)	No interest, 5 year land contract, terms: 1/3 down and the balance being amortized over a 60-month period
Other	Banco allows the developer to buy down the mortgage based on 1-5 points. This results in a lower mortgage rate for the first 2-3 years

EXHIBIT D6

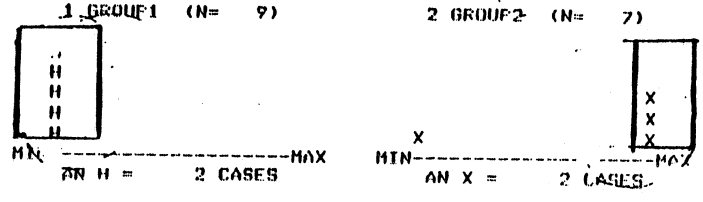
COMPARISON OF GROUP 1 AND GROUP 2 ACROSS THE VARIABLES MARITAL STATUS AND AGE

```
************
* MARITAL  *  VARIABLE NUMBER    1
************
        STATISTICS     P-VALUE    DF

T (SEPARATE)      -6.00 0.0010     6.0
T (POOLED)        -6.87 0.0000     14

F(FOR VARIANCES)
    LEVENE         7.56 0.0157     1,  14
```

GROUP	1 GROUP1	2 GROUP2
MEAN	1.0000	1.8571
STD DEV	0.0000	0.3780
S.E.M.	0.0000	0.1429
SAMPLE SIZE	9	7
MAXIMUM	1.0000	2.0000
MINIMUM	1.0000	1.0000

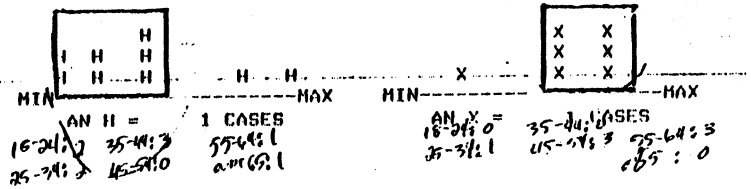



```
************
* AGE      *  VARIABLE NUMBER    2
************
        STATISTICS     P-VALUE    DF

T (SEPARATE)      -1.81 0.0929     13.6
T (POOLED)        -1.71 0.1099     14

F(FOR VARIANCES)
    LEVENE         1.12 0.3069     1,  14
```

GROUP	1 GROUP1	2 GROUP2
MEAN	2.8889	4.1429
STD DEV	1.6915	1.0690
S.E.M.	0.5638	0.4041
SAMPLE SIZE	9	7
MAXIMUM	6.0000	5.0000
MINIMUM	1.0000	2.0000



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Taff and Taff Builders (Maplewood Condominium)	No interest, 5 year land contract, terms: 1/3 down and the balance being amortized over a 60-month period
Other	Banco allows the developer to buy down the mortgage based on 1-5 points. This results in a lower mortgage rate for the first 2-3 years

APPENDIX F

PRODUCT DESCRIPTION OF BEST-SELLING CONDOMINIUMS

Tamarack Trails

Located on Mineral Point Road, thus far 250 units have been constructed with 80 additional units on line. Price per unit type includes:
1,260 sq. ft., 2 br, 2 bath, 1 car garage - $77,700
1,260 sq. ft., 2 br, 2 bath, 1 car garage - $82,900
1,740 sq. ft., 3 rd, 2.5 bath, 2 car garage - $110,000-$120,000
Amenities: pool, tennis court, sauna, clubhouse, fireplace, air conditioning.

Fauerbach

Located on the corner of Williamson and Blount, on the shores of Lake Monona. The complex contains 37 units; the price per unit type includes:
845-905 sq. ft., 1 br, 1 bath, 1 car garage - $65,000-$68,000
1,130-1,600 sq. ft., 2 br, 1.5-2 bath, 1 car garage - $87,000-$97,600
2,175-2,460 sq. ft., 3 br, 2 bath, 2 car garage - $93,000-$125,000
Amenities: air conditioning, fireplace, boat slips, heated garage.

Rolling Hills

Located on Valley Ridge Road, includes 25 units of garden-style condominiums. All units are 2 br, 1-1.5 baths, 2 car garage.
Amenities: air conditioning, pool, fireplace, and clubhouse.

Cherokee Gardens

Located on Wheeler Street, this complex was built over a seven-year period (1974-1981) with a total of 176 units. Most of the units are of the 2 br, 2 bath variety, with sales prices ranging from $66,000-$86,000.
Amenities: air conditioning, 1 car garage, pool, fireplace, clubhouse, and tennis courts.

Parkwood Village

Located on Grand Canyon Road, it is a conversion consisting of 101 townhouses. Price ranges include: 2 br, 1.5 bath, $64,900; 3 br, 1.5 bath, $68,900; 3 br, 2.5 baths, $72,000-$74,000.
Amenities: air conditioning, pool, fireplace, garage.

Oakbridge Condominiums

Located just off Mineral Point Road, thus far 36 2 bedroom units have been constructed with an additional 60 planned. There are currently six buildings with six units/building. Price ranges: 1,044 sq. ft., 2 br, 1 bath, $61,400; 1,088-1,125 sq. ft., 2 br, 2 bath, $62,000-$65,700.
Amenities: air conditioning, fireplace, garage, pool.

Post Road Condominiums

Located on Post Road, this 28 unit townhouse condominium was constructed in 1980. All units are of the 2 br variety. Prices range from $52,000-$67,000.
Amenities: air conditioning, fireplace, garage.

APPENDIX G

DESCRIPTION OF POTENTIAL ISTHMUS CONDOMINIUM PROJECTS

The Emporium

Located on the Capitol Concourse (on the corner of Mifflin and North Hamilton Streets), was part of a total rehabilitation program which included development of condominiums all along N. Pinckney Street to the lake. The first floor of the building is currently used as commercial space. The proposal calls for an expanded use to include three floors of office and six floors to be added on top the structure consisting of 40 condominiums. The Developer (Carley Capital) applied for a TIF bond but was rejected, as was their overall redevelopment plan. To date there has been no further action taken on the proposed plan.

Diplomat Apartments

This 49-unit, two-story apartment building is located at 407 W. Wilson Street. The building is constructed of poured concrete and has a good view of Lake Monona from the third floor on up. The unit breakdown includes:

7 efficiencies (475 sq.ft.), $280/mo.(rents vary depending on view)
28 1 bedroom (774 sq.ft.), $360/mo.
14 2 bedroom (916 sq.ft.), $440-$530/mo.

Currently no vacancies exist; the major tenants in the building are young professionals.

Maplewood Condominiums

This condominium development is located at 10 Maplewood Lane on the boundary of Maple Bluff. The project will be constructed over a period of nine years in 14 phases, a total of 240 units are expected. Over the next four years, 84 units are expected (phases 4-12). Sales per square foot range from $83-$90/sq.ft., 80% of the units are of the two-bedroom variety. Thus far, 24 units have been constructed; however, 1982 sales have been sluggish. In 1982 only three units have been sold, a major reason appears to be related to the inferior architectural layout of the units.

Shorecrest East Apartments

This 26-unit apartment complex is located on Lake Monona at 1029 Spaight Street. The building was constructed in 1926 of reinforced concrete. Rents range from 26.5-31.5 cents per square foot. The major tenants include older couples in their 40s-50s. Unit sizes range from 520-650 square feet for 1 bedroom to 900-1,200 square feet for two-bedroom. Presently no vacancies exist, and building has excellent conversion potential.

Canal Place

This condominium complex is still in the planning stages, located at 100 S. Franklin Street. Developer and owner, The Alexander Company, has won approval of a PUD for the site (GPD awarded 7/6/81, SIP awarded 8/12/81). The proposed development is to contain three 2-bedroom flats (1,120 sq. ft.), 14 2-bedroom townhouses (1,140 sq.ft.), one efficiency unit (620 sq.ft.), and a revitalized

single-family home of 1,428 square feet. In addition, 1,140 sq. ft. of office space and 1,200 square feet of commercial space are recommended. This three-story structure will contain underground parking. It appears the Alexander Company has an option on the land and in an interview the top officer stated that he will hold off on developing these units until he sees some change in overall market conditions.

Nichols Station

This project, located at 400 E. Johnson Street, is the site of an old City of Madison water pumping station. In 1979 the partnership of Divall & Space purchased the site from the city for $150,000, with terms $50,000 down and $100,000 on a six-month land contract at 17% (three-to-six month extensions granted). The city has provided TIF financing for some of the initial purchase. This project is proposed to contain: 21 1-bedroom units (950-1,050 sq.ft.) in the pumping station itself and an additional 19 2-bedroom units (1,320 sq.ft.) in a separate structure on the corner of the site. Other components of the development include 7,800 square feet of office space, approximately 20,000 square feet of underground parking, and a health club of 4,800 square feet. The project will be constructed as a PUD (GPD awarded 5/15/80, SIP awarded 10/26/80). Gary Divall has been unable to obtain financing for the project at this time; therefore, no movement has been made on construction. The city feels strongly for the project and has given Divall a number of extensions on the TIF financing. This 52,266 square foot site has an excellent view of Lake Mendota.

Doty School

This was the site of an elementary school that closed in 1979. During 1980 the city used the building for offices. In early 1981 the school was sold to Urban Land Investments for $30,000. Urban Land has won approval of a PUD for the site and has proposed 15-17 units for the site. Urban Land proposes to construct a 15-car garage on-site as well as 15 additional surface parking spaces. The proposed unit mix includes six 2-bedroom units (2-2.5 baths, 1,380-1,580 sq.ft.) and ten 1-bedroom units (1-1.5 bahts, 750-1,070 sq.ft.). The site offers excellent views of Lake Monona. Construction is expected to start in August 1982.

Belleview Apartments

This 35-unit apartment building, located at 29 East Wilson Street, has excellent conversion potential. The building was constructed in 1915 of reinforced concrete with block facades. It has been well-maintained over the years and shows few signs of deterioration. The structure contains 26 large 1-bedroom apartments with each unit containing a living room, dining room, kitchen, bath, sun room, and fireplace; and 14 smaller apartments (no living room). The structure is split level with three floors on Wilson Street and four floors to the rear. The units to the rear have a dramatic view of Lake Monona. Many of the tenants are older singles and couples with an average tenancy of 5-15 years. One shortcoming of the project is a limited amount of surface parking.

Kennedy Apartments

This five-story, 60-unit apartment structure is located on the corner of Landgon and Wisconsin Avenue. The structure contains ten single bedrooms (no kitchen, $177/mo.), 13 efficiencies (w/kitchen, $230/mo.), 23 one-bedroom units ($303/mo.), and 14 two-bedroom units ($425/mo.). Major tenants include young professionals and some students. The building also contains a dining room and bar on the ground floor. The units fronting on Langdon Street have an excellent view of Lake Mendota (on floors 3, 4, and 5 only).

Lincoln School

The school is located immediately east of the site under study at 720 East Gorham Street. The School was vacated in 1963, after which is housed the Madison Art Center until 1979. In August 1980 the structure was voted to the National Register of Historic Places and is eligible for a 25% investment tax credit on all remodeling work. The city is currently accepting proposals for the site for either apartment or condominium development. Many of the proposals submitted call for the construction of between 15-20 condominiums, with surface parking to be located to the rear of the building. This Neoclassic brick and concrete structure is located on the shores of Lake Mendota and contains 20,000 square feet.

APPENDIX H

CONSTRUCTION COSTS

The Marshall & Swift Computerized Residential Cost Program RE2 was used to estimate the hard construction costs of the proposed development. Two development scenarios varying in number of units and density were proposed. Both were assumed to be of "very good" quality of construction to meet the the requirements of the target markets. In the RE2 program, "very good" quality construction for a multiple residence means:

Very Good Multiple Residence

The Very Good Multiple Residence is designed to emphasize attractive exteriors and interiors. The general quality of materials and workmanship is very good and includes many custom features. These include the following:

Foundation: reinforced concrete perimeter.

Floor structure: wood structure and subfloor on first and upper story floors. Sound control between floors.

Floor cover: carpet, vinyl, hardwood, or linoleum.

Exterior wall: wood frame with custom cover. Well-designed fenestration with high grade sash.

Roof: wood frame and sheathing with wood shake cover.

Interior finish: walls and ceilings are well-finished drywall. Some wallpaper and paneling. Spacious closets. Ample cabinets that may include island, bar, or desk of hardwood, ceramic tile countertops. High quality hardwood slab doors.

Heating: gas-fired, forced-air furnace.

Plumbing: eight very good quality fixtures and a plumbing rough-in.

Insulation: wall and ceiling insulation.

All costs include an allowance for plans, specifications, and general contractor's overhead and profit.

In addition to these features, a number of amenities were added to meet the needs of our market. These amenities and the cost estimates derived for Scenarios 1 and 2 are shown in Exhibit H1. The program calculates costs on a per building basis; only the costs of one building are shown. The total costs for each scenario are summarized in Exhibit H2.

EXHIBIT H1

CONSTRUCTION COST ESTIMATES FOR SCENARIOS 1 and 2

Scenario 1: Cost estimates for one 7-unit building

SURVEY FOR: CREATIVE HOMES INC.
PROPERTY OWNER: CITY OF MADISON
ADDRESS: 520 EAST GORHAM STREET
SURVEYED BY: CREATIVE CONSULATNTS, INC.
TYPE: APARTMENT HOUSE
QUALITY: 5.0 VERY GOOD
EFFECTIVE AGE: 0 YEARS
NUMBER OF UNITS: 7
STYLE: TWO STORY
FLOOR AREA: 9,627 SQUARE FEET
EXTERIOR WALLS: MASONRY VENEER
CONDITION: EXCELLENT
DATE OF SURVEY: 5/28/82
COST AS OF: 06/82

BASIC STRUCTURE COST	UNITS	COST OR ADJUSTMENT	
BASIC SQUARE FOOT COST.....	9,627	$26.84	$258,389
INCLUDING 14 PLUMBING FIXTURES			
SQUARE FOOT ADJUSTMENTS:			
WOOD SHAKE ROOFING.....	9,627	1.70	16,366
FORCED AIR HEATING.....	9,627	1.74	16,751
RESILIENT FLOOR COVER.....	5,730	1.78	10,199
LINOLEUM.....	2,453	2.40	5,887
WOOD SUBFLOOR.....	9,627	3.67	35,331
LUMP SUM ADJUSTMENTS:			
PLUMBING FIXTURE, ROUGH-IN.....	1	197.18	197
TRASH COMPACTORS.....	7	438.93	3,073
BUILT-IN RANGE & OVEN, ELECTRIC.	7	903.06	6,321
GARBAGE DISPOSAL.....	7	199.90	1,399
RANGE HOOD & FAN.....	7	182.81	1,280
EXHAUST FAN.....	7	108.46	759
DISHWASHER, BUILT-IN.....	7	526.81	3,688
REFRIGERATOR, BUILT-IN.....	7	800.79	5,606
WALL UNIT AIR CONDITIONER.....	7	484.03	3,388
RADIO INTERCOM.....	7	101.57	711
FIREPLACE SINGLE TWO STORY.....	1	2,157.46	2,157
FIREPLACE DOUBLE TWO STORY.....	3	2,918.27	8,755
SUBTOTAL BASIC STRUCTURE COST.....	9,627	39.97	384,777
BALCONY.....	168	10.27	1,725
SUBTOTAL RESIDENTIAL COST.....	9,627	40.15	381,981
GARAGE:			
SUBTERRANEAN GARAGE.....	6,000	11.15	66,900
SUBTOTAL GARAGE.....	6,000	11.15	66,900
BUILDING IMPROVEMENTS NEW.....	9,627	47.10	448,881
SITE IMPROVEMENTS.....			70,000
IMPROVEMENTS NEW.....	9,627	54.37	518,881
TOTAL DEPRECIATION.....(0.0%).....			0
LANDSCAPING.....			12,900
TOTAL.....			443,001

COST DATA BY MARSHALL AND SWIFT

C>LIST

COST DATA AS OF 06/82

EXHIBIT H1 (continued)

Scenario 2: Cost estimates for one 8-unit building

SURVEY FOR: CREATIVE HOMES, INC.
PROPERTY OWNER: CITY OF MADISON
ADDRESS: 520 EASTR GORHAM STREET
SURVEYED BY: CAP CITY CONSULTANTS, INC.
TYPE: APARTMENT HOUSE
QUALITY: 5.0 VERY GOOD
EFFECTIVE AGE: 0 YEARS
NUMBER OF UNITS: 8
STYLE: THREE STORY
FLOOR AREA: 10,978 SQUARE FEET
EXTERIOR WALLS: MASONRY VENEER
CONDITION: EXCELLENT
DATE OF SURVEY: 5/28/83
COST AS OF: 06/82

BASIC STRUCTURE COST	UNITS	COST OR ADJUSTMENT	
BASIC SQUARE FOOT COST.....	10,978	$26.52	$291,136
INCLUDING 16 PLUMBING FIXTURES			
SQUARE FOOT ADJUSTMENTS:			
WOOD SHAKE ROOFING.....	10,978	1.61	17,675
FORCED AIR HEATING.....	10,978	1.74	19,102
RESILIENT FLOOR COVER.....	6,532	1.78	11,627
LINOLEUM.....	2,799	2.40	6,718
WOOD SUBFLOOR.....	10,978	3.67	40,289
LUMP SUM ADJUSTMENTS:			
PLUMBING FIXTURE, ROUGH-IN.....	2	197.18	394
TRASH COMPACTORS.....	8	438.93	3,511
BUILT-IN RANGE & OVEN, ELECTRIC.	8	903.06	7,224
GARBAGE DISPOSAL.....	8	199.90	1,599
RANGE HOOD & FAN.....	8	182.81	1,462
EXHAUST FAN.....	8	108.46	868
DISHWASHER, BUILT-IN.....	8	526.81	4,214
REFRIGERATOR, BUILT-IN.....	8	800.79	6,406
WALL UNIT AIR CONDITIONER.....	8	484.03	3,872
RADIO INTERCOM.....	8	96.63	773
FIREPLACE DOUBLE TWO STORY.....	3	2,918.27	8,755
SUBTOTAL BASIC STRUCTURE COST.....	10,978	39.24	430,791
BALCONY.....	192	10.27	1,972
SUBTOTAL RESIDENTIAL COST.....	10,978	39.42	427,517
BUILDING IMPROVEMENTS NEW.....	10,978	39.42	427,597
SITE IMPROVEMENTS.....			70,000
IMPROVEMENTS NEW.....	10,978	45.80	497,597
TOTAL DEPRECIATION.....(0.0%).....			0
LANDSCAPING			12,900
FIREPLACES.....			1,800
Garage.....			82,536
Total.....			594,833

Cost data by Marshall and Swift

EXHIBIT H2

SCENARIO COST SUMMARIES

		Amount	Per Net Sq.Ft.
Scenario 1: 20 units, 23,380 net square feet:			
Building costs	2 × $381,981	$763,962	
	1 × 330,275	330,275	
		$1,094,237	$46.80
Garage - 30 spaces @ 200 sq.ft./space		66,900	2.96
Site improvements		70,000	2.99
Landscaping		12,900	.55
Total		$1,273,754	53.20
Scenario 2: 25 units, 29,160 net square feet:			
Building costs	2 × $429,397	$858,794	
	1 × 479,476	479,476	
		$1,338,270	45.89
Garage - 38 spaces @ 200 sq.ft./space		82,536	2.83
Site improvements		70,000	2.40
Landscaping		12,500	.44
Total		$1,503,706	51.56

APPENDIX I

SCENARIO 2 CASH FLOW ANALYSIS AND COST OF BUYDOWN

Scenario 2 Assumptions

1. Inflation rate = 9%
2. Reinvestment rate = 11%
3. Opportunity cost of capital = 16%
4. Sales commissions = 5.5% of sales
5. Marketing costs = 1% of sales
6. Staging: construction will occur over a seven-month period beginning in March 1983. Presales for 60% of the units, 15 units, will occur during the last four months of construction. The remaining 10 units will be sold in the three months following the completion of construction. Predevelopment costs of general partnership organization, feasibility and market studies, and legal fees occur in January 1983.

1/83	2/83	3/83	4/83	5/83	6/83	7/83	8/83	9/83	10/83	11/83	12/83	1/84
Predevelopment		Site Preparation										
					Construction							
									Sales			

7. Sales schedule:

Unit Type	6/83	7/83	8/83	9/83	10/83	11/83	12/83
A	1 64,117		1 64,117	1 64,117		1 64,117	
B		1 71,660	1 71,660				
C	2 171,984	2 171,984			1 85,992	2 171,984	1 85,992
D	1 98,061	1 98,061	2 196,122	1 98,061	1 98,061	1 98,061	1 98,061
E				1 113,147	1 113,147		1 113,147
Total	$334,162	$341,705	$331,889	$275,325	$297,200	$334,162	$297,200

8. Site preparation: 2/3 in March and 1/3 in April.
9. Landscaping: September.
10. Contingency reserve: 10% of construction costs.
11. Buydown: points paid in May; interest charges occur in proportion to sales.
12. Property taxes: $\frac{\$2,343,147 \times .65}{1000} \times 24.64 = \$37,528$
13. General partnership administrative costs and management fees: administrative costs @ 1% of estimated gross funding needs=$8,249; management fee @ 1.5% of estimated gross funding needs=$12,374.

Estimated gross funding needs:

	1/83	2/83	3/83	4/83	5/83	6/83
Net cash from sales	$ 0	0	$ 0	$ 0	$-42,177	$308,908
-Contingency reserve	0	0	25,321	23,157	20,906	21,058
-Adjusted capital costs	19,500	0	253,214	231,568	209,061	210,583
Monthly funding needs	$19,500	0	$278,535	$254,725	$272,144	$ 77,267
Total estimated funding needs	$824,904					

EXHIBIT I1

CASH FLOW ANALYSIS/SCENARIO 2--25 UNITS

	1983											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Raw land												
+Site preparation			46,500	23,500								
Total land costs			46,500	23,500								
+Construction costs			202,972	202,972	202,972	202,972	202,972	202,972	202,972			
+Landscaping									12,900			
Total capital costs			249,472	226,472	202,972	202,972	202,972	202,972	215,872			
×Inflation factor @ .75%/month	1.0000	1.0075	1.0150	1.0225	1.0300	1.0375	1.0450	1.0525	1.0600			
Total adjusted capital costs			253,214	231,568	209,061	210,583	212,106	213,628	228,824			
Revenue from sales						334,162	341,705	331,899	275,325	297,200	334,162	297,200
×Inflation factor @ .75%/month	1.0000	1.0075	1.0150	1.0225	1.0300	1.0375	1.0450	1.0525	0.0600	1.0675	1.0750	1.0825
Adjusted revenue						346,693	357,082	349,324	291,845	317,261	259,224	321,719
-Sales commissions @5.5%						(19,068)	(19,629)	(19,213)	(16,051)	(17,449)	(19,757)	(17,695)
-Marketing costs @1%						(3,467)	(3,571)	(3,493)	(2,919)	(3,173)	(3,592)	(3,217)
-Buydown payment					(42,177)	(15,250)	(15,706)	(15,365)	(12,837)	(13,955)	(15,801)	(14,151)
Net cash from sales					(42,177)	308,908	318,165	311,253	272,875	282,684	320,074	286,656
-Admin. & overhead	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)	(2,500)
-Property taxes						(5,553)	(5,719)	(5,595)	(4,674)	(5,081)	(5,753)	(5,153)
-Feasibility study	(2,000)											
-Legal fees	(10,000)											
-GP organiz. costs	(5,000)											
-GP adminis. costs	(687)	(687)	(687)	(687)	(687)	(687)	(687)	(687)	(687)	(687)	(687)	(687)
+GP mgmt. fee	1,031	1,031	1,031	1,031	1,031	1,031	1,031	1,031	1,031	1,031	1,031	1,031
-Contingency reserve			(25,321)	(23,157)	(20,901)	(21,058)	(21,211)	(21,363)	(22,882)			
Before-tax cash flow	(19,156)	(2,156)	(27,477)	(25,313)	(65,234)	280,141	289,079	282,139	243,163	275,447	312,165	279,347
-Total capital costs			(253,214)	(231,568)	(209,061)	(210,583)	(212,106)	(213,628)	(228,824)			
Amount to be (funded) received	(19,156)	(2,156)	(280,691)	(256,881)	(274,295)	69,558	76,973	68,511	14,339	275,447	312,165	279,347
Equity contributions	19,156	2,156	280,691	256,881	274,295	0	0	0	0	0	0	0
Cash for distribution	0	0	0	0	0	69,558	76,973	68,511	14,339	275,447	312,165	279,347

MODIFIED INTERNAL RATE OF RETURN ANALYSIS: SCENARIO 2--25 UNITS

	1983											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Outlays:												
Equity contributions	19,156	2,156	280,691	256,881	274,095	0	0	0	0	0	0	0
×PV of $1 at cost of capital=16%	1.0000	.9868	.9739	.9610	.9484	.9359	.9236	.9115	.8995	.8876	.8759	.8644
PV of cash outlays	19,156	2,128	273,365	246,863	270,141							
Cumulative PV	19,156	21,284	294,649	541,511	801,653	801,653	801,653	801,653	801,653	801,653	801,653	801,653
Receipts:												
Total cash receipts	0	0	0	0	0	69,558	76,973	68,511	14,389	275,447	312,165	279,347
×FV of $1 of reinv. rate = 11%	1.1056	1.0955	1.0856	1.0757	1.0660	1.0563	1.0467	1.0372	1.0278	1.0184	1.0092	1.0000
FV of receipts						73,474	80,568	71,060	14,738	280,515	315,037	279,347
Cumulative FV						73,474	154,042	225,101	239,839	520,354	835,391	1,114,738

MIRR CALCULATION:

Formula: Zero NPV = Cum PV of outlays - [Cum FV of receipts×(1÷(1+i)^{12})]

$0 = 801,653 - [1,114,738 \times (1 \div (1+i)^{12})]$

$-801,653 = -1,114,738\ 1\ (1+i)^{12}$

$(1+i)^{12} = \frac{1,114,738}{801,653} = 1.39055$

$i = \sqrt[12]{1.39055} - 1 = .02786$ monthly

$i = .02786 \quad 12 = 33.4\%$ annually

Cost of Buydown

The cost of the buydown consists of two parts, points charged to cover the bank's processing and administrative costs incurred in arranging the buydown and the decreased interest revenues the bank would give up. We propose to buy down the interest rate on a conventional 30 year mortgage, 2.25 points for 30 months.

Assumptions: Market interest rate = 17%
Amortization period = 30 years
Loan-to-value = 90% (10% downpayment)
Mortgage amount = $1,847,167 × .90 = $1,662,450
Buydown interest rate = 14.75%
Term of buydown = 30 months
Points = 2% of mortgage amount

A. Equation for decreased interest revenues =

$$\left(\begin{array}{c}\text{Mortgage payment}\\ \text{at market rate}\end{array} - \begin{array}{c}\text{Mortgage payment}\\ \text{at buydown rate}\end{array}\right) \times \begin{array}{c}\text{PV of annuity at market rate}\\ \text{for term of buydown}\end{array}$$

Mortgage payment at market rate: $\frac{.17/12}{1-(1+.17/12)^{-360}} \times \$1,662,450 = \$23,701$

-Mortgage payment at buydown rate: $\frac{.145/12}{1-(1+.145/12)^{-360}} \times \$1,662,450 = \underline{20,358}$

= Decreased monthly cash flow to bank 3,343

× PV of $1/period @17% for buydown term: $\frac{1-(1+.17/12)^{-30}}{.17/12} = \underline{24.30195}$

= Decreased interest revenues to bank: $81,241

B. Points = .02 × $1,662,450 = $33,249

C. Total cost of buydown:

Decreased interest revenue	$ 81,241
Points	33,249
Total	$114,490

Buydown--Scenario 2

Assumptions: Market interest rate = 17%
Amortization period = 30 years
Loan-to-value = 90% (10% downpayment)
Mortgage amount = $2,343,147 × .90 = $2,108,832
Term of buydown = 30 months
Points = 2% of mortgage amount

A. Decreased interest cost:

Mortgage payment @ market rate: $\frac{.17/12}{1-(1+.17/12)^{-360}} \times \$2,108,832 = \$30,066$

-Mortgage payment @ buydown rate: $\frac{.145/12}{1-(1+.145/12)^{-360}} \times \$2,108,832 = \underline{25,824}$

= Decreased monthly cash flow to bank: $ 4,241

× PV of $1/period at 17% for buydown term: $\frac{1-(1+.17/12)^{-30}}{.17/12}$ = 24,30195

= Decreased interest revenues to bank: $103,065

B. Points = .02 × $2,108,832 = $42,177

C. Total cost of buydown:

Decreased interest revenue	$103,065
Points	42,177
Total	$145,242